

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

**MUNICIPIO DE CIDRA
AUDITORÍA 2009-2010
30 DE JUNIO DE 2010**

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, 2010

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REPORT BY THE COMPTROLLER
OF THE COMMONWEALTH OF PUERTO RICO

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, 2010

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
BASIC FINANCIAL STATEMENTS
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YEAR ENDED JUNE 30, 2010

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López-Vega, CPA, PSC

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- 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, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2010, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America required that the Management's Discussion and Analysis, on pages 3 through 12, and the Budgetary Comparison Schedule-General Fund, on page 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality's** financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 8, 2010

Stamp No. 2575430 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, 2010

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, 2010. 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, 2009. 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 2009-2010 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 2010 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 \$94,669,823 which represents an increase of 2% compared to prior fiscal year.
2. At the end of fiscal year 2010, total liabilities amounted to \$46,491,562. Out of said amount, \$36,976,773 corresponded to long-term liabilities of which \$31,865,000 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 \$48,178,261 which represents an increase 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 \$29,441,639, derived from the following sources: \$358,763 from charges for services; \$5,659,821 from operating grants and contributions; \$2,517,607 from capital grants and contributions obtained from other sources, and \$20,905,448 from general revenues available.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2010

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 \$28,380,980.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$1,060,659.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$11,068,172.
8. In the fund financial statements, the governmental activities revenue decreased \$1,182,325 (or 4%), nevertheless governmental activities expenditures decrease \$7,127,350 (or 21%).
9. As the end of the current fiscal year, the Municipality's general fund balance amounted to \$60,829 compared to a fund balance of \$150,423 in the prior fiscal year.
10. The actual General Fund budgetary activities resulted in an unfavorable balance of (\$1,845,230).

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 2010. 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, 2010

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, 2010

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 \$48,178,261 at the end of 2010, as compared with \$47,117,602 as restated which reflect an increase of \$1,060,659 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 \$1,060,659 increase reflected in the Net Assets figure.

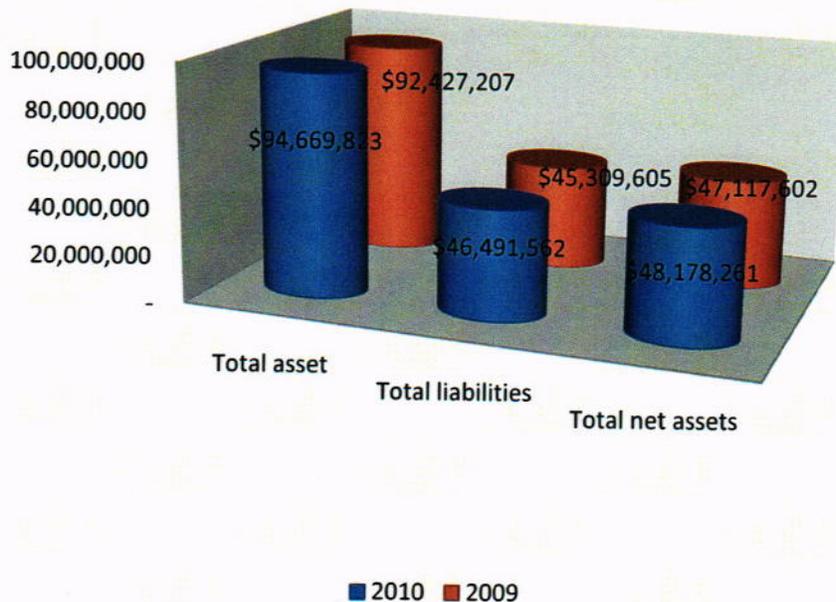
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets	2010	2009	Change	%
Current and other assets	\$ 20,324,044	\$ 18,678,250	\$ 1,645,794	9%
Capital assets	74,345,779	73,748,957	596,822	1%
Total assets	94,669,823	92,427,207	2,242,616	2%
Current and other liabilities	9,514,789	10,148,695	(633,906)	(7%)
Long-term liabilities	36,976,773	35,160,910	1,815,863	5%
Total liabilities	46,491,562	45,309,605	1,181,957	3%
Invested in capital assets, net of related debt	44,460,780	42,628,880	1,831,900	4%
Restricted	11,007,343	8,724,209	2,283,134	27%
Unrestricted deficit	(7,289,862)	(4,235,487)	(3,054,375)	72%
Total net assets	\$ 48,178,261	\$ 47,117,602	\$ 1,060,659	3%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

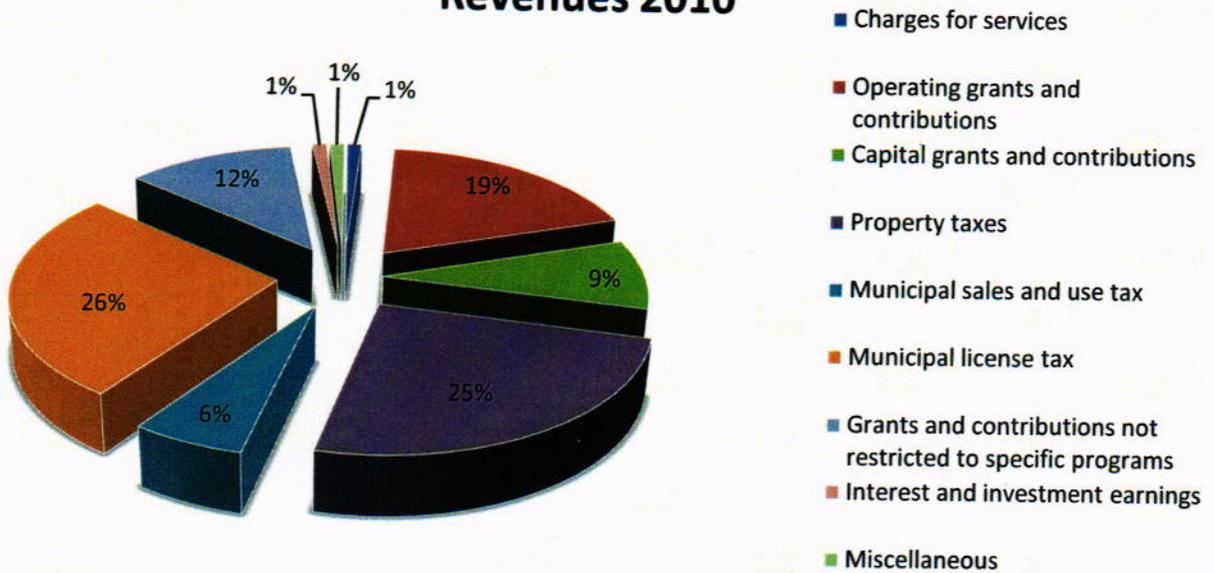
The Municipality's net assets increase by \$1,060,659. Approximately fifty eight percent (58%) of the Municipality's total revenue came from taxes, while forty percent (40%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%), Interest and Investment earnings (1%) and miscellaneous (1%) 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, 2010 and 2009. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2010	2009	Change	%
Program revenues:				
Charges for services	\$ 358,763	\$ 457,670	\$ (98,907)	(22%)
Operating grants and contributions	5,659,821	4,001,844	1,657,977	41%
Capital grants and contributions	2,517,607	2,328,128	189,479	8%
General revenues:				
Property taxes	7,306,430	5,521,827	1,784,603	32%
Municipal sales and use tax	1,642,240	1,676,545	(34,305)	(2%)
Municipal license tax	8,055,675	9,890,489	(1,834,814)	(19%)
Grants and contributions not restricted to specific programs	3,467,834	5,412,276	(1,944,442)	(36%)
Interest and investment earnings	192,924	533,392	(340,468)	(64%)
Miscellaneous	240,345	620,244	(379,899)	(61%)
Total revenues	<u>29,441,639</u>	<u>30,442,415</u>	<u>(1,000,776)</u>	<u>(3%)</u>
Expenses:				
General government	9,649,720	12,981,570	(3,331,850)	(26%)
Public safety	1,604,852	1,640,703	(35,851)	(2%)
Public works	7,158,018	8,400,334	(1,242,316)	(15%)
Culture and recreation	2,514,083	1,018,485	1,495,598	147%
Health and welfare	4,100,050	4,431,544	(331,494)	(7%)
Economic development	279,768	251,836	27,932	11%
Community development	1,808,762	1,473,027	335,735	23%
Education	8,834	6,809	2,025	30%
Interest on long-term debt	1,256,893	1,404,697	(147,804)	(11%)
Total expenses	<u>28,380,980</u>	<u>31,609,005</u>	<u>(3,228,025)</u>	<u>(10%)</u>
Change in net assets	1,060,659	(1,166,590)	2,277,249	196%
Net assets, beginning of year (as restated)	<u>\$47,117,602</u>	<u>\$48,284,192</u>	<u>(1,166,590)</u>	<u>(3%)</u>
Net assets, end of year	<u>\$ 48,178,261</u>	<u>\$ 47,117,602</u>	<u>\$ 1,060,659</u>	<u>3%</u>

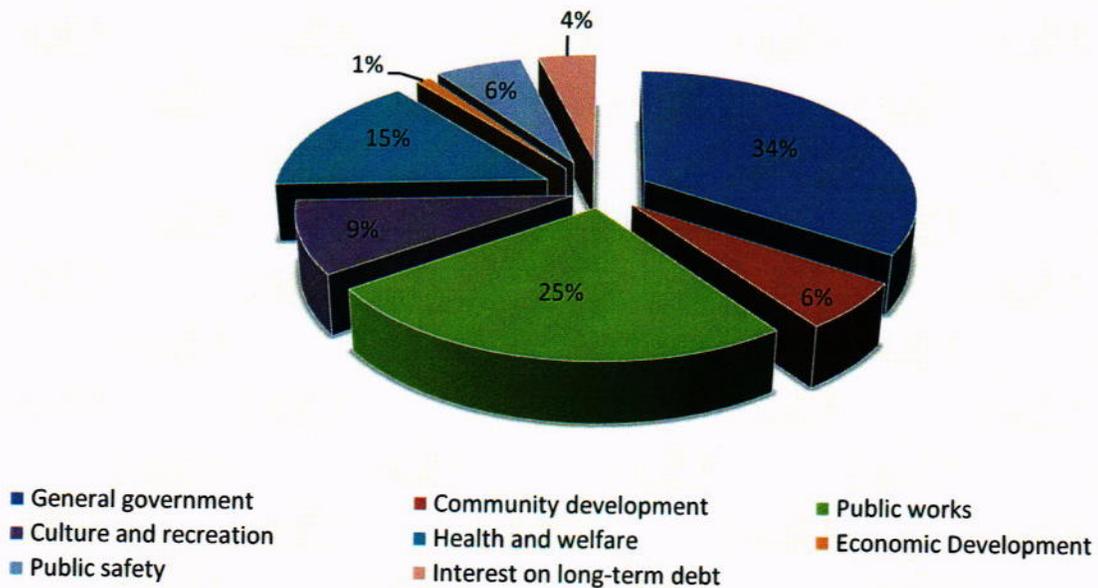
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2010



Expenses 2010



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 \$11,068,172, which represents an increase of \$2,470,297 when compared with the prior year. Out of the indicated balance, \$11,053,610 were reserved or committed for the following purposes: (1) \$46,267 to liquidate contracts and purchase orders corresponding to prior fiscal year; 2) \$3,001,702 for debt service payments; 3) \$4,969,106 to pay for capital projects; and 4) \$3,036,535 for other purposes.

As of June 30, 2010, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund balance of \$14,562.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2009-2010, 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 here to, budgetary analysis reflected a deficiency of (\$1,845,230) 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, 2010, amounted to \$103,114,146 which upon deduction of accumulated depreciation in the amount of \$28,768,367 produced a net book value attributable to capital assets in the amount of \$74,345,779. 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, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately one percent (1%) of net book value. Depreciation charges for the year totaled \$2,437,069.

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, 2010, the Municipality has \$3,643,756 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 2009-2010.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

On July 29, 2010, the Municipal Legislature approved the issuance of a general obligation bond for the amount of \$2,015,000, for the improvement of the Municipality's roads and streets.

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, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 13,364,643	\$ 30,250	\$ 13,394,893
Cash with fiscal agent	6,645,458		6,645,458
Accounts receivable:			
Municipal license tax	9,424		9,424
Intergovernmental	161,696		161,696
Others	112,573		112,573
Capital assets:			
Land, improvements and construction in progress	22,828,305	600,000	23,428,305
Buildings, infrastructure and other capital assets, net of depreciation	44,654,787	6,262,687	50,917,474
Total capital assets	<u>67,483,092</u>	<u>6,862,687</u>	<u>74,345,779</u>
Total assets	<u>87,776,886</u>	<u>6,892,937</u>	<u>94,669,823</u>
Liabilities			
Accounts payable and accrued liabilities	1,741,326		1,741,326
Due to other governmental entities	214,135		214,135
Deferred revenues:			
Municipal license tax	7,201,132		7,201,132
Federal grant revenues	23,956		23,956
Interest payable		334,240	334,240
Noncurrent liabilities:			
Due within one year	2,142,034	250,000	2,392,034
Due in more than one year	28,589,739	5,995,000	34,584,739
Total liabilities	<u>39,912,322</u>	<u>6,579,240</u>	<u>46,491,562</u>
Net Assets			
Invested in capital assets, net of related debt	43,843,093	617,687	44,460,780
Restricted for:			
Capital projects	4,969,106		4,969,106
Debt service	3,001,702		3,001,702
Other purposes	3,036,535		3,036,535
Unrestricted (deficit)	<u>(6,985,872)</u>	<u>(303,990)</u>	<u>(7,289,862)</u>
Total net assets	<u>\$ 47,864,564</u>	<u>\$ 313,697</u>	<u>\$ 48,178,261</u>

**Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Activities
For the Year Ended June 30, 2010**

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	\$ 9,224,301	\$ 121,895	\$ 1,420,345	\$ -	\$ (7,682,061)	\$ -	\$ (7,682,061)
Public safety	1,604,852	33,651	154,947	-	(1,416,254)	-	(1,416,254)
Public works	7,158,018	-	1,944,774	2,517,607	(2,695,637)	-	(2,695,637)
Health and welfare	4,100,050	-	1,815,332	-	(2,284,718)	-	(2,284,718)
Culture and recreation	2,514,083	178,217	324,423	-	(2,011,443)	-	(2,011,443)
Economic development	279,768	-	-	-	(279,768)	-	(279,768)
Community development	1,808,762	-	-	-	(1,808,762)	-	(1,808,762)
Education	8,834	-	-	-	(8,834)	-	(8,834)
Interest on long-term debt	911,816	-	-	-	(911,816)	-	(911,816)
Total governmental activities	\$ 27,610,484	\$ 333,763	\$ 5,659,821	\$ 2,517,607	(19,099,293)	-	(19,099,293)
Business type activities:							
General government	425,419	-	-	-	-	(425,419)	(425,419)
Economic development	-	25,000	-	-	-	25,000	25,000
Interest on long term debt	345,077	-	-	-	-	(345,077)	(345,077)
Total business type activities	770,496	25,000	-	-	-	(745,496)	(745,496)
Total primary government	\$ 28,380,980	\$ 358,763	\$ 5,659,821	\$ 2,517,607	(19,099,293)	(745,496)	(19,844,789)
General revenues:							
Property taxes					7,306,430		7,306,430
Municipal license tax					8,055,675		8,055,675
Municipal sales and use tax					1,642,240		1,642,240
Grants and contributions not restricted to specific programs					3,467,834		3,467,834
Interest and investment earnings					192,924		192,924
Miscellaneous					240,345		240,345
Transfers					(570,077)	570,077	-
Total general revenues and transfers					20,335,371	570,077	20,905,448
Change in net assets					1,236,078	(175,419)	1,060,659
Net assets - beginning as restated					46,628,486	489,116	47,117,602
Net assets - ending					\$ 47,864,564	\$ 313,697	\$ 48,178,261

Commonwealth of Puerto Rico
Municipality of Cidra
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund -(01)	Special Revenue Fund-(02) State & Federal Grants	Debt Service Fund -(10 & 11)	Capital Projects Fund-(20 & 21) State & Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 6,982,817	\$ 2,417,987	\$ -	\$ 3,701,225	\$ 262,614	\$ 13,364,643
Cash with fiscal agent		1,725,534	3,001,702	1,918,222		6,645,458
Accounts receivable:						
Municipal licenses tax	9,424					9,424
Intergovernmental	45,073					45,073
Other	83,762				116,623	161,696
Due from other funds	946,957	6,082		26,265	2,546	112,573
				155,369	6,778	1,115,186
Total assets	\$ 8,068,033	\$ 4,149,603	\$ 3,001,702	\$ 5,801,081	\$ 388,561	\$ 21,408,980
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 544,205	\$ 561,480		\$ 588,987	\$ 46,654	\$ 1,741,326
Due to other governmental entities	214,135					214,135
Due to other funds	2,659	657,816		242,988	211,723	1,115,186
Deferred revenues:						
Municipal license tax	7,201,132					7,201,132
Intergovernmental	45,073					45,073
Federal grant revenues					23,956	23,956
Total liabilities	8,007,204	1,219,296	-	831,975	282,333	10,340,808
Fund balances:						
Reserved for:						
Encumbrances	46,267					46,267
Capital projects				4,969,106		4,969,106
Reserved reported in nonmajor funds:						
Debt service fund			3,001,702			3,001,702
Other purposes		2,930,307			106,228	3,036,535
Unreserved:						
Undesignated	14,562					14,562
Total fund balances	60,829	2,930,307	3,001,702	4,969,106	106,228	11,068,172
Total liabilities and fund balances	\$ 8,068,033	\$ 4,149,603	\$ 3,001,702	\$ 5,801,081	\$ 388,561	\$ 21,408,980

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General Fund -(01)	Special Revenue Fund-(02) State & Federal Grants	Debt Service Fund -(10 & 11)	Capital Projects Fund-(20 & 21) State & Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 5,053,991	\$ -	\$ 2,252,439	\$ -	\$ -	\$ 7,306,430
Municipal sales and use tax		1,280,112	362,128			1,642,240
Municipal license taxes	8,055,675					8,055,675
Licenses, permits and other local taxes	352,546					352,546
Charges for services	12,494	109,401				121,895
Intergovernmental	3,115,288	2,218,828		2,517,607		7,851,723
Fines and forfeitures	178,217					178,217
Rent of property	8,401	25,251				33,652
Interest	192,923					192,923
Federal grants		342,852			2,499,410	2,842,262
Miscellaneous	240,345	20,766			101,622	362,733
Total revenues	17,209,880	3,997,210	2,614,567	2,517,607	2,601,032	28,940,296
Expenditures						
Current:						
General government	9,374,207	3,342,057				12,716,264
Public safety	1,471,540					1,471,540
Public works	4,159,965	364,346		1,195,755		5,720,066
Health and welfare	2,457,241	400,127			1,311,266	4,168,634
Culture and recreation	1,002,108	43,771				1,045,879
Economic development	329,768					329,768
Community development		103,570				832,391
Education					728,821	832,391
Debt service:					8,834	8,834
Principal			1,055,000			1,055,000
Interest			911,816			911,816
Total expenditures	18,794,829	4,253,871	1,966,816	1,195,755	2,048,921	28,260,192
Excess (deficiency) of revenues over (under) expenditures	(1,584,949)	(256,661)	647,751	1,321,852	552,111	680,104
Other financing sources (uses)						
Transfers in			476,840			476,840
Transfers out	(476,840)				(570,077)	(1,046,917)
Long-term debt issued	1,980,000	390,000				2,370,000
Bond issuance costs	(7,805)	(1,925)				(9,730)
Total other financing sources (uses)	1,495,355	388,075	476,840	-	(570,077)	1,790,193
Net change in fund balances	(89,594)	131,414	1,124,591	1,321,852	(17,966)	2,470,297
Fund balance, beginning as restated	150,423	2,798,893	1,877,111	3,647,254	124,194	8,597,875
Fund balance, ending	<u>\$ 60,829</u>	<u>\$ 2,930,307</u>	<u>\$ 3,001,702</u>	<u>\$ 4,969,106</u>	<u>\$ 106,228</u>	<u>\$ 11,068,172</u>

Commonwealth of Puerto Rico
Municipality of Cidra
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
For the Year Ended June 30, 2010

Total Fund Balances - Governmental Funds \$ 11,068,172

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. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 22,828,305	
Depreciable Capital Assets	72,836,003	
Accumulated Depreciation	<u>(28,181,216)</u>	
Total Capital Assets		67,483,092

Some of the Municipality's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds:

Municipal Revenue Collection Center	45,073
-------------------------------------	--------

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable	25,620,000	
State Insurance Fund Corporation	27,686	
LIMS Repayment Plan	147,396	
Property Taxes Debt	310,532	
Compensated Absences	3,908,159	
Landfill Obligation	<u>718,000</u>	
Total Long-Term Liabilities		<u>(30,731,773)</u>

Total Net Assets of governmental activities \$ 47,864,564

**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, 2010**

Net Change in Fund Balances - Total Governmental Funds	\$ 2,470,297
 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.	12,006,800
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.	476,344
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.	(2,236,649)
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.	(9,449,579)
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.	1,055,000
The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments.	(2,370,000)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.	(27,686)
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.	91,303
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.	(826,752)
Change in Net Assets of Governmental Activities	\$ 1,236,078

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Net Assets
Proprietary Fund-Business Type Activity - Enterprise Fund
Year Ended June 30, 2010

	<u>Business Type Activitiy Enterprise</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 30,250
Total current assets	<u>30,250</u>
Noncurrent Assets:	
Capital Assets:	
Land	600,000
Building	6,669,838
Machinery and equipment	180,000
Accumulated depreciation	<u>(587,151)</u>
Total non-current assets	<u>6,862,687</u>
Total assets	<u>6,892,937</u>
Liabilities:	
Current Liabilities:	
HUD Section 108 Loans Guarantee-Principal	250,000
Interest Payable	<u>334,240</u>
Total current liabilities	<u>584,240</u>
Noncurrent Liabilities:	
Long Term Liabilities:	
HUD Section 108 Loan Guarantee	<u>5,995,000</u>
Total noncurrent liabilities	<u>5,995,000</u>
Total liabilities	<u>6,579,240</u>
Net Assets	
Invested in Capital Assets, net of related debt	617,687
Unrestricted	<u>(303,990)</u>
Total Net Assets	<u>\$ 313,697</u>

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

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, 2010

	<u>Business - Type Activities Enterprise</u>
Operating revenues:	
Charges for services	\$ <u>25,000</u>
Total operating revenues	<u>25,000</u>
 Operating expenses:	
Depreciation and amortization	<u>200,419</u>
Total operating expenditures	<u>200,419</u>
Operating income (Loss)	(175,419)
 Non-operating revenues (expenses):	
Payments-Principal-HUD Section 108 Loan	(225,000)
Interest expense	<u>(345,077)</u>
Total non-operating revenues (expenses)	<u>(570,077)</u>
Income (loss) before transfers	(745,496)
Transfers from Governmental Activities	<u>570,077</u>
Change in Net Assets	(175,419)
Total net assets-beginning as restated	<u>489,116</u>
Total net assets-ending	<u>\$ <u>313,697</u></u>

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Cash Flows
Proprietary Fund - Business Type Activity - Enterprise Fund
Year Ended June 30, 2010

Cash Flows from Operating Activities:

Receipts from Customers	\$ 25,000
Net Cash Provided (Used) by Operating Activities	25,000

Cash Flows from Capital and Related Financing Activities:

Principal paid on capital debt	(225,000)
Interest paid	(345,077)
Transfer in from the Governmental Activities	570,077
Net Cash Provided (Used) in Capital and Related Financing Activities	-
Balance-beginning of the year as restated	5,250
Balance-end of the year	30,250

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

Operating loss	\$ (175,419)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation expenses	200,419
Total Adjustments	200,419
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

YEAR ENDED JUNE 30, 2010

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 sixteen 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, 2010

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, 2010

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.

Debt Service Fund - (10 & 11)- is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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

9. **Net Assets** - In the government-wide statements, net assets are segregated into three categories:

- a. Invested in capital assets, net of related debt: Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. Restricted net assets: Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. Unrestricted net assets: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

10. **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.

11. **Interfund and intra-entity transactions**- The Municipality has the following types of transactions among funds:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

- 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.

12. 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, 2010 amounted to approximately \$350,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$353,000 for workers compensation insurance covering all municipal employees.

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 its custodial and credit risk policy, the *Statement of 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, 2010.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2010, (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, 2010, 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, 2010, 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, 2010. Therefore, the Municipality's management has concluded that at June 30, 2010 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.

Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2010.

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).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

2. CASH AND CASH EQUIVALENTS (CONTINUED)

The Municipality's bank balances in commercial banks of \$6,982,817 in the general fund, \$2,417,987 in the special revenue fund (02), \$3,701,225 in the capital projects funds - state and federal grants and \$262,614 in the others governmental funds were fully collateralized at June 30, 2010.

The deposits at GDB of \$1,725,534 in the special revenue fund (02), \$3,001,702 in the debt service fund that is restricted and \$1,918,222 in the capital projects fund - state and federal grants 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, 2010, 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, 2010, net of allowance for uncollectible accounts.

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

B. *Intergovernmental*- Intergovernmental receivable in the general fund represents the balance owed from the Municipal Revenue Collection Center (CRIM) at June 30, 2010 as described in Note 6. Also, part of this property tax receivable represents the amount due from the CRIM related to delinquent debts. Following is a detail of the property tax receivables:

<u>Program Description</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 45,073
Total	\$ 45,073

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. RECEIVABLES (CONTINUED)

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>116,623</u>
Total	\$ <u>116,623</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2010 are summarized as follows:

a. Due from/to other fund:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund (01)	\$ 946,957	\$ 2,659
Special Revenue Fund (02)	6,082	657,816
Capital Projects Funds (20 & 21)	155,369	242,988
Other Governmental Fund	<u>6,778</u>	<u>211,723</u>
Total	\$ <u>1,115,186</u>	\$ <u>1,115,186</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)	Transfers funds to cover debt service payments	\$ 476,840
Special Revenue Fund (70)	Proprietary Fund-Business Type Activity-Enterprise Fund	Transfer funds to cover Section 108 Loan Payment (Hotel Treasure Island)	<u>570,077</u>
Total			\$ <u>1,046,917</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 2010, 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, 2009 As restated</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance June 30, 2010</u>
Capital asset, not being depreciated:				
Construction in progress	\$ 8,635,412	\$ 868,493	\$ (9,441,900)	\$ 62,005
Land	<u>22,289,956</u>	<u>476,344</u>	<u>-</u>	<u>22,766,300</u>
Total capital assets not being depreciated	<u>30,925,368</u>	<u>1,344,837</u>	<u>(9,441,900)</u>	<u>22,828,305</u>
Capital assets, being depreciated:				
Buildings and building improvements	24,471,728	9,181,171	(4,199)	33,648,700
Infrastructure and Infrastructure improvements	25,727,865	1,585,309		27,313,174
Equipments	3,777,066	191,518	(45,618)	3,922,966
Furnishing	1,439,947	15,245	(43,857)	1,411,335
Computers	661,647	21,364	(55,128)	627,883
Works of art	6,787			6,787
Vehicles	<u>5,820,996</u>	<u>143,700</u>	<u>(59,538)</u>	<u>5,905,158</u>
Total capital assets being depreciated	<u>61,906,036</u>	<u>11,138,307</u>	<u>(208,340)</u>	<u>72,836,003</u>
Less accumulated depreciation for:				
Buildings and building improvements	(6,825,588)	(835,758)	2,249	(7,659,097)
Infrastructure and Infrastructure improvements	(9,652,494)	(656,659)		(10,309,153)
Equipments	(2,986,476)	(280,986)	44,676	(3,222,786)
Furnishing	(785,597)	(172,822)	39,870	(918,549)
Computers	(529,554)	(93,516)	54,328	(568,742)
Works of art	(1,801)	(660)		(2,461)
Vehicles	<u>(5,363,717)</u>	<u>(196,249)</u>	<u>59,538</u>	<u>(5,500,428)</u>
Total accumulated depreciation	<u>(26,145,227)</u>	<u>(2,236,650)</u>	<u>200,661</u>	<u>(28,181,216)</u>
Total capital assets being depreciated, net	<u>35,760,809</u>	<u>8,901,657</u>	<u>(7,769)</u>	<u>44,654,787</u>
Governmental activities capital assets, net	<u>\$ 66,686,177</u>	<u>\$ 10,246,494</u>	<u>\$ (9,449,579)</u>	<u>\$ 67,483,092</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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	\$ 763,513
Public safety	187,192
Public works	866,327
Health and welfare	36,204
Culture and recreation	197,501
Community development	<u>185,913</u>
Total depreciation expense-governmental activities	<u>\$ 2,236,650</u>

<u>Business - type activities</u>	<u>Balance July 1, 2009 as restated</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2010</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	<u>180,000</u>	<u>-</u>	<u>-</u>	<u>180,000</u>
Total capital assets being depreciated	<u>6,849,838</u>	<u>-</u>	<u>-</u>	<u>6,849,838</u>
Less accumulated depreciation for:				
Building	(386,732)	(164,419)	-	(551,151)
Machinery and equipment	<u>-</u>	<u>(36,000)</u>	<u>-</u>	<u>(36,000)</u>
Total accumulated depreciation	<u>(386,732)</u>	<u>(200,419)</u>	<u>-</u>	<u>(587,151)</u>
Total capital assets being depreciated, net	<u>6,463,106</u>	<u>(200,419)</u>	<u>-</u>	<u>6,262,687</u>
Business - type Activities capital assets, net	<u>\$ 7,063,106</u>	<u>\$ (200,419)</u>	<u>\$ -</u>	<u>\$ 6,862,687</u>

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

<u>Business -type Activities</u>	
Community development	<u>\$ 200,419</u>
Total depreciation expense-governmental activities	<u>\$ 200,419</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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.

The CRIM issued the preliminary liquidation noting that the collections exceeded advances by **\$45,073**. In the governmental funds, the entire receivable has been offset by deferred revenue since the excess was not available to pay liabilities of the current period. In the government-wide financial statements, the entire receivable is recognized as revenue.

On January 26, 2000, Public Law No. 42 was enacted, which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000.

The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. PROPERTY TAXES (CONTINUED)

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

On June 26 1997, Public Law No. 21 was enacted, which authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and 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, 2010

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 \$ 1,642,240 during the year ended June 30, 2010.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010 are summarized as follows:

<u>Description</u>	<u>General Fund -(01)</u>	<u>Special Revenue Fund (02) - State & Local Grants</u>	<u>Debt Service Fund - (10 & 11)</u>	<u>Capital Projects Fund (20 & 21) - State & Local Grants</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 475,324	\$ 545,417	\$ -	\$ 586,825	\$ 21,311	\$ 1,628,877
Accrued liabilities	<u>68,881</u>	<u>16,063</u>	<u>-</u>	<u>2,162</u>	<u>25,343</u>	<u>112,449</u>
Total	<u>\$ 544,205</u>	<u>\$ 561,480</u>	<u>\$ -</u>	<u>\$ 588,987</u>	<u>\$ 46,654</u>	<u>\$ 1,741,326</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	\$ 357
Retirement System Administration	155,551
Puerto Rico Telephone Company	11,382
Puerto Rico Aqueduct and Sewer Authority	12,426
Department of Labor-Unemployment Program	3,876
Commonwealth of Puerto Rico Employee Association	<u>30,543</u>
Total	<u>\$ 214,135</u>

10. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$7,201,132 in the general fund relates to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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	\$ 23,956
Total	<u>\$ 23,956</u>

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2010, 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	\$ 19,840,000	\$1,980,000	\$ (740,000)	\$ 21,080,000	\$ 820,000
Notes Payable	10,935,000	390,000	(540,000)	10,785,000	640,000
State Insurance Fund Corporation	-	27,686	-	27,686	27,686
LIMS Repayment Plan	238,699		(91,303)	147,396	96,816
Property Taxes Debt	310,532			310,532	310,532
Compensated Absences	3,071,679	1,312,047	(475,567)	3,908,159	450,000
Landfill Obligation	<u>765,000</u>	<u>-</u>	<u>(47,000)</u>	<u>718,000</u>	<u>47,000</u>
Total	<u>\$35,160,910</u>	<u>\$3,709,733</u>	<u>\$(1,893,870)</u>	<u>\$36,976,773</u>	<u>\$2,392,034</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, 2010

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, 2010 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2010
1995 Series	7-1-21	\$ 605,000	4.86% to 6.75%	\$ 430,000
1999 Series	7-1-24	260,000	2.70% to 7.81%	210,000
1999 Series	7-1-24	710,000	2.80% to 7.81%	570,000
2000 Series	7-1-25	6,440,000	2.70% to 7.81%	5,335,000
2002 Series	7-1-21	1,335,000	5.0% to 6.5%	990,000
2002 Series	7-1-26	580,000	5.0% to 6.5%	485,000
2004 Series	7-1-29	4,020,000	5.00%	3,520,000
2004 Series	7-1-14	905,000	5.00%	420,000
2005 Series	7-1-29	435,000	4.37% to 5.0%	385,000
2005 Series	7-1-21	730,000	4.23% to 4.8%	610,000
2006 Series	7-1-31	5,050,000	6.62% to 7.25%	4,795,000
2008 Series	7-1-17	1,580,000	7.50%	1,350,000
2010 Series	7-1-34	1,980,000	5.00% to 7.50%	1,980,000
Total general obligation bonds				\$ 21,080,000

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
2011	\$ 820,000	\$ 990,335
2012	880,000	1,425,513
2013	945,000	1,368,412
2014	1,000,000	1,307,301
2015	955,000	1,244,797
2016-2020	5,390,000	5,191,477
2021-2025	5,740,000	3,361,751
2026-2030	3,835,000	1,543,262
2031-2035	1,515,000	280,975
Total	\$ 21,080,000	\$ 16,713,823

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010
2003 General obligations notes	7-1-10	\$ 725,000	5.0% to 6.0%	\$ 125,000
2006 General obligations notes	7-1-13	545,000	6.62% to 7.25%	345,000
2004-A Series- Section 108 Loan	8-1-22	5,100,000	Variable	4,500,000
2006-A Series- Section 108 Loan	8-1-24	1,895,000	Variable	1,745,000
2007 General obligations notes	7-1-14	270,000	6.48% to 7.50%	205,000
2007 General obligations notes	7-1-14	445,000	6.48% to 7.50%	350,000
2008 Special obligations notes	7-1-32	3,170,000	7.50%	3,125,000
2010 General obligations notes	7-1-32	3,170,000	5.00% to 7.50%	390,000
Total notes payable				\$ 10,785,000

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
2011	\$ 640,000	\$ 460,425
2012	646,000	618,859
2013	686,000	578,565
2014	736,000	535,181
2015	681,000	492,026
2016-2020	3,075,000	1,912,735
2021-2025	2,636,000	968,640
2026-2030	935,000	466,688
2031-2035	750,000	87,375
Total	\$ 10,785,000	\$ 6,120,494

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

11. LONG-TERM LIABILITIES (CONTINUED)

- 4. State Insurance Fund Corporation-** This amount represents the balance owed to the "CFSE" at June 30, 2010 will be retained by the remittance during the next 12 months. The outstanding balance is \$27,686.
- 5. 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, 2010, the outstanding balance is \$147,396. This amount is presented in the government-wide financial statement.
- 6. Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM) at June 30, 2010. 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.
- 7. Compensated Absences-** The government-wide statement of net assets includes approximately \$2,396,000 of accrued sick leave benefits, and approximately \$1,512,000 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- 8. 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 \$ 718,000 as the Municipality's estimated current cost for landfill post-closure costs as of June 30, 2010. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

12. PENSION PLAN

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

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

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

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

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of 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, 2010 amounted to approximately **\$725,000** 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

12. PENSION PLAN (CONTINUED)

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, 2010, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

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, 2010:

- a. GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for periods beginning after June 15, 2010, with early implementation encouraged.
- b. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

B. Claims and lawsuits:

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

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	Debt Service Fund -(10 & 11)	Capital Projects Fund-(20 & 21) State & Federal Grants	Other Governmental Funds	Total
Fund balance beginning	\$ 150,423	\$ 2,798,893	\$ 1,877,111	\$ 3,647,254	\$ (26,116)	\$ 8,447,565
To adjust due to other funds		(225,792)				(225,792)
Cancelation of prior year accounts payable	-	-	-	-	156,685	156,685
Fund balance, beginning as restated	<u>\$ 150,423</u>	<u>\$ 2,573,101</u>	<u>\$ 1,877,111</u>	<u>\$ 3,647,254</u>	<u>\$ 130,569</u>	<u>\$ 8,378,458</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

16. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

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	\$ 46,695,845
To adjust due to other funds	(225,972)
Cancelation of prior year accounts payable	156,685
To restate <i>Capital Assets</i>	326
To restate <i>Proprietary Fund-Enterprise Fund</i>	235,777
To adjust prior year fund balances	<u>35,524</u>
Net assets, beginning as restated	<u>\$ 46,898,185</u>

17. SUBSEQUENT EVENTS

On July 29, 2010, the Municipal Legislature approved the issuance of a general obligation bonds for the amount of \$2,015,000 for the improvement of the Municipality's roads and streets.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amount</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 4,398,904	\$ 4,398,904	\$ 5,053,991	\$ 655,087
Municipal license tax	8,370,554	8,370,554	8,055,675	(314,879)
Fines and forfeiture	20,000	20,000	178,217	158,217
Licenses, permits and other local taxes	1,230,000	1,230,000	352,546	(877,454)
Charges for services	30,000	30,000	12,494	(17,506)
Intergovernmental	3,115,287	3,115,287	3,115,288	1
Interest	600,000	600,000	192,923	(407,077)
Rent of property	7,800	7,800	8,401	601
Miscellaneous	<u>440,000</u>	<u>440,000</u>	<u>240,345</u>	<u>(199,655)</u>
Total revenues	<u>18,212,545</u>	<u>18,212,545</u>	<u>17,209,880</u>	<u>(1,002,665)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	9,783,595	9,783,595	10,181,376	(397,781)
Public safety	1,533,522	1,533,522	1,471,531	61,991
Public works	4,395,049	4,395,049	4,131,785	263,264
Health and welfare	1,230,023	1,230,023	1,454,492	(224,469)
Culture and recreation	1,013,654	1,013,654	1,001,513	12,141
Economic development	121,109	121,109	229,750	(108,641)
Education	135,593	135,593	107,823	27,770
Operating transfer to other funds	-	-	<u>476,840</u>	<u>(476,840)</u>
Total expenditures, encumbrances and other financing uses	<u>\$ 18,212,545</u>	<u>\$ 18,212,545</u>	<u>19,055,110</u>	<u>(842,565)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)			<u>\$ (1,845,230)</u>	<u>\$ (1,845,230)</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$ 17,209,880
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 19,055,110
Differences-budget to GAAP:				
Non-budgeted expenditures				163,545
Prior year encumbrances recorded as current year expenditures for GAAP basis				107,086
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(46,267)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 19,279,474</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2010

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, 2010 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2010.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through Commonwealth of Puerto Rico Department of the Education: Child and Adult Care	10.558	Not Available	\$ 4,382
Total U.S. Department of Agriculture			4,382
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Community Development Block Grants/Entitlement Grants	14.218		976,857
ARRA-Community Development Block Grant- Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253		15,126
Homeless Prevention and Rapid Re- Housing Program (Recovery Act Funded)	14.262		14,498
Section 8 Housing Choice Vouchers	14.871		1,245,492
Pass-through Commonwealth of Puerto Rico Department of the Family: Emergency Shelter Grants Program	14.231	ESG-04-DC- 720001	77,124
Total U.S. Department of Housing and Urban Development			2,329,097
U.S. DEPARTMENT OF JUSTICE:			
Pass-through Commonwealth of Puerto Rico Department of Justice: Edward Byrne Memorial Justice Assistance Formula Grant	16.803		109,976
Total U.S. Department of Justice			109,976

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF LABOR:			
Pass-through of Labor (Council of Occupational Development and Human Resources): Workforce Investment Act Cluster:	17.258, 17.259 & 17.260	Not Available	141,617
Total U.S. Department of Labor			141,617
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Program:			
Federal Transit: Formula Grants	20.507		99,568
ARRA - Urbanized Area Formula	20.509		213,147
Pass-through the Commonwealth of Puerto Rico - Traffic Safety Commission			
State and Community Highway Safety	20.600	10-03-08	16,156
Pass-through Commonwealth of Puerto Rico Department Highway Safety and Drunk:			
Driving Prevention Incentive Grant	20.601	06-03-08	5,835
Total U.S. Department of Transportation			334,706
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Family Department (ACUDEN):			
Alzheimer's Disease Demonstrations Grants	93.051	Not Available	48,860
Child Care and Development Block Grant	93.575	Not Available	74,048
Family Violence Prevention and Services	93.671	Not Available	21,415
ARRA - Child Care and Development Block Grant (Recovery Act Funded)	93.713	Not Available	6,214
Total U.S. Department of Health and Human Services			150,537

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Homeland Security Grant	96.067	2005-GFT54009	45,089
Total U.S. Department of Homeland Security			45,089
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,115,404

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, 2010

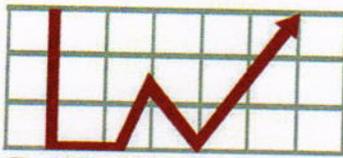
1. BASIS OF PRESENTATION:

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), Other Governmental Funds in the Municipality's fund financial statements and in the Proprietary Fund - Business Type Activity - Enterprise Fund. The reconciliation between the expenditures in the funds financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund (02)	Other Governmental Funds	Proprietary Fund- Business Type Activities	Total
Per Schedule of Expenditures of Federal Awards	\$ 565,214	\$ 1,980,113	\$ 570,077	\$ 3,115,404
Non federal programs expenditures	<u>3,688,657</u>	<u>68,808</u>	<u>200,419</u>	<u>3,957,884</u>
Total expenditures in the basic financial statements	<u>\$ 4,253,871</u>	<u>\$ 2,048,921</u>	<u>\$ 770,496</u>	<u>\$ 7,073,738</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, the business-type 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, 2010, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 8, 2010, 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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)

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 8, 2010.

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.


LOPEZVEGA, CPA, PSC

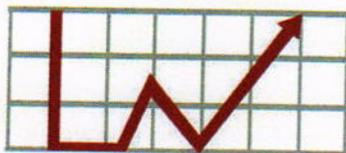
San Juan, Puerto Rico
December 8, 2010

Stamp No. 2575431 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

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INDEPENDENT AUDITOR'S 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, 2010. 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 identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010. 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, **10-01** through **10-04**.

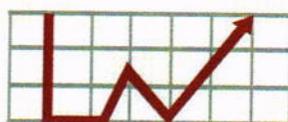
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questions costs as items **10-01** through **10-04**. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



López-Vega, CPA, PSC

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

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.

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Cidra** in a separate letter dated March 24, 2011.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 24, 2011

Stamp No. 2575432 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

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, 2010

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, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 10-01

Program Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development

Requirement Reporting

Statement of Condition During our Financial Reporting test, we identified the following conditions:

- a) For the year ended 6/30/10 the accounting records (administrative cost) did not agree with the Financial Quarterly Report by \$2,901.35.
- b) SF-425, Federal Financial Report (cash status only) was not submitted for the fiscal year ended June 30, 2010.

Criteria 24 CFR, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements must be available for Federal inspection and must be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions.

24 CFR, Subtitle A, Subpart C, Section 85.41 states (a) *General* (1) Except as provided in paragraphs (a) (2) and (5) of this section, grantees will use only the forms specified in paragraphs (a) through (e) of this section, and such supplementary or other forms as may from time to time be authorized by OMB, for: (i) Submitting financial reports to Federal agencies. Also, Section (b) states that grantees will use Standard Form to report the status of funds for all non-construction grants and for construction grants when required in accordance with 85.41(e)(2)(iii) of this section. (3) *Frequency*. The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination grant support. Besides, Section 85.41 (c) (ii) states that these reports will be used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees. The format of the report may be adapted as appropriate when reporting is to be accomplished with the assistance of automatic data processing provided that the information submitted is not changed in substance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-01 (Continued)
Cause of Condition	The Program financial management failed to report the disclosure of the financial results and failed to have available for examination by us during the application of planned audit procedures.
Effect of Condition	The Program is not in compliance with the Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) and Subpart C, Sec.85.41.
Recommendation	We recommend that the Program should implement procedures in order to assure that all Financial Status Report are prepared and submitted on time. Also, we recommend that the Program's Management instruct the Program accounting staff to prepare financial reporting with accurate, current, and complete disclosure of the financial result of financially assisted activities.
Questioned Costs	None
Management Response and Corrective Action	<p>The Program will strengthen its internal control and procedures in the preparation of the Federal Financial Report to comply with the established Federal Regulations. Also, we are going to give instructions to program's staff to submit quarterly the SF-425, Federal Financial Report.</p> <p>Implementation Date: April 1, 2011</p> <p>Responsible Person: Linda Robert Federal Program Department Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-02
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) In four (4) cases, the Inspection Checklist forms were not marked as Pass, Fail or Inconclusive.b) In one (1) participant's file, the Reasonable Rent form was not completed when the participant changed from one housing unit to another on 2008.c) In four (4) cases, the PHA/Tenant Certification is not signed by PHA staff.d) In one (1) case, the participant's file did not include evidence of updated Good Behavior Certificate and family composition photo.e) In two (2) participant's files, the PHA failed to document whether deficiencies found in the last inspection were corrected.f) One (1) participant's file did not include the Inspection Form for fiscal year 09-10.g) One (1) participant's file did not include the Family Report Form (50058) for fiscal year 09-10.
Criteria	<p>Code of Federal Regulations 24, Sections 5.609 established that as a condition of admission or continued occupancy, the tenant must provide all necessary information and documentation required and tenant's authorization to verify income eligibility. 24 CFR Subpart K Section 982.516 (a), established that PHA responsibility for reexamination of family income and composition at least annually, (2) the PHA must obtain and document in the tenant file third-party verification. Besides, Code of Federal Regulations 24, Sections 982.158(d) and 982.405 (b) states that the PHA must prepare a unit inspection report and conduct quality control re-inspections.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-02 (Continued)**

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.

Cause of Condition The Program's officers did not obtain and complete the required documentation to validate the participant's eligibility. In addition, the Municipality has no effective monitoring review process for the program internal quality control.

Effect of Condition The Program does not meet all in compliance with Code of Federal Regulations 24 and could have an effect in the performance on SEMAP report.

Recommendation The Program should strengthen internal supervisory quality control procedures to monitor performance, ensure compliance with these requirements and train staff on documentation and verification process.

Questioned Costs None

Management Response and Corrective Action The Municipality's management concurs with the finding. During this fiscal year 20010-2011, we gave instructions to the program staff to correct the situations commented in the finding.

Implementation Date: April 1, 2011

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, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-03
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development
Requirement	HQS Enforcement
Statement of Condition	<p>In testing the Housing Quality Standards Enforcement procedures for Failed HQS inspections form HUD-52580; we found the following situations in fifteen (15) participants' files examined:</p> <ul style="list-style-type: none">a) In six (6) files examined, we noted that the inspection report do not indicate the final pass date. After the deficiencies were corrected.b) In one (1) file examined, the inspection report does not have the initials of the Inspector Officer that certifies the date on which the deficiencies were corrected.c) In one (1) file examined, the original inspection and re-inspection forms were not in the file participant's.
Criteria	<p>Code of Federal Regulations 24, Subpart I, Section 982.404 (a) Owner Obligation, (1) The owner must maintain the unit in accordance with HQS. (2) If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous action to enforce the owner obligations. PHA remedies for such breach of the HQS include termination, suspension or reduction of housing assistance payments and termination of the HAP contract. (3) The PHA must not make any housing assistance payments for dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA approved extension). Besides, Section 982.405, (a) The PHA must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as need, to determine if the unit meets the HQS. (See Sec. 982.305 (b) (2) concerning timing of initial inspection by the PHA. must conduct supervisory quality control HQS inspections. (c) In scheduling inspections, the PHA must consider complains and any other information to the attention of the PHA.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-03 (Continued)
Cause of Condition	The Program did not implement and maintain adequate internal controls to ensure that housing quality inspection enforcement met HUD requirements.
Effect of Condition	The Program made housing assistance payment for units that did not meet housing quality standards that could have an effect in the performance on SEMAP report.
Recommendation	The Program needs to implement internal controls and perform quality controls which ensure that units are inspected in a timely manner and inspections are in accordance with its administrative plan and HUD requirement and should strengthen its monitoring procedures and internal control to take immediate action over the use of federal funds as required by federal regulations.
Questioned Costs	None
Management Response and Corrective Action	<p>The Program's Management concurs with the finding. The Federal Program Department Director will establish communication with the program staff in order to strengthen its monitoring system procedures related to compliance with HQS Enforcement.</p> <p>Implementation Date: April 1, 2011</p> <p>Responsible Person: Linda Robert Federal Program Department Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-04
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Special Test
Statement of Condition	We noted that the Section 8 Housing Choice Vouchers Program did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999)
Criteria	24 CFR Subpart D, Section 982.156 states. (c) The PHA must enter into an agreement with the depository in the form required by HUD. (d) If required under a written freeze notice from HUD to the depository: (i) The depository may not permit any withdrawal by the PHA of funds held under the depository agreement unless expressly authorized by written notice from HUD to the depository; and (ii) The depository must permit withdrawals of such funds by HUD. (2) HUD must send the PHA a copy of the freeze notice from HUD to the depository.
Cause of Condition	The program is not performing an effective review of compliance requirement that are required by HUD.
Effect of Condition	The PHA is not in compliance with laws and established regulation as prescribed by HUD.
Recommendation	Procedures should be implemented to ascertain that the PHA complies with the established Federal Regulation, as prescribed by HUD.
Questioned Costs	None
Management Response and Corrective Action	The Program will take procedures to comply with the preparation of Form HUD - 51999, Depository Agreement. The Municipality will submit a corrective action plan outlining this finding to be corrected in a detailed manner no later than April 15, 2011.

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, 2010

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-01	14.218	<p><u>During our Davis-Bacon Act test, we verified three (3) construction projects; we found the following exceptions: 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.</u></p> <p>Full corrective action has been taken.</p>
09-02	14.218	<p><u>During our contract provision test, we verified three (3) construction contracts formalized during the fiscal year 2008-2009, we noted following exceptions: 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.</u></p> <p>Full corrective action has been taken.</p>
09-03	14.871	<p><u>We performed an eligibility test and examined a sample of fifteen (15) participant files. The following summarize the deficiencies found: 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.</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action was taken. See current year finding number 10-02
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>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>Full corrective action has been taken.</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>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>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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