

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE CULEBRA**

**AUDITORIA 2002-2003**

**30 DE JUNIO DE 2003**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

04 APR 14 AM 9:56

RECIBIDO  
UNIDAD DE CORREO

*Credit 101-91 20*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**INDEPENDENT AUDITORS' REPORTS ON  
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2003**

**(WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133)**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO  
INDEPENDENT AUDITORS' REPORTS ON  
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2003  
(WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS  
AND THE OMB CIRCULAR A-133)**

TABLE OF CONTENTS

	Pages
<b>PART I – Financial:</b>	
Independent Auditors' Report on General-Purpose Combined Financial Statements .....	2- 3
<b>General-Purpose Combined Financial Statements:</b>	
Combined Balance Sheet – All Fund Types and Accounts Groups.....	4- 6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types .....	7- 8
Combined Statement of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance – Budget And Actual – General and Debt Service Funds.....	9-10
Notes to the General-Purposes Financial Statements .....	11-20
<b>PART II – Schedule of Expenditures on Federal Awards and Reports Required by Government Auditing Standards and OMB Circular A-133:</b>	
Schedule of Expenditures of Federal Awards.....	22
Notes to Schedule of Expenditures of Federal Awards .....	23
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	24-25
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	26-27
<b>PART III – Findings and Questioned Costs:</b>	
Schedule of Findings and Questioned Costs.....	29-36
Schedule of Prior Audits' Findings.....	37-39

**PART I**  
**FINANCIAL**



## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Culebra, Puerto Rico (Municipality)**, as of and for the Fiscal Year Ended June 30, 2003, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The **Municipality** accounting system and records of property, plant and equipment did not include all transactions that should be capitalized on the general fixed assets account group. We were unable to obtain sufficient competent evidential matter through audit procedures to satisfy ourselves regarding the reasonableness of the amounts presented in the accompanying general-purpose combined financial statements. Therefore, we do not express an opinion on such amount presented in the General Fixed Assets Account Group.

As explained in Note 12, the **Municipality** has not performed a study of the estimated landfill closing and postclosing costs that will be recognized in the general-purpose combined financial statements, as required by the GASB Number 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs". The study should provide for an estimate of closing and postclosing costs. We were unable to obtain sufficient competent evidence through audit procedures to satisfy ourselves regarding the reasonableness of the amount presented in the accompanying general-purpose combined financial statements. Therefore, we do not express an opinion on such amount presented in the General Long-Term Debt Account Group.

Because of inadequacies in the **Municipality's** cash account balances per accounting records (Model 4A), we were unable to form an opinion regarding the amount of cash presented in the General Fund.

We were unable to obtain a reliable set of accounting records and reports from the Special Revenue Fund, nor were we able to satisfy ourselves as to those financial records by examination of supporting documentation.

**INDEPENDENT AUDITORS' REPORT**

Page 2

In our opinion, except for the effect, if any, as might have been determined to be necessary had we been able to audit the fixed assets of the General Fixed Assets Account Group and for liability of landfill closing and postclosing costs, the transactions not recorded in the Cash Accounts of the General Fund, and the inadequacies of the accounting records and reports from the Special Revenue Fund, as explained in above paragraphs, the general-purpose combined financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Municipality**, as of June 30, 2003, and the results of operations and changes in the fund balances for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 12, 2004 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

*CPA Diaz-Martinez, PSC*

CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants

Caguas, Puerto Rico  
February 12, 2004



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**COMBINED BALANCE SHEET –  
ALL FUND TYPES AND ACCOUNT GROUPS**

**JUNE 30, 2003**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
<b>ASSETS AND OTHER DEBITS:</b>							
Cash and Investments (Notes 1 E and 2) .....	\$ 384,800	\$ 1,743,884	\$ -	\$ -	\$ -	\$ -	\$ 2,128,684
Cash with Fiscal Agent (Note 1 E) .....	-	116,922	-	110,390	-	-	227,312
Receivables:							
Property Taxes (Note 8) .....	-	-	-	1,747	-	-	1,747
State Agency .....	-	12,144	-	-	-	-	12,144
Federal Grants (Note 10) .....	-	3,595,584	-	-	-	-	3,595,584
Others Funds (Note 3) .....	32,672	514,134	-	-	-	-	546,806
Property, Plant and Equipment (Note 5)	-	-	-	-	14,274,534	-	14,274,534
Amount Available in Debt Service Fund (Note 7) .....	-	-	-	-	-	48,495	48,495
Amount to be Provide for Payment of:							
General Long-Term Debt (Note 6) .....	-	-	-	-	-	101,505	101,505
Advance Property Taxes (Note 8) .....	-	-	-	-	-	2,616,058	2,616,058
Municipal Solid Waste Landfill Debt .....	-	-	-	-	-	1,036,316	1,036,316
Vested Compensated Absences (Note 1 I) .....	-	-	-	-	-	393,805	393,805
<b>TOTAL ASSETS AND OTHER DEBITS .....</b>	<b>\$ 417,472</b>	<b>\$ 5,982,668</b>	<b>\$ -</b>	<b>\$ 112,137</b>	<b>\$14,274,534</b>	<b>\$ 4,196,179</b>	<b>\$24,982,990</b>

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO

COMBINED BALANCE SHEET –  
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
<b>LIABILITIES AND FUND EQUITY</b>							
<b>LIABILITIES:</b>							
Accounts Payable and Accrued Liabilities .....	\$ 32,966	\$ 3,878	\$ -	\$ 63,395	\$ -	\$ -	\$ 36,844
Due to:							
Government Units (Note 4) .....	21,959	-	-	-	-	-	21,959
Other Funds (Note 3) .....	514,134	32,425	-	247	-	-	546,806
Deferred Revenues:							
Volume of Business Tax (Note 9) .....	51,059	-	-	-	-	-	51,059
Local Grants (Note 10) .....	-	72,638	-	-	-	-	72,638
Federal Grants (Note 10) .....	-	3,586,657	-	-	-	-	3,586,657
Long-Term Debts:							
General Obligations Bonds (Note 6) .....	-	-	-	-	-	150,000	213,395
Advances of Property Taxes (Note 8) .....	-	-	-	-	-	2,616,058	2,616,058
Municipal Solid Waste Landfill Debt (Note 6) .....	-	-	-	-	-	1,036,316	1,036,316
Vested Compensated Absences (Note 1 I) .....	-	-	-	-	-	393,805	393,805
<b>TOTAL LIABILITIES</b> .....	<b>620,118</b>	<b>3,695,598</b>	<b>-</b>	<b>63,642</b>	<b>-</b>	<b>4,196,179</b>	<b>8,575,537</b>

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**COMBINED BALANCE SHEET –  
ALL FUND TYPES AND ACCOUNT GROUPS**

**JUNE 30, 2003**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
<b>FUND EQUITY (DEFICIT):</b>							
Investment in Property, Plant and Equipment (Note 5).....	\$ -	\$ -	\$ -	\$ -	\$14,274,534	\$ -	\$14,274,534
Fund Balance:							
Reserved for Encumbrances (Note 1 L) .....	154,799	-	-	-	-	-	154,799
Unreserved (Deficit):							
Designated for Debt Service (Note 1 L).....	-	-	-	48,495	-	-	48,495
Designated for Subsequent Years Expenditures.....	-	2,287,070	-	-	-	-	2,287,070
Undesignated (Deficit) .....	<u>(357,445)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(357,445)</u>
<b>TOTAL FUND EQUITY (DEFICIT).....</b>	<u>(202,646)</u>	<u>2,287,070</u>	<u>-</u>	<u>48,495</u>	<u>14,274,534</u>	<u>-</u>	<u>16,407,453</u>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<u>\$ 417,472</u>	<u>\$ 5,982,668</u>	<u>\$ -</u>	<u>\$ 112,137</u>	<u>\$14,274,534</u>	<u>\$ 4,196,179</u>	<u>\$24,982,990</u>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
<b>REVENUES</b>					
Property Taxes (Note 8).....	\$ 221,655	\$ -	\$ -	\$ 19,261	\$ 240,916
Volume of Business Taxes (Note 9).....	156,581	-	-	-	156,581
Federal Assistance (Note 10).....	-	583,399	-	-	583,399
Intergovernmental (Note 10).....	2,155,839	2,373,667	-	-	4,529,506
Licenses and Permits.....	791,051	-	-	-	791,051
Miscellaneous.....	101,165	-	-	-	101,165
<b>TOTAL REVENUES</b> .....	<b>3,426,291</b>	<b>2,957,066</b>	<b>-</b>	<b>19,261</b>	<b>6,402,618</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Mayor and Municipal Legislature.....	384,446	-	-	-	384,446
General Government.....	1,383,347	1,627,298	-	-	3,010,645
Public Safety.....	353,718	-	-	-	353,718
Public Works.....	421,277	-	-	-	421,277
Culture and Recreation.....	127,035	-	-	-	127,035
Sanitation.....	81,940	-	-	-	81,940
Human Services and Welfare.....	303,743	555,604	-	-	859,347
Urban Development.....	-	-	86,356	-	86,356
Capital Outlays.....	20,546	58,341	-	-	78,887
Advance of Property Taxes.....	193,392	-	-	-	193,392
<b>Debt Service:</b>					
Principal Retirement (Notes 6 and 7).....	-	-	-	60,000	60,000
Interest Payment.....	-	-	-	6,865	6,865
<b>TOTAL EXPENDITURES</b> .....	<b>3,269,444</b>	<b>2,241,243</b>	<b>86,356</b>	<b>66,865</b>	<b>5,663,908</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>156,847</b>	<b>715,823</b>	<b>(86,356)</b>	<b>(47,604)</b>	<b>738,710</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
<b>OTHER FINANCIAL SOURCES (USES):</b>					
Proceed of Note .....	\$ 170,000	\$ -	\$ -	\$ -	\$ 170,000
Operating Transfer In .....	-	170,000	86,356	-	256,356
Operating Transfer Out .....	(170,000)	(86,356)	-	-	(256,356)
<b>TOTAL OTHER FINANCING SOURCES (USES) .....</b>	<b>-</b>	<b>83,644</b>	<b>86,356</b>	<b>-</b>	<b>170,000</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources .....	156,847	799,467	-	(47,604)	908,710
Fund Balances (Deficit), at Beginning of Year (Note 14) .....	(359,493)	1,487,603	-	96,099	1,224,209
<b>FUND BALANCES (DEFICIT) AT END YEAR .....</b>	<b>(\$ 202,646)</b>	<b>\$ 2,287,070</b>	<b>\$ -</b>	<b>\$ 48,495</b>	<b>\$ 2,132,919</b>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET  
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>REVENUES</b>						
Property Taxes Advances.....	\$ 221,655	\$ 221,655	\$ -	\$ 49,913	\$ 19,261	\$ (30,652)
Volume of Business Taxes .....	178,950	156,581	(22,369)	-	-	-
Intergovernmental .....	2,155,671	2,155,839	168	-	-	-
Licenses and Permits.....	726,000	791,051	65,051	-	-	-
Miscellaneous .....	86,100	101,165	15,065	-	-	-
<b>TOTAL REVENUES.....</b>	<b>3,368,376</b>	<b>3,426,291</b>	<b>57,915</b>	<b>49,913</b>	<b>19,261</b>	<b>(30,652)</b>
<b>EXPENDITURES AND ENCUMBRANCES</b>						
Mayor and Municipal Legislature.....	412,838	409,179	3,659	-	-	-
General Government:						
Finance .....	902,126	1,099,738	(197,612)	-	-	-
Personnel.....	235,047	190,668	44,379	-	-	-
Insurance .....	104,580	94,523	10,057	-	-	-
Public Safety .....	400,610	354,992	45,618	-	-	-
Public Works .....	503,946	437,057	66,889	-	-	-
Culture and Recreation .....	163,695	130,001	33,694	-	-	-
Sanitation .....	110,063	86,160	23,903	-	-	-
Human Services and Welfare .....	310,480	306,335	4,145	-	-	-
Urban Development .....	-	-	-	-	-	-
Capital Outlays.....	31,599	20,546	11,053	-	-	-
Amortization of Property Tax.....	193,392	193,392	-	-	-	-
Debt Service.....	-	-	-	49,913	66,865	(16,952)
<b>TOTAL EXPENDITURES AND ENCUMBRANCES .....</b>	<b>3,368,376</b>	<b>3,322,591</b>	<b>45,785</b>	<b>49,913</b>	<b>66,865</b>	<b>(16,952)</b>
<b>EXCESS OF REVENUES Over (Under)</b>						
Expenditures and Encumbrances.....	-	103,700	103,700	-	(47,604)	(47,604)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET  
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>OTHER FINANCIAL SOURCES (USES):</b>						
Operating Transfer In (Out).....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Excess of Revenues and Other Sources (Uses) Over Expenditures And Other Uses.....	\$ -	103,700	\$ 103,700	\$ -	(47,604)	\$ (47,604)
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance.....		54,793			-	
Accrual Liability for Certain Debts Not Recognized in Budget.....		(1,646)			-	
Expenditures for Principal and Interest On Long-Term Obligation.....		-			-	
Net Changes in Unbudgeted Items.....		(170,000)			-	
Proceed of Bonds.....		170,000				
Fund Balance (Deficit), as Restated at Beginning of Year (Note 14).....		(359,493)			96,099	
<b>FUND BALANCE (DEFICIT) AT END OF YEAR.....</b>		<b>(\$ 202,646)</b>			<b>\$ 48,495</b>	

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of Culebra, Puerto Rico (Municipality)** was founded in the year 1880, and operates as a governmental unit of the Commonwealth of Puerto Rico, under Law Number 81 of August 30, 1991, known as "Autonomic Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative branches. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 5 legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the most significant of such policies.

**A. Financial Reporting Entity**

The general-purpose financial statements of the **Municipality** have been prepared in accordance with accounting principles general accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is a standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The most significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

The general-purpose financial statements present the financial position of the various fund types and account groups and the results of operations of the various fund types of the **Municipality**. This includes the organization units governed by the Executive Officers and members of the Municipal Legislature. In evaluating the **Municipality** as a reporting entity, management has considered all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of **GASB Number 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, fiscal dependency of the potential component units 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.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicates that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore, no organizations, activities or functions are required to be included in the reporting entity.

**B. Basis of Presentation**

The accounts of the **Municipality** are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set off self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds and account groups are summarized by type in the accompanying general-purpose financial statements. The **Municipality** records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Amounts in the "Totals Memorandum Only" column in the combined financial statements represent a summation of the combined financial statements line items of the fund types and account groups, and are presented for analytical purposes only. The summation includes fund types and account groups that use different basis of accounting includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Totals Memorandum Only" column are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the **Municipality**.

**GOVERNMENTAL FUNDS**

Governmental funds are those through which most governmental functions of the **Municipality** are financed. The acquisition, use, and balances of the **Municipality's** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following are the **Municipality's** governmental fund types:

**General Fund** – This is the general operating fund of the **Municipality**. It is used to account for all financial resources, except those required to be accounted for in another fund.

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Basis of Presentation (continuation)

Special Revenue Fund – This is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interests.

Capital Projects Fund – This is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund). Completed assets if a stewardship nature is transferred to the General Fixed Assets Account Group.

ACCOUNT GROUPS

Account groups are not funds; they do not reflect available financial resources and related liabilities, but are accounting record for the general long-term obligations. Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and the unmatured principal of its general long-term debts and other long-term obligations. The following is a description of the Account Group of the Municipality:

General Fixed Assets Account Group – This account group is used to account for all general fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group.

General Long-Term Debt Account Group – This account group is used to account for all long-term debt including bonds, notes and other long-term liabilities of the governmental fund type of the Municipality.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The governmental fund types follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty days, to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the years to which they apply.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. For the second type, moneys are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded.

For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria.

Property taxes are recognized as revenues when collected by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred. Exceptions to this general rule include: (1) vacation, sick leave, disallowance, and litigation are recorded in the General Long-Term Debt Account Group; (2) expenditures and related liabilities for principal and interest on long-term obligations, which are recorded when due; (3) landfill obligation is included in the General Long-Term Debt Account Group since it will not be funded with available expendable financial resources.

D. Budgetary Accounting

The Municipality's Annual Budget is prepared on the budgetary basis of accounting, represents departmental appropriations recommended by the Mayor, and approved by the Municipal Legislature prior to the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year.

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general-purpose financial statements:

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Budgetary Accounting (continuation)

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the general-purpose financial statements.
6. Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Combined Financial Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balance – Budget and Actual, are presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 8).
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.

5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary basis.

The special funds of the Special Revenue Fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

E. Cash and Investment

The Finance Director of the **Municipality** is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the **Municipality** and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the **Municipality's** obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the **Municipality's** bonds and notes issued in accordance with the law.

F. Receivable

Receivables are stated nets of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the **Municipality** for reimbursement of expenditures incurred pursuant to federally funded programs.

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

G. Inventories

The General, Special Revenue and Capital Project Funds, purchase office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the general-purpose financial statements.

H. General Fixed Assets

The General Fixed Assets Account Group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than building, furniture and fixtures, equipment and motor vehicles acquired or constructed by the Municipality. Public domain (infrastructure) fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalized in the General Fixed Assets Account Group. Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest on financing during the construction period will not be capitalized in the General Fixed Assets Account Group.

I. Compensated Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave, or upon retirement, terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrues a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) Payment of the compensation is probable; and (3) the amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASB Number 16, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resource, is included in the General Long-Term Debt Account Group.

J. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

K. Interfund Transactions

The Municipality has the following types of transactions among funds:

Operating Transfers – Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient funds and as "Operating transfers-out" by the disbursing fund.

Transfer of Expenditures (Reimbursements) – Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

L. Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriate for expenditure. The Municipality has the following reservations of fund balance:

Encumbrance – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

Debt Service – Represents net assets available to finance future debt service payments.

Fund Deficit in the General Fund is primarily attributable to prior year adjustments due to unrecorded debts and cash accounts reconciliation. The deficit is expected to decrease in the future as a result of a plan to reduce expenditures, obtain additional sources of revenues, and appropriation in annual budget as require by State Municipal Law.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)**

**M. Claims and Judgments**

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The General Long-Term Debt Account Group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

**N. Use of Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues during the reporting period. Actual result count differs from those estimates.

**NOTE 2 CASH AND INVESTMENTS**

The **Municipality** follows the practice of pooling cash of all funds except for restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposit. The **Municipality's** cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The **Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the **Municipality** invested its funds in interest bearing bank accounts and short-term certificates of deposit.

**NOTE 3 INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Short-term advances between funds are accounted for in the interfund receivable and payable accounts. Interfund receivable and payable balances at June 30, 2003 consist of the follows:

	<u>INTERFUND</u>	
	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General:		
Interfund Loans.....	\$ 32,425	\$ 514,134
Interest Receivable from Debt Service Fund.....	247	-
Special Revenue:		
Interfund Loans.....	514,134	32,425
Debt Services:		
Interest Payable to General Fund.....	-	247
<b>TOTAL .....</b>	<b><u>\$ 546,806</u></b>	<b><u>\$ 546,806</u></b>

**NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2003, balance due to other governmental units of the General Fund for services rendered to the **Municipality**, consists of the following:

	<u>AMOUNT</u>
Retirement System .....	\$ 16,177
General Services Administration .....	3,237
AEELA .....	721
Water and Sewer Authority .....	<u>1,824</u>
<b>TOTAL .....</b>	<b><u>\$21,959</u></b>

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 5 PROPERTY, PLANT AND EQUIPMENT**

A summary of changes in property, plant and equipment follows:

DESCRIPTION	BALANCE JULY 1, 2002	ADDITIONS AND ADJUSTMENTS	DISPOSITIONS AND ADJUSTMENTS	BALANCE JUNE 30, 2003
Land .....	\$ 1,547,672	\$ -	\$ -	\$ 1,547,672
Buildings and Improvements.....	10,821,100	-	-	10,821,100
Machinery and Equipment .....	1,817,370	-	-	1,817,370
Furniture and Fixtures.....	88,392	-	-	88,392
Construction in Progress.....	-	-	-	-
<b>TOTAL.....</b>	<b><u>\$14,274,534</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$14,274,534</u></b>

**NOTE 6 GENERAL LONG-TERM DEBTS**

**A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE**

The principal long-term obligations of the **Municipality** are general obligations bonds issued to finance the construction and improvements of public facilities and purchase of equipment. The **Municipality's** obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 7). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the **Municipality**. General obligations bonds payable as of June 30, 2003, are comprised of the following issue:

DESCRIPTION	AMOUNT
<b>General Obligations Bonds:</b>	
\$170,000, Series 2002, payable in annual installments ranging from \$20,000 to \$30,000, excluding interests up to 4.10%, through July 1, 2009 .....	<u>\$150,000</u>
<b>Total Obligations Outstanding.....</b>	<b><u>\$150,000</u></b>

The annual requirements to amortize the general obligations outstanding as of June 30, 2003 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2004	\$ 20,000	\$ 5,710	\$ 25,710
2005	25,000	4,610	29,610
2006	25,000	3,888	28,888
2007	25,000	3,085	28,085
2008	25,000	2,200	27,200
2004	<u>30,000</u>	<u>1,230</u>	<u>31,230</u>
<b>TOTAL</b>	<b><u>\$150,000</u></b>	<b><u>\$ 20,723</u></b>	<b><u>\$170,723</u></b>

**B. OTHER LONG-TERM DEBTS**

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES AND ADJUSTMENTS	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2003
Property Tax Advance.....	\$ 2,805,311	\$ 9,706	\$ 198,959	\$2,616,058
State Health Insurance Plan .....	289,335	-	289,335	-
Estimated Landfill Post-closing Costs.....	1,036,316	-	-	1,036,316
Compensated Absences .....	340,957	52,848	-	393,805
<b>TOTAL.....</b>	<b><u>\$4,471,919</u></b>	<b><u>\$ 62,554</u></b>	<b><u>\$ 488,294</u></b>	<b><u>\$4,046,179</u></b>

**C. CHANGES IN GENERAL LONG-TERM DEBTS**

The following is a summary of changes in long-term debts for the Fiscal Year Ended June 30, 2003:

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2003
General .....	\$ 75,000	\$ 170,000	\$ 95,000	\$ 150,000
Others Debts.....	<u>4,471,919</u>	<u>62,554</u>	<u>488,294</u>	<u>4,046,179</u>
<b>TOTAL.....</b>	<b><u>\$4,546,919</u></b>	<b><u>\$ 232,554</u></b>	<b><u>\$ 583,294</u></b>	<b><u>\$4,196,179</u></b>

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 7 DEBT RETIREMENT**

Revenues of the Debt Service Fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the **Municipality** (See Note 8).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the **Municipality** (See Note 6). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

**NOTE 8 PROPERTY TAXES**

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution. The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.08% for real property and 6.08% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 7.08% and 5.08%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 6.00% and 4.00%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund. The remaining portion belonging to the **Municipality** of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 7). The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The **Municipality** grants a complete exemption from personal property taxes up to an assessment value of \$20,000 for retailers with an annual net sales volume of less than \$100,000. The Municipal Revenue Collection Center advances to the **Municipality**, on quarterly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions

by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the general fund the exonerated portion of property tax contribution when received from quarterly advances from Municipal Revenue Collection Center. The non-exonerated portion of the advance is recorded as other financing sources in the General Fund and in the General Long-Term Debt Account Group as an increase in related debt. The revenue for the basic contribution over property not exonerated is recorded in the General Fund where the respective property tax notifications from Municipal Revenue Collection Center are received, which includes the amounts collected by such Center.

Due to the fact that collections of non-exonerated property taxes are applied to the advances of property tax send by the Municipal Revenue Collection Center, they are record as amortization of the advance in the General Long-Term Account Group, for the Prior Advance Property Taxes owed to Treasury Department and Municipal Revenue Collection Center (MRCC), expenditures in the General Fund and recognized as revenue in accordance with GAAP.

**NOTE 9 VOLUME OF BUSINESS TAX**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.50% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

**NOTE 10 INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consists primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, PR Electric Power Authority, and federal financial assistance received from federal government.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 10 INTERGOVERNMENTAL REVENUES (continuation)**

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

**NOTE 11 EMPLOYEE'S RETIREMENT PLAN**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement system.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of **GASB Number 25** for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to accept before April 1, 1999 to contribute 5.775% for the first \$6,600 of salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. After such date, contribute 8.275% of their salaries. This is the only choice available to Mayor. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447, that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution program to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year

Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at 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.

All employees that do not elect to transfer for the new program, and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

The amount of the total pension benefit obligation is based on a standardized measurement established by **GASB Number 27, Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans**. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)**

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan. The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available.

Contributions in 2003 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the **Municipality** has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2003 was approximately **\$87,256**. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS are not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the Fiscal Year Ended June 30, 2003.

**NOTE 12 ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS**

According to the Environmental Protection Agency's (EPA) regulations, the **Municipality** must follow certain closure functions and postclosure monitoring and maintenance procedures. In addition, the **Municipality** has adopted the **GASB Number 18** in order to comply with these regulations.

As of June 30, 2003, the **Municipality** has not performed a study of the estimated closing and postclosing cost that will be recognized in the financial statements as required by the accounting policy. The **Municipality** has one active landfill, for which they estimated liability for closure and post-closure care costs of \$1,036,316 as June 30, 2003, which is based on approximately 59% usage (filled) of the landfill, presented in the General Long-Term Debt Account Group.

It is estimated that an additional \$599,974 will be recognized as closure and post-closure care costs between the date of the balance sheet and the date the landfill is expected to be filled to capacity (year 2012), for a total estimated cost of \$1,636,290. However, the actual cost of closure and postclosure care may be higher due to inflation, changes on technology or changes in landfill laws and regulations. Because the amount presented in the financial statements was estimated by the **Municipality**, but the required studies were not performed, there is no supporting evidence for these amounts.

**NOTE 13 CONTINGENCIES**

**A. CLAIMS AND JUDGMENTS**

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality's** activities. The legal counsel of the **Municipality** has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. The financial statements do not include adjustment, if any, that could result from the others resolutions of legal proceeding. However, it has been the **Municipality's** experience that such actions are settled for amounts substantially less than the claimed amounts.

**B. FEDERAL GRANTS**

In the normal course of operations, the **Municipality** receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. It is the **Municipality's** opinion that no additional liabilities will arise from audits previously performed or to be performed.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 14 BEGINNING FUND BALANCES RESTATEMENT**

Beginning Fund Balances of Special Revenue Fund and Debt Service Fund have been restated by accounting adjustments for accounting errors detected during the fiscal year that affect the Fund Equity of these Governmental Funds, as follows:

	SPECIAL REVENUE	DEBT SERVICE
Beginning Fund Balance at July 1, 2002 .....	\$ 1,112,991	\$ 132,973
Application of GASB 33 .....	374,612	-
Elimination of Account Payable .....	-	(36,874)
Beginning Fund Balance, as Restated, July 1, 2002 .....	<u>\$ 1,487,603</u>	<u>\$ 96,099</u>

**NOTE 15 GASB STATEMENTS NUMBERS 33, 34 (AS AMENDED), 37, 38 AND 39**

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The objective of this Statement is to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The minimum requirements for Basic Financial Statements and Required Supplementary Information (RSI) are:

- A. Management’s Discussion and Analysis (MD&A) – a component of RSI, should introduce the basic financial statements and provide an objective and easily readable analytical of the government’s financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year positive and negative results in comparison with the prior year, with emphasis on the current year.
- B. Basic Financial Statements – should include:
  - 1. Government-wide Statements – The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financial statements should be prepared using the economic resources measurement focus and the

accrual basis of accounting. Capital assets, including infrastructure assets, and depreciation charges are reported on these new financial statements:

- a. Statement of Net Assets
- b. Statement of Activities
- 2. Fund Financial Statements – Fund financial statements for the primary government’s governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These funds should be presented after the governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.
- 3. Notes to the Financial Statements – One set of notes for both financial statements.
- C. Required Supplementary Information other than MD&A. Except for MD&A, required supplementary information, including the required budgetary comparison information, should be presented immediately following the notes to the financial statements.

GASB No. 34 will begin to take effect for the **Municipality** in fiscal year beginning after June 15, 2003. Earlier application is encouraged.

Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. Retroactive reporting is required four (4) year after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed.

Governments that elect early implementation of this Statement, should also implement GASB Statement Number 33, Accounting and Financial Reporting for Nonexchange Transactions, at the same time. Also, GASB 34 was amended by GASB Number 37 and 38 for topics that should be included in the MD&A and disclosures.

On May 2002, GASB No. 39 was issued that amend GASB 14 by established additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. This statement is effective for financial statements for periods beginning after June 15, 2003. Earlier application is encouraged.

**END OF NOTES**

**PART II**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND REPORTS REQUIRED BY GOVERNMENT AUDITING  
STANDARDS AND OMB CIRCULAR A-133**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through PR Department of Education:			
Child and Adult Care Food Program .....	10.558	N/AV	\$ 17,430
Pass-Through PR Department of Agriculture:			
Rural Housing Preservation Grant .....	10.433	N/AV	<u>75,484</u>
Total U.S. Department of Agriculture .....			<u>92,914</u>
U.S. Department of Housing and Urban Development:			
Pass-Through State – Office of Commissioner of Municipal Affairs:			
State Block Grant Program (SBGP)	14.228	02-86-00-2835 01-86-00-2835 00-86-00-2835 99-86-00-2835 98-86-00-2835	<u>194,310</u>
U.S. Department of Health and Human Services:			
Pass-Through Regional Elderly Office – Office Of the Governor:			
Child And Adult Care Food Program .....	10.558	N/AV	6,103
Special Program for Aging, Title III, Part B.....	93.044	N/AV	8,365
Pass-Through Administration of Children and Families:			
Child Care and Development Program .....	93.575	N/AV	<u>253,912</u>
Total U.S. Department of Health and Human Services.....			<u>268,380</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS .....</b>			<b><u>\$ 555,604</u></b>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral of this Schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Culebra, Puerto Rico (Municipality)** and is presented on the modified accrual basis. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

**NOTE 3 FEDERAL CFDA NUMBER**

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

**NOTE 4 PASS-THROUGH GRANTOR'S NUMBER**

State or local government redistribution of federal awards to the **Municipality**, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and identifying number assigned by the pass-through entity for federal awards received as a subrecipient. Numbers identified as N/A are not available.

**NOTE 5 RELATIONSHIP TO GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS**

Federal financial assistance expenditures are reported in the **Municipality's** Combined Statement of Revenues, Expenditures and Change in Fund Balance – All Governmental Fund Types as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures .....	\$ 555,604	\$ -	\$ 555,604
State & Municipal Expenditures .....	<u>1,685,639</u>	<u>86,356</u>	<u>1,771,995</u>
TOTAL EXPENDITURES .....	<u>\$2,241,243</u>	<u>\$ 86,356</u>	<u>\$2,327,599</u>

**NOTE 6 MAJOR PROGRAMS**

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

**END OF NOTES**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of **Municipality of Culebra, Puerto Rico (Municipality)** as of and for the Fiscal Year Ended June 30, 2003, and have issued a report thereon dated February 12, 2004, which was qualified because we were unable to audit the fixed assets of the General Fixed Assets Account Group and for liability of landfill closing and postclosing costs, the transactions not recorded in the Cash Accounts of the General Fund, and inadequacies of the accounting records and reports of the Special Revenue Fund. Except as discussed in the preceding sentence, 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.

**Compliance**

As part of obtaining reasonable assurance about whether the **Municipality's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 an instance of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 03-III-03.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matter involving the internal control over financial reporting and its operation that we consider being reportable condition. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-II-01 through 03-II-04.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described being material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality** in a separate letter dated February 12, 2004.

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

*CPA Diaz-Martinez, PSC*  
CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants

Caguas, Puerto Rico  
February 12, 2004





**CPA DIAZ-MARTINEZ, CSP**  
*Contadores Públicos Autorizados y Consultores*

APARTADO 8369  
CAGUAS, P R 00726-8369

TEL (787) 746-0510  
FAX (787) 746-0525

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

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

**Compliance**

We have audited the compliance of the **Municipality of Culebra, Puerto Rico (Municipality)** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2003. The **Municipality's** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality'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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality's** compliance with those requirements and performing such others procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality's** compliance with those requirements.

As described in items 03-III-03 in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with a requirement regarding equipment and real property management that is applicable to its State Block Grant Program. Compliance with such requirements is necessary, in our opinion, for **Municipality** to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year ended June 30, 2003. 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 03-III-01, 03-III-02, 03-III-03, and 03-III-04.

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

Page 2

**Internal Control Over Compliance**

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

We noted certain matters involving the internal control over compliance and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 03-III-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 03-III-03 to be a material weakness.

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

*CPA Diaz-Martinez, PSC*  
CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants

Caguas, Puerto Rico  
February 12, 2004



**PART III**  
**FINDINGS AND QUESTIONED COSTS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion

Internal control over financial reporting:

● Reportable condition(s) identified?  Yes  None Reported

● Material weakness (es) identified?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

● Reportable condition(s) identified?  Yes  None Reported

● Material weakness (es) identified?  Yes  No

Type of auditors' report issued on compliance for Major Programs:

Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?

Yes  No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
14.228	State Block Grant Program (SBGP)
93.575	Child Care and Development Program

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes  No

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

---

SECTION II – FINANCIAL STATEMENT FINDINGS

---

<b>FINDING</b>	<b>NUMBER 03-II-01</b>
<b>REQUIREMENT</b>	<b>REPORTABLE CONDITION OVER ACCOUNTING RECORDS</b>
<b>CONDITION</b>	During our examination of the <b>Municipality's</b> accounting system we noted that the <b>Municipality</b> failed to implement adequate internal control procedures to maintain a complete accurate and reliable set of accounting records and reports. The <b>Municipality</b> prepares bank account conciliations, but cash account balances per accounting records (Model 4A) were not reconciled with adjusted cash balance per banks. <i>This is a prior year finding.</i>
<b>CRITERIA</b>	Article 8.010 (c) (2) and (3) of State Act Number 81 of August 30, 1991 stated that <b>Municipality</b> should maintain accurate accounting records and fund controls.
<b>EFFECT</b>	<b>Municipality</b> did not maintain an adequate control of the accountability regarding cash transactions.
<b>CAUSE</b>	<b>Municipality</b> reconciled cash balances per bank, but did not reconcile cash balances per accounting records.
<b>RECOMMENDATION</b>	<b>Municipality</b> should reconcile monthly the accounting record's cash account balances with adjusted cash balances per bank.
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

---

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**SECTION II – FINANCIAL STATEMENT FINDINGS**

---

<b>FINDING</b>	<b>NUMBER 03-II-02</b>
<b>REQUIREMENT</b>	<b>REPORTABLE CONDITION OVER ACCOUNTING RECORDS</b>
<b>CONDITION</b>	During our examination of the <b>Municipality's</b> accounting system we noted that the <b>Municipality</b> failed to implement adequate internal control procedures to maintain a complete accurate and reliable set of accounting records and reports of the Special Revenue Fund. <i>This is a prior year finding.</i>
<b>CRITERIA</b>	Article 8.010 (C) (2) and (3) of State Act Number 81 of August 30, 1991, stated that <b>Municipality</b> should maintain accurate accounting records and fund controls.
<b>EFFECT</b>	<b>Municipality</b> did not maintain an adequate control of the accountability regarding transactions in the Special Revenue Fund presented in its financial statements.
<b>CAUSE</b>	<b>Municipality</b> did not maintain a complete and accurate record of all collections and revenues and amounts expended in the Special Revenue Fund.
<b>RECOMMENDATION</b>	<b>Municipality</b> should implement internal control procedures over accounting records in order to maintain accurate financial statements.
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

---

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**SECTION II – FINANCIAL STATEMENT FINDINGS**

---

<b>FINDING</b>	<b>NUMBER 03-II-03 (ALSO SEE FINDING NUMBER 03-III-04)</b>
<b>REQUIREMENT</b>	<b>REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT</b>
<b>CONDITION</b>	<b>Municipality</b> failed to provide to us a detailed and updated Property, Plant and Equipment Subsidiary Ledger. <i>This is a prior year finding.</i>
<b>CRITERIA</b>	Article 10.002 of State Act Number 81 of August 30, 1991 stated that <b>Municipality</b> should maintain updated property accounting records.
<b>EFFECT</b>	<b>Municipality</b> did not maintain an adequate control of the accountability regarding property, plant and equipment transactions.
<b>CAUSE</b>	<b>Municipality</b> fails to maintain adequate internal control procedures to maintain a detailed and updated Property, Plant and Equipment Subsidiary Ledger.
<b>RECOMMENDATION</b>	<b>Municipality</b> should implement internal control procedures in order to comply with this requirement.
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

---

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**SECTION II – FINANCIAL STATEMENT FINDINGS**

---

<b>FINDING</b>	<b>NUMBER 03-II-04</b>
<b>REQUIREMENT</b>	<b>REPORTABLE CONDITION OVER ESTIMATED SOLID WASTE DISPOSAL DEBT</b>
<b>CONDITION</b>	<b>Municipality</b> has not performed a study of the estimated landfill closing and postclosing costs for one active landfill, to support the amount presented in the General Long-Term Debt Account Group.
<b>CRITERIA</b>	Environmental Protection Agency's (EPA) regulations, states that <b>Municipality</b> must follow certain closure functions and postclosure monitoring and maintenance procedures, and GASB Number 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs" required the <b>Municipality</b> to perform a study of the estimated closing and postclosing costs that will be recognized in the financial statements.
<b>EFFECT</b>	<b>Municipality</b> has no evidence that supports the amount presented in the General Long-Term Debt Account Group.
<b>CAUSE</b>	<b>Municipality</b> has not performed a study of the estimated closing and postclosing cost.
<b>RECOMMENDATION</b>	<b>Municipality</b> should perform a study of the estimated landfill closing and postclosing costs in order to comply with this requirement.
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

---

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

---

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

---

<b>FINDING</b>	<b>NUMBER 03-III-01</b>
<b>FEDERAL PROGRAM</b>	<b>STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>  <b>CHILD CARE AND DEVELOPMENT PROGRAM (CFDA NO. 93. 575) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS THROUGH STATE – ADMINISTRATION OF CHILDREN AND FAMILIES</b>
<b>REQUIREMENT</b>	<b>INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ALLOWABLE COST/COST PRINCIPLES</b>
<b>CONDITION</b>	It was noted in our tests of <b>Municipality's</b> internal control over disbursement process that vouchers and supporting documents related to seven (7) checks issued from the State Block Grant Program, and eight (8) from the Child Care and Development Program were not stamped as paid.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also Subpart C, 24 CFR, Section 85.20 (b) (3); and Subpart G, CFR 45 Section 98.67 (c)(1) (OMB Common Rule) requires to grantees and sub-grantees to maintain effective control and accountability over grants and sub-grants cash, real and personal property, and other assets, to assure they will be used solely for authorized purposes.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with CFR 24, Section 570.89 (d) (1), Section 85.20 (b) (3), and Subpart G, CFR 45 Section 98.67 (c)(1). Liabilities could be paid twice by the <b>Municipality</b> .
<b>CAUSE</b>	There are no adequate internal control procedures implemented to assure this compliance.
<b>RECOMMENDATION</b>	<b>Municipality</b> should implement adequate procedures to ensure that all disbursement transactions are properly authorized and all supporting documents stamped as paid in order to assure compliance with this requirement.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan

---

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

<b>FINDING</b>	<b>NUMBER 03-III-02</b>
<b>FEDERAL PROGRAM</b>	<b>STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT</b>
<b>CONDITION</b>	Federal Financial Assistance is sometimes requested and not used to cover immediate expenditures incurred.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR Subpart I, Section 570.487(c) states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities, according with Treasury Circular 1075.
<b>CAUSE</b>	Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
<b>EFFECT</b>	It could be understood that Federal Program Department is requesting funds in excess of the immediate expenditures incurred.
<b>RECOMMENDATION</b>	We recommend management to revise their forecast procedures in order to comply with this requirement.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

---

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

---

<b>FINDING</b>	<b>NUMBER 03-III-03</b>
<b>FEDERAL PROGRAM</b>	<b>STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>EQUIPMENT AND REAL PROPERTY MANAGEMENT</b>
<b>CONDITION</b>	It was noted in our tests of equipment and real property management that the <b>Municipality</b> did not maintain appropriate real property records as required by federal regulation.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart J, CFR 24, Section 570.506 (a) states that the <b>Municipality</b> shall establish and maintain at minimum, records providing a full description of each activity assisted (or being assisted) with CDBG funds, including its location (if the activity has a geographical focus), the amount of CDBG funds budgeted, obligated and expended for the activity.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with CFR 24, Section 570.506 (a).
<b>CAUSE</b>	<b>Municipality</b> did not maintain the appropriate information on the real property records to assure that it is in accordance with federal regulation.
<b>RECOMMENDATION</b>	<b>Municipality</b> should revise its real property records and complete it according to federal regulation
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

**END OF SCHEDULE**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**SCHEDULE OF PRIOR AUDIT'S FINDINGS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
<b>(1) Audit Findings that have been fully corrected:</b>					
2001	01-4	Procurement and suspension and debarment – Error in contract.	14.228	NONE	System and procedures corrected.
	01-3	Procurement and suspension and debarment – Missing clauses on contracts.	14.228	NONE	System and procedures corrected.
	01-7	Procurement and suspension and debarment – Documentation.	14.228 93.575	NONE NONE	System and procedures corrected. System and procedures corrected.
	01-10	Procurement and suspension and debarment – Documentation.	14.228 93.575	NONE NONE	System and procedures corrected. System and procedures corrected.
	01-12	Procurement and suspension and debarment – Documentation.	14.228 93.575	NONE NONE	System and procedures corrected. System and procedures corrected.
	01-20	Procurement and suspension and debarment – Documentation.	14.228	NONE	System and procedures corrected.
	01-23	Reporting – Financial Report not prepared.	14.228	NONE	System and procedures corrected.
2000	00-11	Procurement and suspension and debarment – Missing clauses on contracts.	14.228	NONE	System and procedures corrected.
	00-18 & 19	Procurement and suspension and debarment – Documentation.	14.228	NONE	System and procedures corrected.
	00-22	Reporting – Financial Report not prepared.	14.228	NONE	System and procedures corrected.
<b>(2) Audit Findings not Corrected or Partially Corrected:</b>					
2001	01-1	Equipment and real property management.	14.228	NONE	Property Officer was instructed to take the necessary measures to correct the situation.

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
<b>(2) Audit Findings not Corrected or Partially Corrected: (continuation)</b>					
2001	01-6	Procurement and suspension and debarment – Quotation.	93.575	NONE	The Federal Program Director was instructed to implement procedures to correct the situation.
	01-9	Procurement and suspension and debarment – Documentation.	14.228 93.575	\$812,506 \$ 11,556	The Mayor gave instructions to search for the missing documents and make them available.
	01-11	Procurement and suspension and debarment – Documentation.	14.228 93.575	\$214,470 NONE	The Mayor gave instructions to search for the missing documents and make them available.
	01-14	Reporting and Cash management – Incomplete records and documentation.	14.228 93.575	NONE NONE	The Mayor gave instructions to correct the situation.
	01-21	Procurement and suspension and debarment – Documentation.	14.228	\$ 21,747	We will continue searching for these missing documents to make them available for review.
	01-22	Cash Management – <b>Municipality</b> held excess of cash.	14.228 93.575	NONE NONE	The Mayor instructed the Federal Program Director to take measures in order to correct the situation.
	01-24	Davis-Bacon Act.	14.228	NONE	The Mayor instructed the Federal Program Director to take measures in order to correct the situation.
2000	00-2	Equipment and real property management.	14.228	NONE	See Finding Number 01-1 above.
	00-5	Reporting and Cash management – Incomplete records and documentation.	14.228	NONE	See Finding Number 01-14 above.
2000	00-7	Reporting and Cash management – Incomplete records and documentation.	14.228	NONE	See Finding Number 01-14 above.
	00-15	Procurement and suspension and debarment – Quotation	14.228	NONE	See Finding Number 01-6 above.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA, PUERTO RICO**

**SCHEDULE OF PRIOR AUDIT'S FINDINGS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
<b>(2) Audit Findings not Corrected or Partially Corrected: (continuation)</b>					
2000	00-16	Procurement and suspension and debarment – Documentation.	14.228	NONE	See Finding Number 01-9 above.
	00-21	Cash Management – <b>Municipality</b> held excess of cash.	14.228	NONE	See Finding Number 01-22 above.
1999	99-2	Equipment and real property management.	14.228	NONE	See Finding Number 01-1 above.
	99-5	Reporting and Cash management – Incomplete records and documentation.	14.228	NONE	See Finding Number 01-14 above.
	99-7	Reporting and Cash management – Incomplete records and documentation.	14.228	NONE	See Finding Number 01-14 above.
<b>(3) Corrective action taken is significantly different from corrective action previously reported:</b>					
NONE					
<b>(4) Audit findings is no longer valid:</b>					
2001	01-5	Contract not submitted to Comptroller's Office.	93.575	NONE	It is not a federal compliance requirement.

**END OF SCHEDULE**



FORM SF-SAC (3-20-2001)

U.S. DEPT. OF COMM. - Econ. and Stat. Admin. - U.S. CENSUS BUREAU ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates On or After January 1, 2001

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO Federal Audit Clearinghouse 1201 E. 10th Street Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

1. Fiscal period ending date for this submission
2. Type of Circular A-133 audit
3. Audit period covered
4. Date received by Federal clearinghouse
5. Employer Identification Number (EIN)
6. Are multiple EINs covered in this report?

6. AUDITEE INFORMATION

a. Auditee name
MUNICIPALITY OF CULEBRA
b. Auditee address (Number and street)
PO BOX 189
City
CULEBRA
State PR ZIP + 4 Code 00775-0189
c. Auditee contact Name
IVAN ROMERO PENA
Title
MAYOR
d. Auditee contact telephone
(787) 742 - 3116
e. Auditee contact FAX (Optional)
(787) 742 - 1110
f. Auditee contact E-mail (Optional)

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official

Printed Name/Title of certifying official
IVAN ROMERO PEÑA, MAYOR

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name
CPA DIAZ-MARTINEZ,PSC
b. Auditor address (Number and street)
PO BOX 8369
City
CAGUAS
State PR ZIP + 4 Code 00726-8369
c. Auditor contact Name
CPA JOSE DIAZ MARTINEZ
Title
PRESIDENT
d. Auditor contact telephone
(787) 746 - 0510
e. Auditor contact FAX (Optional)
(787) 746 - 0525
f. Auditor contact E-mail (Optional)
CPADIAZMARTINEZ@HOTMAIL.COM

g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor
CPA DIAZ PSC

Date
Month Day Year
03 / 31 / 04

**PART I GENERAL INFORMATION - Continued**

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)  
1  Yes - Identify Cognizant Agency in Part I, Item 9      2  No - SKIP to Part II, Item 1

9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.

- |  |   |   |   |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy                              | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture                          | 66 <input type="checkbox"/> Environmental Protection Agency     | 15 <input type="checkbox"/> Interior                      | 20 <input type="checkbox"/> Transportation              |
| 11 <input type="checkbox"/> Commerce                             | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice                       | <input type="checkbox"/> Other - Specify:               |
| 12 <input type="checkbox"/> Defense                              | 93 <input type="checkbox"/> Health and Human Services           | 17 <input type="checkbox"/> Labor                         |   |
| 34 <input type="checkbox"/> Education                            |   |   |   |

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report (Mark (X) one box)

- 1  Unqualified opinion      2  Qualified opinion      3  Adverse opinion      4  Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report?      1  Yes      2  No

3. Is a reportable condition disclosed?      1  Yes      2  No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness?      1  Yes      2  No

5. Is a material noncompliance disclosed?      1  Yes      2  No

**PART III FEDERAL PROGRAMS (To be completed by auditor)**

1. Type of audit report on major program compliance

- 1  Unqualified opinion      2  Qualified opinion      3  Adverse opinion      4  Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10)      1  Yes      2  No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ \_\_ .520(b))      \$ 300,000

4. Did the auditee qualify as a low-risk auditee? (§ \_\_ .530)      1  Yes      2  No

5. Is a reportable condition disclosed for any major program? (§ \_\_ .510(a)(1))      1  Yes      2  No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (§ \_\_ .510(a)(1))      1  Yes      2  No

7. Are any known questioned costs reported? (§ \_\_ .510(a)(3) or (4))      1  Yes      2  No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ \_\_ .315(b))      1  Yes      2  No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

- |  |   |   |  |
|--|---|---|--|
| 02 <input type="checkbox"/> Agency for International Development           | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration     | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> State                            |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services           | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input type="checkbox"/> Commerce                                       | 14 <input type="checkbox"/> Housing and Urban Development       | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services       | 47 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 15 <input type="checkbox"/> Interior                            | 07 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 16 <input type="checkbox"/> Justice                             | 59 <input type="checkbox"/> Small Business Administration                 | 00 <input checked="" type="checkbox"/> None                  |
| 81 <input type="checkbox"/> Energy   | 17 <input type="checkbox"/> Labor                               |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 09 <input type="checkbox"/> Legal Services Corp                 |   |  |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives .....
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9) .....

Count total number of boxes marked above and submit this number of reporting packages

FORM SF-SAC (3-20-2001)

**PART III FEDERAL PROGRAMS - Continued (Page 3 - #1 of 1)**

**10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR**

**11. AUDIT FINDINGS**

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) <sup>3</sup> (a)	Audit finding reference number(s) <sup>4</sup> (b)
Federal Agency Prefix <sup>1</sup>	Extension <sup>2</sup>							
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 17,430 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	0 .433	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	RURAL HOUSING PRESERVATION GRANT	\$ 75,484 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE BLOCK GRANT PROGRAM	\$ 194,310 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	BCF	03-III-01,03-III-02,03-III-03
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 6,103 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .044	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING	\$ 8,365 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT PROGRAM	\$ 253,912 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	B	03-III-01
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				\$ 555,604 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

<sup>3</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a) reported for each Federal program.

- |                                    |   |  |          |
|------------------------------------|---|--|----------|
| A. Activities allowed or unallowed | F. Equipment and real property management   | K. Real property acquisition and relocation assistance | O. None  |
| B. Allowable costs/cost principles | G. Matching, level of effort, earmarking    | L. Reporting   | P. Other |
| C. Cash management                 | H. Period of availability of Federal funds  | M. Subrecipient monitoring                             |          |
| D. Davis - Bacon Act               | I. Procurement and suspension and debarment | N. Special tests and provisions                        |          |
| E. Eligibility                     | J. Program income                           |  |          |

<sup>4</sup> N/A for NONE

**PART I** Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N / A	16	31	46	61
2		17	32	47	62
3		18	33	48	63
4		19	34	49	64
5		20	35	50	65
6		21	36	51	66
7		22	37	52	67
8		23	38	53	68
9		24	39	54	69
10		25	40	55	70
11		26	41	56	71
12		27	42	57	72
13		28	43	58	73
14		29	44	59	74
15		30	45	60	75

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.