

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

**MUNICIPIO DE CIDRA**  
**AUDITORÍA 2010-2011**  
30 DE JUNIO DE 2011



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

*Cidra*  
*21*

---

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CIDRA

---

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

---

YEAR ENDED JUNE 30, 2011

---



Municipality of Cidra  
P.O. Box 729 Cidra, P.R. 00739-0729

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CIDRA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

---

CONTENTS

	Page
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Independent Auditors' Report	1-2
Required Supplementary Information (Part 1) Management's Discussion and Analysis	3-12
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Assets	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Assets	19
Statement of Revenues, Expenses and Changes in Net Assets	20
Statement of Cash Flow	21
Notes to Basic Financial Statements	22-56
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	57
Notes to Budgetary Comparison Schedule-General Fund	58
Schedule of Expenditures of Federal Awards	59-60
Notes to the Schedule of Expenditures of Federal Awards	61

**MUNICIPALITY OF CIDRA**  
**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2011**

---

**CONTENTS (CONTINUED)**

	<b>Page</b>
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b>	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	62-63
Independent Report's on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	64-66
<b><u>FINDINGS AND QUESTIONED COSTS</u></b>	
Schedule of findings and questioned cost	67-76
Summary schedule of prior year audit findings	77-79



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cidra, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2011, 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. 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, 2011, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule on pages 3 through 12 and 57 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 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 the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Lopez Vega, CPA, PSC*  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 29, 2011

Stamp No. 2575521 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2011**

---

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, 2011. 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, 2010. 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 2010-2011 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 2011 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 \$98,123,798 which represents an increase of 3% compared to prior fiscal year.
2. At the end of fiscal year 2011, total liabilities amounted to \$47,669,286. Out of said amount, \$38,616,930 corresponded to long-term liabilities of which \$34,445,000 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 \$50,454,512 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 \$30,313,881, derived from the following sources: \$313,645 from charges for services; \$5,493,325 from operating grants and contributions; \$990,000 from capital grants and contributions obtained from other sources, and \$23,516,911 from general revenues available.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

**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 \$28,683,689.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$1,630,192.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$14,052,358.
8. In the fund financial statements, the governmental activities revenue increased \$553,430 (or 2%); nevertheless governmental activities expenditures decreased \$1,710,196 (or 6%).
9. As the end of the current fiscal year, the Municipality's general fund balance amounted to \$54,546 compared to a fund balance of \$60,829 in the prior fiscal year.
10. The actual General Fund budgetary activities resulted in an unfavorable balance of (\$696,239).

**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 2011. 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, 2011**

---

**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, 2011**

---

**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 \$50,425,334 at the end of 2011, as compared with \$48,795,142 as restated which reflect an increase of \$1,630,192 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 \$1,630,192 increase reflected in the Net Assets figure.

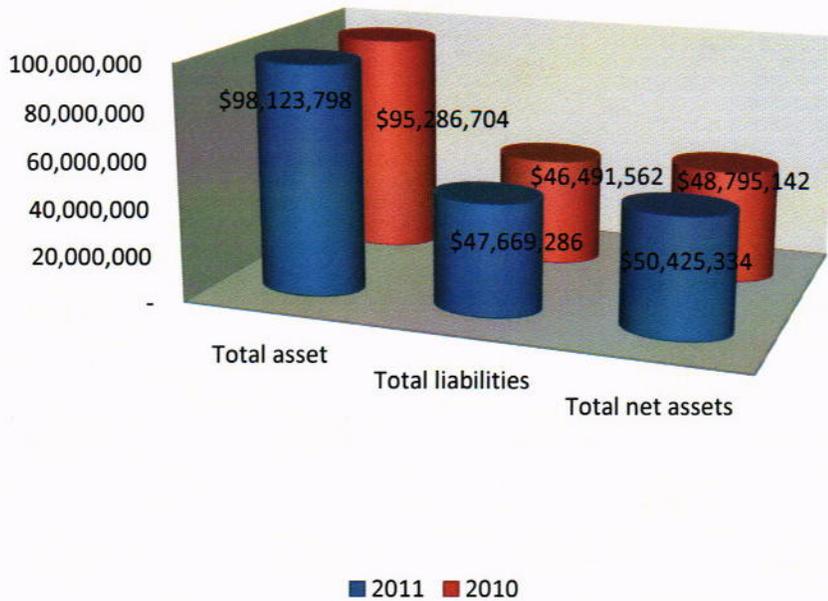
**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

<b>Condensed Statement of Net Assets</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>%</b>
Current and other assets	\$ 22,880,428	\$ 20,324,044	\$ 2,556,384	13%
Capital assets	75,243,370	74,962,660	280,710	1%
<b>Total assets</b>	<b>98,123,798</b>	<b>95,286,704</b>	<b>2,837,094</b>	<b>3%</b>
Current and other liabilities	9,052,356	9,514,789	462,433	5%
Long-term liabilities	38,646,108	36,976,773	(1,669,335)	(5%)
<b>Total liabilities</b>	<b>47,698,464</b>	<b>46,491,562</b>	<b>(1,206,902)</b>	<b>(3%)</b>
Invested in capital assets, net of related debt	37,788,370	45,077,661	(7,289,291)	(16%)
Restricted	13,968,634	11,007,343	2,961,291	27%
Unrestricted deficit	(1,331,670)	(7,289,862)	5,958,192	82%
<b>Total net assets</b>	<b>\$ 50,425,334</b>	<b>\$ 48,795,142</b>	<b>\$ 1,630,192</b>	<b>4%</b>



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Municipality's net assets increase by \$1,630,192. Approximately fifty nine percent (59%) of the Municipality's total revenue came from taxes, while thirty-seven percent (37%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%), Interest and Investment earnings (1%) and miscellaneous (2%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2010 and 2011. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2011	2010	Change	%
<b>Program revenues:</b>				
Charges for services	\$ 313,645	\$ 358,763	(45,118)	(13%)
Operating grants and contributions	5,493,325	5,659,821	(166,496)	(3%)
Capital grants and contributions	990,000	2,517,607	(1,527,607)	(61%)
<b>General revenues:</b>				
Property taxes	8,241,739	7,306,430	935,309	13%
Municipal sales and use tax	1,664,466	1,642,240	22,226	1%
Municipal license tax	8,124,976	8,055,675	69,301	1%
Grants and contributions not restricted to specific programs	4,879,503	3,467,834	1,411,669	41%
Interest and investment earnings	266,566	192,924	73,642	38%
Miscellaneous	339,661	240,345	99,316	41%
<b>Total revenues</b>	<b>30,313,881</b>	<b>29,441,639</b>	<b>872,242</b>	<b>3%</b>
<b>Expenses:</b>				
General government	13,067,259	9,649,720	3,341,539	(36%)
Public safety	1,522,506	1,604,852	(82,346)	5%
Public works	4,142,653	6,541,137	(2,398,484)	37%
Culture and recreation	2,289,515	2,514,083	(224,568)	9%
Health and welfare	5,175,649	4,100,050	1,075,599	26%
Economic development	206,547	279,768	(73,221)	26%
Community development	1,103,631	1,808,762	(705,131)	39%
Education	2,747	8,834	(6,087)	69%
Interest on long-term debt	1,173,182	1,256,893	(83,711)	7%
<b>Total expenses</b>	<b>28,683,689</b>	<b>27,764,099</b>	<b>890,412</b>	<b>(3%)</b>
Change in net assets	1,630,192	1,677,540	(18,170)	(1%)
Net assets, beginning of year (as restated)	48,795,142	47,117,602	1,677,540	4%
Net assets, end of year	<b>\$ 50,425,334</b>	<b>\$ 48,795,142</b>	<b>1,630,192</b>	<b>3%</b>

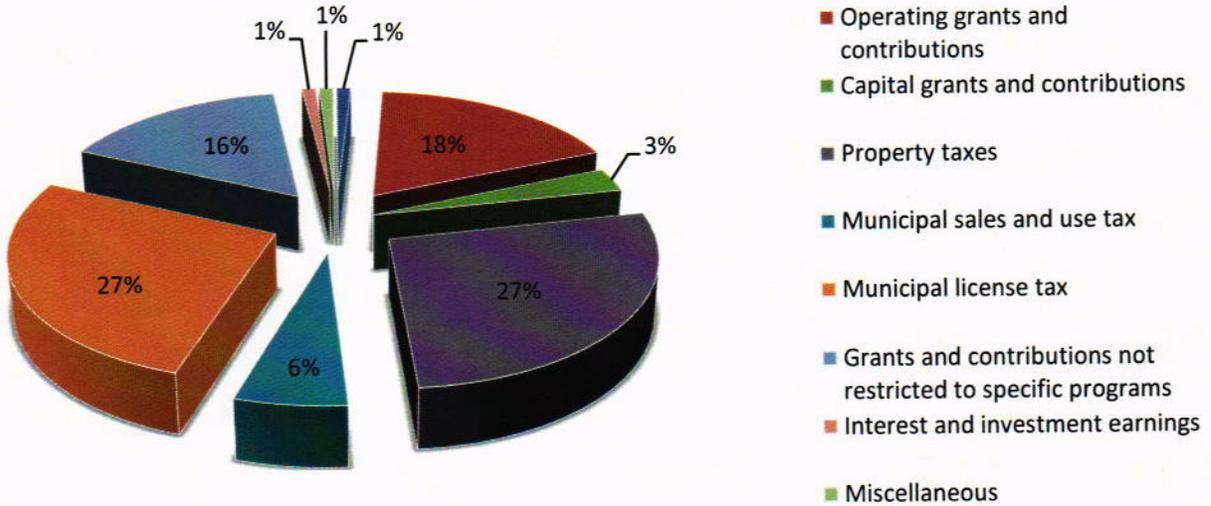
COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

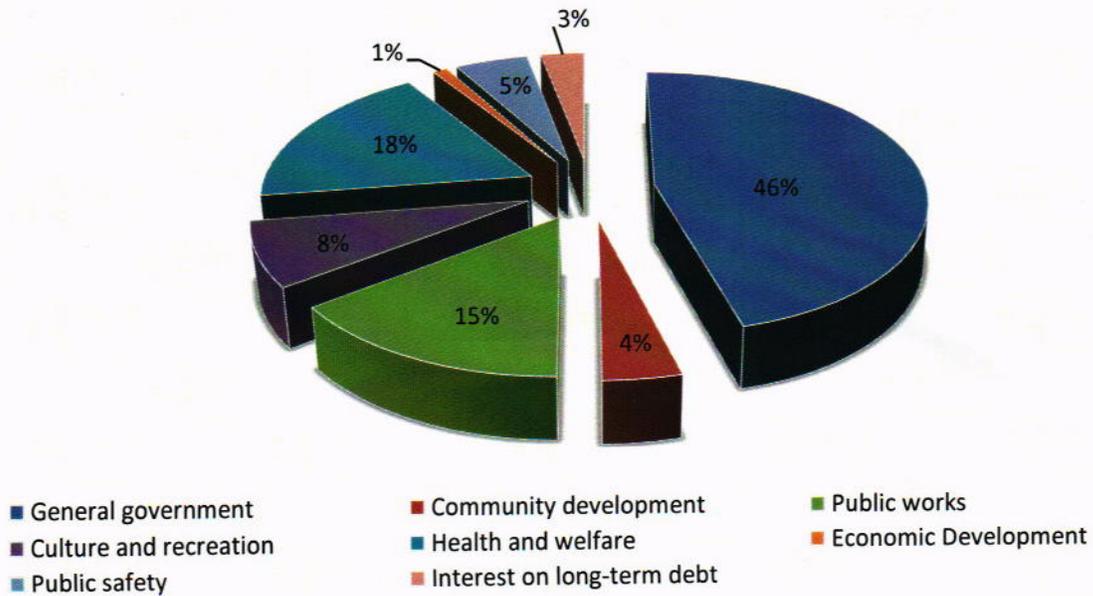
YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2011



Expenses 2011



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

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

**Governmental Funds**

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$14,052,358, an increase of \$2,950,888 in comparison with the prior year. There are reservations of fund balance amounting to \$14,041,752. The combined fund balances include restricted fund balance amounting to \$13,889,325. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes (\$4,069,390); 2) to pay for capital projects (\$5,088,203); 3) to pay debt services (\$4,731,732). There are committed fund balance amounting to \$108,487 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions to pay for specific programs purpose. There are assigned fund balances amounting to \$43,940 that represent resources for specific purposes but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor) to pay for specific programs purposes.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2011, the general fund has an unassigned fund balance of \$10,606

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During fiscal year 2010-2011, the Municipal Legislature approved revisions to the operational budget that was prepared in accordance to the analysis of previous year's results. Despite of the balance budget, the expected amounts of revenues were not collected, as reflected in exhibit, Budgetary Comparison Schedule-General Fund attached here to. The Municipality of Cidra current year operation had a deficiency of revenues over expenses of (\$ 696,239)

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2011, amounted to \$106,365,658 which upon deduction of accumulated depreciation in the amount of \$31,122,288 produced a net book value attributable to capital assets in the amount of \$75,243,370. 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.

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 \$2,491,794.

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, 2011, the Municipality has \$4,225,137 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

**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 2011-2012

**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, 2011**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 12,667,243	\$ 95,710	\$ 12,762,953
Cash with fiscal agent	9,961,869		9,961,869
Accounts receivable:			
Municipal license tax	1,362		1,362
Others	154,244		154,244
Capital assets:			
Land, improvements and construction in progress	23,833,545	600,000	24,433,545
Buildings, infrastructure and other capital assets, net of depreciation	45,010,488	5,799,337	50,809,825
Total capital assets	<u>68,844,033</u>	<u>6,399,337</u>	<u>75,243,370</u>
<b>Total assets</b>	<u>91,628,751</u>	<u>6,495,047</u>	<u>98,123,798</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	1,237,909		1,237,909
Due to other governmental entities	212,039		212,039
Deferred revenues:			
Municipal license tax	7,260,456		7,260,456
Federal grant revenues	21,956		21,956
Interest payable		319,996	319,996
Noncurrent liabilities:			
Due within one year	1,956,758	346,000	2,302,758
Due in more than one year	30,694,350	5,649,000	36,343,350
<b>Total liabilities</b>	<u>41,383,468</u>	<u>6,314,996</u>	<u>47,698,464</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	37,384,033	404,337	37,788,370
Restricted for:			
Capital projects	5,088,203		5,088,203
Debt service	4,731,732		4,731,732
Other purposes	4,177,877		4,177,877
Unrestricted (deficit)	<u>(1,136,562)</u>	<u>(224,286)</u>	<u>(1,360,848)</u>
<b>Total net assets</b>	<u>\$ 50,245,283</u>	<u>\$ 180,051</u>	<u>\$ 50,425,334</u>

**Commonwealth of Puerto Rico**  
**Municipality of Cidra**  
**Statement of Activities**  
**For the Year Ended June 30, 2011**

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	\$ 12,618,555	\$ 33,462	\$ 1,227,316	\$ -	\$ (11,357,777)	\$ -	\$ (11,357,777)
Public safety	1,522,506	5,000	133,889		(1,383,617)		(1,383,617)
Public works	4,142,653		2,036,061	990,000	(1,116,592)		(1,116,592)
Health and welfare	5,175,649		1,687,463		(3,488,186)		(3,488,186)
Culture and recreation	2,289,515	179,473	408,596		(1,701,446)		(1,701,446)
Economic development	206,547				(206,547)		(206,547)
Community development	1,103,631				(1,103,631)		(1,103,631)
Education	2,747				(2,747)		(2,747)
Interest on long-term debt	838,792				(838,792)		(838,792)
<b>Total governmental activities</b>	<b>\$ 27,900,595</b>	<b>\$ 217,935</b>	<b>\$ 5,493,325</b>	<b>\$ 990,000</b>	<b>(21,199,335)</b>	<b>-</b>	<b>(21,199,335)</b>
<b>Business type activities:</b>							
General government	448,704					(448,704)	(448,704)
Economic development		95,710				95,710	95,710
Interest on long term debt	334,390					(334,390)	(334,390)
<b>Total business type activities</b>	<b>783,094</b>	<b>95,710</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(687,384)</b>	<b>(687,384)</b>
<b>Total primary government</b>	<b>\$ 28,683,689</b>	<b>\$ 313,645</b>	<b>\$ 5,493,325</b>	<b>\$ 990,000</b>	<b>(21,199,335)</b>	<b>(687,384)</b>	<b>(21,886,719)</b>
<b>General revenues:</b>							
Property taxes					8,241,739		8,241,739
Municipal license tax					8,124,976		8,124,976
Municipal sales and use tax					1,664,466		1,664,466
Grants and contributions not restricted to specific programs					4,879,503		4,879,503
Interest and investment earnings					266,566		266,566
Miscellaneous					339,661		339,661
Transfers					(584,390)	584,390	-
<b>Total general revenues and transfers</b>					<b>22,932,521</b>	<b>584,390</b>	<b>23,516,911</b>
Change in net assets					1,733,186	(102,994)	1,630,192
Net assets - beginning as restated					48,512,097	283,045	48,795,142
Net assets - ending					<b>\$ 50,245,283</b>	<b>\$ 180,051</b>	<b>\$ 50,425,334</b>

**Commonwealth of Puerto Rico**  
**Municipality of Cidra**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	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
<b>Assets</b>						
Cash and cash equivalents	\$ 6,255,223	\$ 2,235,644	\$ -	\$ 3,887,655	\$ 288,721	\$ 12,667,243
Cash with fiscal agent	1,005,000	2,893,818	4,731,732	1,331,319		9,961,869
Accounts receivable:						
Municipal licenses tax	1,362					1,362
Other	10,066			26,265	117,913	154,244
Due from other funds	988,240	50,389		161,186		1,199,815
<b>Total assets</b>	<b>\$ 8,259,891</b>	<b>\$ 5,179,851</b>	<b>\$ 4,731,732</b>	<b>\$ 5,406,425</b>	<b>\$ 406,634</b>	<b>\$ 23,984,533</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities :</b>						
Accounts payable and accrued liabilities	\$ 730,189	\$ 371,872	\$ -	\$ 74,569	\$ 61,279	\$ 1,237,909
Due to other governmental entities	212,039					212,039
Due to other funds	2,661	829,954		243,653	123,547	1,199,815
Deferred revenues:						
Municipal license tax	7,260,456					7,260,456
Federal grant revenues					21,956	21,956
<b>Total liabilities</b>	<b>8,205,345</b>	<b>1,201,826</b>	<b>-</b>	<b>318,222</b>	<b>206,782</b>	<b>9,932,175</b>
<b>Fund balances:</b>						
Restricted		3,869,538	4,731,732	5,088,203	199,852	13,889,325
Committed		108,487				108,487
Assigned	43,940					43,940
Unassigned	10,606					10,606
<b>Total fund balances</b>	<b>54,546</b>	<b>3,978,025</b>	<b>4,731,732</b>	<b>5,088,203</b>	<b>199,852</b>	<b>14,052,358</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,259,891</b>	<b>\$ 5,179,851</b>	<b>\$ 4,731,732</b>	<b>\$ 5,406,425</b>	<b>\$ 406,634</b>	<b>\$ 23,984,533</b>

**Commonwealth of Puerto Rico**  
**Municipality of Cidra**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

	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
<b>Revenues</b>						
Property taxes	\$ 5,339,222	\$ -	\$ 2,902,517	\$ -	\$ -	\$ 8,241,739
Municipal sales and use tax		1,304,085	360,381			1,664,466
Municipal license taxes	8,124,976					8,124,976
Licenses, permits and other local taxes	325,322					325,322
Charges for services	5,702	27,760				33,462
Intergovernmental	4,554,181	2,176,221		990,000		7,720,402
Fines and forfeitures	179,473					179,473
Rent of property	5,000					5,000
Interest	266,528	38				266,566
Federal grants		31,431			2,535,297	2,566,728
Miscellaneous	339,661	23,831			2,100	365,592
<b>Total revenues</b>	<b>19,140,065</b>	<b>3,563,366</b>	<b>3,262,898</b>	<b>990,000</b>	<b>2,537,397</b>	<b>29,493,726</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government	10,359,089	2,397,470	25,511	5,000	64,548	12,851,618
Public safety	1,480,672	14,295				1,494,967
Public works	3,863,203	293,747		865,903		5,022,853
Health and welfare	2,628,725	1,473,481			1,252,124	5,354,330
Culture and recreation	1,046,427	1,019,511				2,065,938
Economic development	281,797					281,797
Community development		299,084			603,262	902,346
Education					2,747	2,747
<b>Debt service:</b>						
Principal			1,155,000			1,155,000
Interest			838,792			838,792
<b>Total expenditures</b>	<b>19,659,913</b>	<b>5,497,588</b>	<b>2,019,303</b>	<b>870,903</b>	<b>1,922,681</b>	<b>29,970,388</b>
Excess (deficiency) of revenues over (under) expenditures	(519,848)	(1,934,222)	1,243,595	119,097	614,716	(476,662)
<b>Other financing sources (uses)</b>						
Transfers in			486,435			486,435
Transfers out	(486,435)	(30,000)			(554,390)	(1,070,825)
Long-term debt issued	1,005,000	3,035,000				4,040,000
Bond Issuance costs	(5,000)	(23,060)				(28,060)
<b>Total other financing sources (uses)</b>	<b>513,565</b>	<b>2,981,940</b>	<b>486,435</b>	<b>-</b>	<b>(554,390)</b>	<b>3,427,550</b>
<b>Net change in fund balances</b>	<b>(6,283)</b>	<b>1,047,718</b>	<b>1,730,030</b>	<b>119,097</b>	<b>60,326</b>	<b>2,950,888</b>
Fund balance, beginning as restated	60,829	2,930,307	3,001,702	4,969,106	139,526	11,101,470
Fund balance, ending	<u>\$ 54,546</u>	<u>\$ 3,978,025</u>	<u>\$ 4,731,732</u>	<u>\$ 5,088,203</u>	<u>\$ 199,852</u>	<u>\$ 14,052,358</u>

*J. H. [Signature]*  
*11/07/2012*

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, 2011

---

**Total Fund Balances - Governmental Funds** \$ 14,052,358

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	\$ 23,833,545	
Depreciable Capital Assets	75,183,934	
Accumulated Depreciation	<u>(30,173,446)</u>	
Total Capital Assets		68,844,033

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	28,450,000	
LIMS Repayment Plan	50,580	
Property Taxes Debt	29,178	
Compensated Absences	3,450,350	
Landfill Obligation	<u>671,000</u>	
Total Long-Term Liabilities		<u>(32,651,108)</u>

**Total Net Assets of governmental activities** \$ 50,245,283

**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, 2011**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 2,950,888</b>
 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.	2,379,706
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.	724,445
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.	(2,293,090)
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.	(54,428)
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 for debt service principal payments.	1,155,000
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 for debt proceeds.	(4,040,000)
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.	309,040
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.	96,816
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.	457,809
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 1,733,186</b>

Commonwealth of Puerto Rico  
Municipality of Cidra  
Statement of Net Assets  
Proprietary Fund-Business Type Activity - Enterprise Fund  
Year Ended June 30, 2011

	<u>Business Type Activity Enterprise</u>
<b>Assets</b>	
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 95,710
Total current assets	<u>95,710</u>
<b>Noncurrent Assets:</b>	
Capital Assets:	
Land	600,000
Building	6,576,754
Machinery and equipment	171,425
Accumulated depreciation	<u>(948,842)</u>
Total non-current assets	<u>6,399,337</u>
Total assets	<u>6,495,047</u>
<b>Liabilities:</b>	
<b>Current Liabilities:</b>	
HUD Section 108 Loans Guarantee-Principal	346,000
Interest Payable	<u>319,996</u>
Total current liabilities	<u>665,996</u>
<b>Noncurrent Liabilities:</b>	
Long Term Liabilities:	
HUD Section 108 Loan Guarantee	<u>5,649,000</u>
Total noncurrent liabilities	<u>5,649,000</u>
Total liabilities	<u>6,314,996</u>
<b>Net Assets</b>	
Invested in Capital Assets, net of related debt	404,337
Unrestricted	<u>(224,286)</u>
<b>Total Net Assets</b>	<u><u>\$ 180,051</u></u>

**Commonwealth of Puerto Rico**  
**Municipality of Cidra**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Fund - Business Type Activity - Enterprise Fund**  
**Year Ended June 30, 2011**

---

	<b>Business - Type Activities Enterprise</b>
<b>Operating revenues:</b>	
Charges for services	\$ 95,710
Total operating revenues	<u>95,710</u>
<b>Operating expenses:</b>	
Depreciation and amortization	<u>198,704</u>
Total operating expenditures	<u>198,704</u>
Operating income (Loss)	(102,994)
<b>Non-operating revenues (expenses):</b>	
Payments-Principal-HUD Section 108 Loan	(250,000)
Interest expense	<u>(334,390)</u>
Total non-operating revenues (expenses)	<u>(584,390)</u>
Income (loss) before transfers	(687,384)
Transfers from Governmental Activities	<u>584,390</u>
Change in Net Assets	(102,994)
Total net assets-beginning as restated	<u>283,045</u>
Total net assets-ending	<u><u>\$ 180,051</u></u>

Commonwealth of Puerto Rico  
Municipality of Cidra  
Statement of Cash Flows  
Proprietary Fund - Business Type Activity - Enterprise Fund  
Year Ended June 30, 2011

---

**Cash Flows from Operating Activities:**

Receipts from Customers	\$ 95,710
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>95,710</b>

**Cash Flows from Capital and Related Financing Activities:**

Principal paid on capital debt	(250,000)
Interest paid	(334,390)
Transfer in from the Governmental Activities	584,390
<b>Net Cash Provided (Used) in Capital and Related Financing Activities</b>	<b>-</b>
Balance-beginning of the year as restated	-
Balance-end of the year	<b>95,710</b>

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

Operating loss	\$ (102,994)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation expenses	198,704
<b>Total Adjustments</b>	<b>198,704</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 95,710</b>
<b>Noncash investing, capital and financing activities:</b>	<b>none</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2011**

---

**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 public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP).

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.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

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

**A. Component Units**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by the GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

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. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying GFFS:

**General Fund (01)** – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

**Special Revenue Funds-State and federal grants (02)** – is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

**Debt Service Fund (10 & 11)**–is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying statement of net assets. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

**Capital Projects Funds (20 & 21)** – is a major governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

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, 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.

**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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

**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 are 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.

**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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

D. Measurement focus, basis of accounting and financial presentation

**Government-wide financial statements** – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

**Government Fund Financial Statements** – The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2011. At June 30, 2011, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet - Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet - Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet - Governmental Funds.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

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.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

**5. Deferred revenues-** In the GFFS, deferred revenues arises when one of the following situations occur:

- a. Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2011 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

**6. Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and landfill closure and post closure care costs.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

7. **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.

8. **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.

9. **Fund Balances-** In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned, and unassigned, based on the relative strength of the constrains that control how specific amounts can be spent, as described as follows:

- a. *Restricted* – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- b. *Committed* – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

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

- c. *Assigned* – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- d. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2011.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

- 10. Net Assets** – Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

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

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

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

These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

**11. Accounting for Pension Costs-** On July 1, 2007, the Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, the state government of the Government of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing define benefit pension 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 Government of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government of Puerto Rico.

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

- a. Operating Transfers- Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. Intra-Entity Transactions- Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

**13. 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 CRIM for the year ended June 30, 2011 to \$389,576. The current insurance policies have not been cancelled or terminated.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

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

The Municipality carries insurance coverage for death and bodily injuries caused by the automobile accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. 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, 2011 amounted to \$381,081.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

- 14. Use of Estimates** –The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual amounts could differ from those estimates.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

**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, 2011.

**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, 2011, (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, 2011, 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, 2011, 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 \$250,000 per depositor.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

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, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 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, 2011.

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).

**Deposits** - The Municipality's bank balances in commercial banks of \$6,255,223 in the general fund, \$2,235,644 in the special revenue fund (02), \$3,887,655 in the capital projects funds -state and federal grants and \$288,721 in the others governmental funds were fully collateralized at June 30, 2011.

The deposits at GDB of 1,005,000 in the general fund, \$2,893,818 in the special revenue fund (02), \$4,731,732 in the debt service fund that is restricted and \$1,331,319 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, 2011, the tax rates were as follows:

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**3. RECEIVABLES (CONTINUED)**

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable of \$1,362 represents filed municipal license tax returns that were uncollected as of June 30, 2011, 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.** Federal grants receivables in the Other Governmental Funds represent mainly expenditures incurred not yet reimbursed by the Federal Government. Following is a detail of the federal grant receivables:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grants- Entitlement	\$ <u>117,913</u>
<b>Total</b>	<b>\$ <u>117,913</u></b>

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2011 are summarized as follows:

**a. Due from/to other fund:**

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund (01)	\$ 988,240	\$ 2,661
Special Revenue Fund (02)	50,389	829,954
Capital Projects Funds (20 & 21)	161,186	243,653
Other Governmental Fund	-	<u>123,547</u>
<b>Total</b>	<b>\$ <u>1,199,815</u></b>	<b>\$ <u>1,199,815</u></b>

**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-(01)	Debt Service Fund (10)	Transfers funds to cover debt service payments	\$ 486,435
Special Revenue Fund-(02) State & Federal Grants	Proprietary Fund-Business Type Activity-Enterprise Fund	Transfers funds to cover debt service payments	30,000
Special Revenue Fund (70)	Proprietary Fund Business Type Activity-Enterprise Fund	Transfer funds to cover Section 108 Loan Payment (Hotel Treasure Island)	<u>554,390</u>
<b>Total</b>			<b>\$ <u>1,070,825</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**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 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<b><u>Governmental Activities:</u></b>	<b><u>Balance July 1, 2010 As restated</u></b>	<b><u>Additions</u></b>	<b><u>Retirements/ Reclassifications</u></b>	<b><u>Balance June 30, 2011</u></b>
<b>Capital asset, not being depreciated:</b>				
Construction in progress	\$ 111,373	\$ 280,795	\$ (49,368)	\$ 342,800
Land	<u>22,766,300</u>	<u>724,445</u>	<u>-</u>	<u>23,490,745</u>
<b>Total capital assets not being depreciated</b>	<u>22,877,673</u>	<u>1,005,240</u>	<u>(49,368)</u>	<u>23,833,545</u>
<b>Capital assets, being depreciated:</b>				
Buildings and building improvements	33,741,785	48,900		33,790,685
Infrastructure and Infrastructure improvements	27,616,608	1,449,185		29,065,793
Equipments	4,054,302	148,892	(110,475)	4,092,719
Furnishing	1,281,335	7,874	(4,445)	1,284,764
Computers	620,951	44,580	(26,983)	638,548
Works of art	6,787			6,787
Vehicles	<u>5,905,158</u>	<u>399,480</u>	<u>-</u>	<u>6,304,638</u>
<b>Total capital assets being depreciated</b>	<u>73,226,926</u>	<u>2,098,911</u>	<u>(141,903)</u>	<u>75,183,934</u>
<b>Less accumulated depreciation for:</b>				
Buildings and building improvements	(7,497,766)	(842,442)		(8,340,208)
Infrastructure and Infrastructure improvements	(10,313,615)	(725,087)		(11,038,702)
Equipments	(3,246,282)	(318,432)	105,635	(3,459,079)
Furnishing	(892,549)	(142,202)	4,445	(1,030,306)
Computers	(564,099)	(44,476)	26,763	(581,812)
Works of art	(2,461)	(660)		(3,121)
Vehicles	<u>(5,500,427)</u>	<u>(219,791)</u>	<u>-</u>	<u>(5,720,218)</u>
<b>Total accumulated depreciation</b>	<u>(28,017,199)</u>	<u>(2,293,090)</u>	<u>136,843</u>	<u>(30,173,446)</u>
<b>Total capital assets being depreciated, net</b>	<u>45,209,727</u>	<u>(194,179)</u>	<u>(5,060)</u>	<u>45,010,488</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 68,087,400</u>	<u>\$ 811,061</u>	<u>\$ (54,428)</u>	<u>\$ 68,844,033</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**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	\$ 752,230
Public safety	172,511
Public works	884,978
Health and welfare	71,866
Culture and recreation	214,987
Community development	<u>196,518</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 2,293,090</u></b>

<u>Business – type activities</u>	<u>Balance July 1, 2010 as restated</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2011</u>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 600,000	\$ -	\$ -	\$ 600,000
<b>Total capital assets not being depreciated</b>	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
<b>Capital assets, being depreciated:</b>				
Building	6,576,754	-	-	6,576,754
Machinery and equipment	<u>171,425</u>	<u>-</u>	<u>-</u>	<u>171,425</u>
<b>Total capital assets being depreciated</b>	<u>6,748,179</u>	<u>-</u>	<u>-</u>	<u>6,748,179</u>
<b>Less accumulated depreciation for:</b>				
Building	(712,482)	(164,419)	-	(876,901)
Machinery and equipment	<u>(37,656)</u>	<u>(34,285)</u>	<u>-</u>	<u>(71,941)</u>
<b>Total accumulated depreciation</b>	<u>(750,138)</u>	<u>(198,704)</u>	<u>-</u>	<u>(948,842)</u>
<b>Total capital assets being depreciated, net</b>	<u>5,998,041</u>	<u>(198,704)</u>	<u>-</u>	<u>5,799,337</u>
<b>Business - type Activities capital assets, net</b>	<b><u>\$ 6,598,041</u></b>	<b><u>\$ (198,704)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 6,399,337</u></b>

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

<u>Business –type Activities</u>	
Community development	<u>\$ 198,704</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 198,704</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

**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 final liquidation for fiscal year 2010-2011 noting that the advances exceeded collections by \$ 29,177.87. This balance will be retained by the CRIM during fiscal year 2012-2013. Those amounts are presented in the government wide financial statements.

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, 2011**

---

**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, 2011**

**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 (.2%), the Municipal Redemption Fund (.2%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%. The Municipality collected \$ 1,664,466 during the year ended June 30, 2011.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2011 are summarized as follows:

<u>Description</u>	<u>General Fund -(01)</u>	<u>Special Revenue Fund (02) - State &amp; Local Grants</u>	<u>Debt Service Fund - (10 &amp; 11)</u>	<u>Capital Projects Fund (20 &amp; 21) - State &amp; Local Grants</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 666,784	\$ 371,872	\$ -	\$ 74,569	\$ 56,962	\$ 1,170,187
Accrued liabilities	<u>63,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,317</u>	<u>67,722</u>
<b>Total</b>	<u>\$ 730,189</u>	<u>\$ 371,872</u>	<u>\$ -</u>	<u>\$ 74,569</u>	<u>\$ 61,279</u>	<u>\$ 1,237,909</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	151,769
Puerto Rico Telephone Company	23,008
Puerto Rico Aqueduct and Sewer Authority	20,000
Department of Labor-Unemployment Program	4,061
Others	<u>12,844</u>
<b>Total</b>	<u>\$ 212,039</u>

**10. DEFERRED REVENUES**

**A. Municipal License Tax-** The deferred revenues of \$7,260,456 in the general fund relates to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**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	\$ 21,956
<b>Total</b>	<b>\$ 21,956</b>

**11. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2011, 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	\$21,080,000	\$3,035,000	\$ (820,000)	\$ 23,295,000	\$1,030,000
Notes Payable	10,785,000	1,005,000	(640,000)	11,150,000	646,000
State Insurance Fund Corporation	27,686	-	(27,686)	-	-
LIMS Repayment Plan	147,396	-	(96,816)	50,580	50,580
Property Taxes Debt	310,532	29,178	(310,532)	29,178	29,178
Compensated Absences	3,908,159	107,435	(565,244)	3,450,350	500,000
Landfill Obligation	<u>718,000</u>	<u>-</u>	<u>(47,000)</u>	<u>671,000</u>	<u>47,000</u>
<b>Total</b>	<b><u>\$36,976,773</u></b>	<b><u>\$4,176,613</u></b>	<b><u>\$(2,507,278)</u></b>	<b><u>\$38,646,108</u></b>	<b><u>\$2,302,758</u></b>

**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, 2011**

**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, 2011 are as follows:

Description	Balance at June 30, 2011
1996 General obligation bond for the acquisition of real estate with an original amount of \$605,000 due in annual installments of \$25,000 to \$50,000, through July 1, 2021, with interest of 4.86% to 6.75%	\$ 405,000
1999 General obligation bond for the acquisition of real estate with an original amount of \$260,000 due in annual installments of \$5,000 to \$25,000 through July 1, 2024, with interest of 2.70% to 7.81%	205,000
1999 General obligation bond for blue prints drawings, permits, structure demolition and debris disposition with an original amount of \$710,000 due in installments of \$20,000 to \$60,000 through July 1, 2024, with interest ranging from 2.8% to 7.8%	550,000
2000 General obligation bond for the construction of capital assets with an original amount of \$6,440,000 due in installments of \$175,000 to \$560,000 through July 1, 2025, with interest ranging from 2.70% to 7.80%	5,160,000
2002 Special obligation bond for asphalt municipal streets, roads and to finance operational loan with an original amount of \$1,335,000 due in installments of \$65,000 to \$120,000 through July 1, 2026, with interest ranging from 5.0% to 6.5%	925,000
2002 Special obligation bond for the acquisition of real estate with an original amount of \$580,000 due in installments of \$20,000 to \$45,000 through July 1, 2026, with interest ranging from 5.0% to 6.5%	465,000
2004 Special obligation bond for asphalt municipal streets and roads with an original amount of \$905,000 due in installments of \$95,000 to \$115,000 through July 1, 2014, with interest ranging from 5.0% to 12.0%	325,000
2004 Special obligation bond for the construction of a capital assets with an original amount of \$4,020,000 due in installments of \$115,000 to \$280,000 through July 1, 2029, with interest ranging from 5.0% to 12.0%	3,405,000
2005 General obligation bond for the construction of capital assets with an original amount of \$435,000 due in installments of \$10,000 to \$30,000 through July 1, 2029, with interest ranging from 4.37% to 5.00%	375,000
2005 General obligation bond for asphalt municipal streets, roads and for construction of capital assets with an original amount of \$730,000 due in installments of \$35,000 to \$75,000 through July 1, 2014, with interest ranging from 4.23% to 4.80%	575,000
2006 General obligation bond for the construction of capital assets with an original amount of \$5,050,000 due in annual installments of \$100,000 to \$410,000, through July 1, 2031, with interest of 6.62% to 7.25%	4,695,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**11. LONG-TERM LIABILITIES (CONTINUED)**

Description	Balance at June 30, 2011
2008 General obligation bond for the construction of capital assets with an original amount of \$1,580,000 due in annual installments of \$130,000 to \$215,000 through July 1, 2017, with interest of 7.50%	\$ 1,220,000
2010 General obligation bond to compensate budgetary obligations with an original amount of \$1,980,000 due in installments of \$25,000 to \$165,000, through July 1, 2024, with interest ranging from 5.0% to 7.5%	1,955,000
2011 General obligation bond for infrastructure construction and improvements with an original amount of \$2,015,000 due in installments of \$140,000 to \$275,000 through July 1, 2020, with interest ranging from 6.00% to 7.50%	2,015,000
2011 Special obligation bond for operational expenses with an original amount of \$1,020,000 due in installments of \$10,000 to \$85,000 through July 1, 2035, with interest ranging from 6.00% to 7.50%	<u>1,020,000</u>
<b>Total</b>	<b><u>\$ 23,295,000</u></b>

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. The series 2011 of \$1,020,000, is payable with the revenues generated from the collection of the .2% 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 bonds payable are as follows:

Year Ending June 30,	Principal	Interest
2012	\$ 1,030,000	\$ 1,036,399
2013	1,115,000	1,355,100
2014	1,180,000	1,285,926
2015	1,150,000	1,214,797
2016	1,230,000	1,141,089
2017-2021	6,855,000	4,467,674
2022-2026	5,975,000	2,531,731
2027-2031	3,375,000	1,047,546
2032-2036	<u>1,385,000</u>	<u>182,163</u>
<b>Total</b>	<b><u>\$ 23,295,000</u></b>	<b><u>\$ 14,262,425</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**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, 2011
2006 General obligations notes	7-1-13	545,000	6.62% to 7.25%	\$ 270,000
2004-A Series- Section 108 Loan	8-1-22	5,100,000	Variable	4,300,000
2006-A Series- Section 108 Loan	8-1-24	1,895,000	Variable	1,695,000
2007 General obligations notes	7-1-14	270,000	6.48% to 7.50%	170,000
2007 General obligations notes	7-1-14	445,000	6.48% to 7.50%	290,000
2008 Special obligations notes	7-1-32	3,170,000	7.50%	3,070,000
2010 General obligations notes	7-1-32	390,000	6.00% to 7.50%	350,000
2011 Special obligations notes	7-1-32	1,005,000	7.50%	1,005,000
<b>Total notes payable</b>				<b>\$ 11,150,000</b>

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 .2% 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
2012	\$ 646,000	\$ 464,695
2013	801,000	649,627
2014	861,000	597,244
2015	811,000	544,526
2016	731,000	496,572
2017-2021	3,665,000	1,785,184
2022-2026	2,110,000	819,557
2027-2031	1,005,000	393,938
2032-2036	520,000	39,750
<b>Total</b>	<b>\$ 11,150,000</b>	<b>\$ 5,791,093</b>

**4. LIMS Repayment Plan-** During the fiscal year 2000-2001 the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System- LIMS, contracted by the CRIM. A total of \$776,667 is to be retained in ten years period at an interest rate of 5.95% until November 28, 2011. At June 30, 2011, the outstanding balance is \$50,580. This amount is presented in the government-wide financial statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

**11. LONG-TERM LIABILITIES (CONTINUED)**

- 5. Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2011. The CRIM issued a settlement noting that the advances exceeded collections by \$29,178. In the government-wide financial statements, the entire amount has been recognized as long term debt.
- 6. Compensated Absences-** The government-wide statement of net assets includes approximately \$2,173,000 of accrued sick leave benefits, and approximately \$1,277,000 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- 7. Landfill Obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site since 1994, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$671,000 as the Municipality's estimated current cost for landfill post-closure costs as of June 30, 2011. The annual estimate of post closure costs has been assessed approximately to be \$47,000 for a period of approximately 18 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of post-closure costs is reported in the government-wide statement of net assets.

**12. PENSION PLAN**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

**12. PENSION PLAN (CONTINUED)**

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

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

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.

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

**12. PENSION PLAN (CONTINUED)**

If at the time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

**Funding Policy**

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state and municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

<b>Municipality</b>	9.275% of gross salary
<b>Employees:</b>	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600 8.275% of gross salary over \$6,600
Hired on or before April 1, 1990	8.275% of gross salary

**Annual Contribution**

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
<b>2011</b>	\$ 396,787	\$ 312,618
<b>2010</b>	\$ 416,677	\$ 308,328
<b>2009</b>	\$ 415,308	\$ 308,743

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**13. FUND BALANCE**

As of June 30 2011, fund balance is comprised of the following:

Fund Balance (Deficit)	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
<b>Restricted for:</b>						
General Government	\$ -	\$ 463,320	\$ -	\$ -	\$ -	\$ 463,320
Public Safety		29,130				29,130
Public Work		351,354		4,464,104		4,815,458
Health and Welfare		703,156		1,991	1,293	706,440
Culture and Recreation		159,786		77,074		236,860
Economic Development		2,162,792		187,364	20,361	2,370,517
Community Development				357,670	178,198	535,868
Debt Service			4,731,732			4,731,732
<b>Committed:</b>						
General Government		16,826				16,826
Community Development		496				496
		91,165				91,165
<b>Assigned:</b>						
General Government	\$ 23,380					23,380
Public Work	9,454					9,454
Health and Welfare	1,496					1,496
Culture and Recreation	9,610					9,610
<b>Unassigned</b>	10,606					10,606
<b>Total Fund Balance</b>	<b>\$ 54,546</b>	<b>\$ 3,978,025</b>	<b>\$ 4,731,732</b>	<b>\$ 5,088,203</b>	<b>\$ 199,852</b>	<b>\$ 14,052,358</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

---

**14. 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.

**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, 2011, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the grating agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**B. Claims and lawsuits:**

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

**C. Other Commitments:**

At June 30, 2011, the general fund has commitments of approximately \$43,940 for executor, purchase orders or contracts that will be honored during the subsequent year.

**16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements that have effective dates after June 30, 2011:

- a. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this statement are effective for the fiscal year commencing on July 1, 2011.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

**16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

- b. GASB Statement No. 61, *The Financial Reporting Entity* (GASB 61). The requirements of this statement are effective for the fiscal year commencing after June 15, 2012.
- c. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements* (GASB 62). The requirements of this statement are effective for the fiscal year commencing on July 1, 2012.
- d. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- e. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision (amendment to GASB Statement No. 53)*. The requirements of this statement are effective for the fiscal year commencing on June 15, 2011.

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

**17. 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	\$ 60,829	\$ 2,930,307	\$ 3,001,702	\$ 4,969,106	\$ 106,228	\$ 11,068,172
Cancellation of prior year obligations - Section 8	-	-	-	-	33,298	33,298
<b>Fund balance, beginning as restated</b>	<b><u>\$ 60,829</u></b>	<b><u>\$ 2,930,307</u></b>	<b><u>\$ 3,001,702</u></b>	<b><u>\$ 4,969,106</u></b>	<b><u>\$ 139,526</u></b>	<b><u>\$ 11,101,470</u></b>

**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:

Description	Total
Net assets, beginning	\$ 48,178,261
To restate <i>Capital Assets-Infrastructure, Computers &amp; vehicles</i>	647,533
To restate <i>Proprietary Fund - Enterprise Fund - Accumulated Depreciation Expenses</i>	<u>(30,652)</u>
<b>Net assets, beginning as restated</b>	<b><u>\$ 48,795,142</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

**18. SUBSEQUENT EVENTS**

Act No. 94 issued on June 16, 2011 by the Legislature established an incentive plan for the payment of real and personal property tax dues, beginning on July 14, 2011. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interests of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit is for exactly ninety (90) days beginning on July 14 through October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal year 2009-2010 and earlier (for real property taxes) and for 2008 and earlier for personal property tax.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

**YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amount</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 4,505,743	\$ 4,505,743	\$ 5,339,222	\$ 833,479
Municipal license tax	8,267,127	8,267,127	8,124,976	(142,151)
Fines and forfeiture	150,000	150,000	179,473	29,473
Licenses, permits and other local taxes	2,740,000	2,740,000	325,322	(2,414,678)
Charges for services	45,000	45,000	5,702	(39,298)
Intergovernmental	4,729,691	4,729,691	4,554,181	(175,510)
Interest	340,000	340,000	266,528	(73,472)
Rent of property	4,800	4,800	5,000	200
Miscellaneous	<u>390,000</u>	<u>390,000</u>	<u>339,661</u>	<u>(50,339)</u>
<b>Total revenues</b>	<u><b>21,172,361</b></u>	<u><b>21,172,361</b></u>	<u><b>19,140,065</b></u>	<u><b>(2,032,296)</b></u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	12,247,022	11,409,985	10,061,822	1,348,163
Public safety	1,196,086	1,496,125	1,480,647	15,478
Public works	4,593,512	4,052,296	3,852,595	199,701
Health and welfare	1,622,020	2,707,092	2,629,449	77,643
Culture and recreation	1,094,770	1,105,147	1,043,559	61,588
Economic development	418,951	401,716	281,797	119,919
Operating transfer to other funds	<u>-</u>	<u>-</u>	<u>486,435</u>	<u>(486,435)</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u><b>\$ 21,172,361</b></u>	<u><b>\$ 21,172,361</b></u>	<u><b>19,836,304</b></u>	<u><b>1,336,057</b></u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>			<u><b>\$ (696,239)</b></u>	<u><b>\$ (696,239)</b></u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis)“available for appropriation” from the budgetary comparison schedule				\$ 19,140,065
Differences-budget to GAAP				<u>-</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances				<u><b>\$ 19,140,065</b></u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis)“total charges to appropriations” from the budgetary comparison schedule				\$ 19,836,304
Differences-budget to GAAP:				
Non-budgeted expenditures				307,717
Prior year encumbrances recorded as current year expenditures for GAAP basis				46,267
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(43,940)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u><b>\$ 20,146,348</b></u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2011

---

**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, 2011 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2011.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE:</u></b>			
Pass-through Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 15,483
<b>Total U.S. Department of Agriculture</b>			<b><u>15,483</u></b>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u></b>			
Direct Program:			
CDBG - Entitlement Grants Cluster; Community Development Block Grants/Entitlement Grants	14.218		848,652
Community Development Block Grants - ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253		171,463
Direct Program:			
Supportive Housing Program	14.235		48,578
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		1,216,161
Pass-through Commonwealth of Puerto Rico Family Department:			
Emergency Shelter Grants Program	14.231	ESG-04-DC-720001	62,519
Pass-through Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	18,414
Pass-through Commonwealth of Puerto Rico Family Department:			
Homeless Prevention and Rapid Re-Housing (Recovery Act Funded)	14.257	Not Available	<u>292,168</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>2,657,955</u></b>
<b><u>U.S. DEPARTMENT OF JUSTICE:</u></b>			
Pass-through Commonwealth of Puerto Rico Department of Justice:			
Recovery Act - Edward Byrne Memorial Justice Assistance Formula Grant (JAG Program)	16.804	Not Available	<u>156,024</u>
<b>Total U.S. Department of Justice</b>			<b><u>156,024</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT TRANSPORTATION:</u></b>			
Direct Programs:			
Federal Transit: Formula Grants	20.507		117,681
ARRA - Urbanized Area Formula	20.509		56,122
Pass-through the Commonwealth of Puerto Rico - Traffic Safety Commission:			
State and Community Highway Safety	20.600	10-03-08	10,229
Pass-through Commonwealth of Puerto Rico Department Highway Safety and Drunk:			
Driving Prevention Incentive Grant	20.601	06-03-08	58,346
<b>Total U.S. Department of Transportation</b>			<b><u>242,378</u></b>
<b><u>U.S. DEPARTMENT OF ENERGY:</u></b>			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		34,029
<b>Total U.S. Department of Energy</b>			<b><u>34,029</u></b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u></b>			
Pass-through the Commonwealth of Puerto Rico - Family Department (ACUDEN):			
Alzheimer's Disease Demonstrations Grants	93.051	Not Available	60,761
Child Care and Development Block Grant	93.575	Not Available	130,601
Family Violence Prevention and Services	93.671	Not Available	43,929
ARRA - Child Care and Development Block Grant (Recovery Act Funded)	93.713	Not Available	20,423
<b>Total U.S. Department of Health and Human Services</b>			<b><u>255,714</u></b>
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u></b>			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Homeland Security Grant	96.067	2005-GFT54009	38,000
<b>Total U.S. Department of Homeland Security</b>			<b><u>38,000</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>3,399,583</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2011**

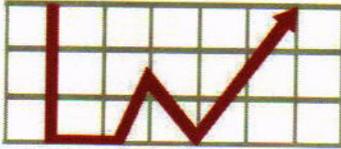
**1. BASIS OF PRESENTATION:**

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:

<u>Description</u>	<u>Special Revenue Fund (02)</u>	<u>Other Governmental Funds</u>	<u>Proprietary Fund- Business Type Activities</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 922,512	\$ 2,477,071	\$ 554,390	\$ 3,953,973
Non federal programs expenditures	<u>4,605,076</u>	<u>-</u>	<u>228,704</u>	<u>4,833,780</u>
Total expenditures in the basic financial statements	<u>\$ 5,527,588</u>	<u>\$ 2,477,071</u>	<u>\$ 783,094</u>	<u>\$ 8,787,753</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, 2011, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 29, 2011, 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 20, 2011.

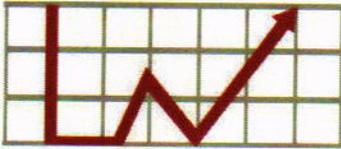
This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 20, 2011

Stamp No. 2575522 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

Member of:

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 **Municipality of Cidra's** compliance of the with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Cidra's** major federal programs for the year ended June 30, 2011. 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 **Municipality of Cidra's** management. Our responsibility is to express an opinion on **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 **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 **Municipality of Cidra's** compliance with those requirements.

In our opinion, **Municipality of Cidra** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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, **11-01** through **11-04**.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

**Internal Control Over Compliance**

Management of **Municipality of Cidra** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Municipality of Cidra's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. 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 **11-01** through **11-04**. 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.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

**Municipality of Cidra's** responses 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** responses and, accordingly, we express no opinion on the responses.

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 27, 2012.

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 27, 2012

Stamp No. 2575523 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, 2011**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued:	<b>Unqualified</b>	
Internal control over financial reporting:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported <b>X</b>
Noncompliance material to financial statements noted?	Yes	No <b>X</b>

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported <b>X</b>

**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 <b>X</b>	No
-------------------------------------------------------------------------------------------------------------------	--------------	----

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	<b>CDBG Entitlement Grants Cluster:</b>
14.218	Community Development Block Grant – Entitlement Grant
14.253	Community Development Block Grant – <b>ARRA</b> Entitlement Grants
14.871	Section 8 Housing Choice Voucher

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

Auditee qualified as low-risk auditee?	Yes	No <b>X</b>
----------------------------------------	-----	-------------

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

**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, 2011

---

Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>11-01</b>
<b>Program</b>	<b>CDBG - Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218) &amp; Community Development Block Grants-ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded) (CFDA No. 14.253); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Davis-Bacon Act</b>
<b>Statement of Condition</b>	During our Davis-Bacon Act test, we revised four (4) construction projects; we found the following exceptions:  a) In four (4) cases, the payrolls were not monitored for compliance with prevailing wage rate neither signed by the program's inspector.  b) In two (2) construction projects, the contractor did not submit on a timely manner all the required weekly payrolls.
<b>Criteria</b>	Davis-Bacon Act, as amended DOL (40 USC 276 a to 276 a-7). American Recovery and Reinvestment Act of 2009, Title XVI - General Provisions - This Act, Wage Rate Requirements, Sec. 1606.
<b>Cause of Condition</b>	The Municipality's controls and procedures failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
<b>Effect of Condition</b>	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
<b>Recommendation</b>	We recommend Management to follow monitoring system procedures developed, including the following:  a) Obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.  b) We recommend that the Municipality should strengthen its procedures in order to assure that all project files contain the compliance requirement documents.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **11-01 (Continued)**

**Questioned Costs**      **None**

**Management Response  
and Corrective Action**

The Municipality's Management concurs with the finding. The Program will strengthen its internal control and procedures in the evaluation and review of the payrolls submitted by the contractors, in order to comply with the Davis-Bacon Act.

Implementation Date: April 1, 2012

Responsible Person:    Mrs. Linda Robert  
                                         Federal Program Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>11-02</b>
<b>Program</b>	<b>CDBG - Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218) &amp; Community Development Block Grants-ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded) (CFDA No. 14.253); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Housing Rehabilitation Test</b>
<b>Statement of Condition</b>	During our examination of twelve (12) participant's files we found the following situations:  a) The participant exceeded the time limit required by the program to finish the repairs (7 cases).  b) The deduction of the medical expenses was not documented (1 case).  c) The income calculations made by the program did not agree with our calculations (7 cases).  d) The rehabilitation was still in process during our audit (February 2012, date of the last inspection) (4 cases).
<b>Criteria</b>	24 CFR, Section 570.506 states that when CDBG- Entitlement Grants funds are used for rehabilitation, the grantee must assure that the work is properly completed and appropriate documentation is maintained.
<b>Cause of Condition</b>	The program did not follow adequate internal control procedures to assure that rehabilitations are duly completed as required by regulations and appropriate documentation is maintained.
<b>Effect of Condition</b>	The Municipality is not in compliance with 24 CFR, Section 570.506.
<b>Recommendation</b>	We recommend the Program to:  a. Assure that the participant complete the rehabilitation process within the period established in the contract.  b. Assure that all participant files include the same eligibility determination and adequate evidence of family income, medical expenses and other related data.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **11-02 (Continued)**

**Recommendation**      We also recommend an update to the Program Manual Procedures to clarify the income determination process and the required evidence that participant's must present.

**Questioned Costs**      None

**Management Response  
and Corrective Action**      The Municipality's management concurs with the finding. The Federal Program Director will establish communication with the program staff in order to strengthen its monitoring system procedures related to compliance with the Special Test - Housing Rehabilitation.

The Federal Program Director will establish a new Housing Rehabilitation Manual Procedures during fiscal year 2011-2012.

Implementation Date: April 1, 2012

Responsible Person:      Mrs. Linda Robert  
Federal Program Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 11-03

Program Section 8 Housing Choice Voucher Program (CFDA No. 14.871); U.S. Department of Housing and Urban Development

Requirement Eligibility Test

Statement of Condition We performed an eligibility test and examined a sample of fifteen (15) participant files. The following summarize the deficiencies found:

- a) In one (1) participant's file, the Reasonable Rent form was not completed when the participant moved from one housing unit to another.
- b) In three (3) cases, the Family Report (form HUD 50058) presented the following errors in HAP calculations:
  - In two (2) cases the participants' income were not included for the HAP calculations,
  - In one (1) case the income calculation was incorrect and the allowance per dependent was included when the person was an adult and no evidence of college studies was found in file since 2008.
- c) In four (4) cases, the participant's file did not include evidence of the following:
  1. General assistance certification (3 cases).
  2. Child support debt certification (3 cases).
  3. Municipal Revenue Collection Center debt certification (4 cases).
  4. Income verification evidence (2 cases)
- d) In two (2) participant's files, the PHA failed to document whether deficiencies found in the last unit inspection were corrected.

Criteria

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 11-03 (Continued)

Criteria	<p>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> <p>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.</p>
Cause of Condition	<p>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.</p>
Effect of Condition	<p>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.</p>
Recommendation	<p>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.</p>
Questioned Costs	<p>None</p>
Management Response and Corrective Action	<p>The Municipality's management concurs with the finding. During this fiscal year 2011-2012, the program staff is working to correct the situations commented in the finding.</p> <p>Implementation Date: April 1, 2012</p> <p>Responsible Person: Mrs. 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, 2011

---

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference** 11-04

**Program** Section 8 Housing Choice Voucher Program (CFDA No. 14.871); U.S. Department of Housing and Urban Development

**Requirement** HAP Register Test

**Statement of Condition** We noted that the Section 8 Housing Choice Vouchers Program did not maintain a HAP register in the form required by HUD. The PHA is required to maintain a HAP contract register or similar record that must provide information as to the name and address of the family, the name and address of the owner, dwelling unit size, the beginning date of the lease term, the monthly rent payable to the owner, monthly rent payable by the family to the owner, and the monthly HAP. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant if any.

**Criteria** 24 CFR Subpart D, Section 982.158 states (a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping.

**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 the HAP contract register or similar record in the form required by HUD during fiscal year 2011-2012.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

---

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **11-04 (Continued)**

**Management Response  
and Corrective Action**

Implementation Date: April 1, 2012

Responsible Person:    Mrs. Linda Robert  
Federal Program Department Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2011**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
10.01	14.218	<p><u>During our Reporting test we identified the following exceptions: 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.</u></p> <p>Full corrective action has been taken.</p>
10.02	14.871	<p><u>During our Eligibility test we reviewed fifteen (15) participant's files and identified the following situations: 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.</u></p> <p>No corrective action was taken. See current year finding number 11-03</p>
10.03	14.871	<p><u>During our Housing Quality Standards test we reviewed fifteen (15) participant's files and identified the following situations: In six (6) files examined, we noted that the inspection report do not indicate the final pass date. After the deficiencies were corrected. a) 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. b) In one (1) file examined, the original inspection and re-inspection forms were not in the file participant's.</u></p> <p>Full corrective action has been taken</p>
10.04	14.871	<p><u>During our Special Test - Depository Agreements 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</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA**

**SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2011**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>form required by HUD. (Form HUD-51999)</u></p> <p>Full corrective action has been taken.</p>
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</u></p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CIDRA

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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> <p>No corrective action was taken. See current year finding number 11-03</p>