

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CULEBRA
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

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

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2005

(WITH THE ADDITIONAL REPORT AND INFORMATION
REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005
(WITH THE ADDITIONAL REPORT AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS)

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PART I
FINANCIAL

Pedro C. Ortiz Ledée

Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Culebra, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2005, which collectively comprise the **Municipality's** basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the **Municipality's** management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. I believe that my audit provide a reasonable basis for my opinion.

As discussed in Note 7 to the Basic Financial Statements, management has not recorded all capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets and expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality**, as of June 30, 2005, and the changes in financial position thereof for the year then ended.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2005, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

INDEPENDENT AUDITORS' REPORT

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In accordance with *Government Auditing Standards*, I have also issued a report dated December 29, 2005 on my consideration of the **Municipality's** internal control structure over financial reporting and my 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 my audit.



CPA Pedro C. Ortiz Ledée
Certified Public Accountant
License Number 5200
Expires on December 1, 2008

Guayama, Puerto Rico
December 29, 2005



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The management of **Municipality of Culebra, Puerto Rico (Municipality)** offers this narrative overview and analysis of the financial activities of the **Municipality** for the fiscal year ended June 30, 2005. The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2004. The financial statements associated with it are described in the following narrative as well as in the Notes to Financial Statements.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. We encourage readers to consider this information with the **Municipality's** basic financial statements that follow.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The net assets of the **Municipality** exceeded its liabilities at June 30, 2005 by \$3.5 million.
- ❖ The **Municipality's** total net assets decrease by \$3.2 million during 2005 and \$1.7 million during 2004.
- ❖ As of June 30, 2005, the **Municipality's** governmental funds reported combined ending fund balances of \$3.2 million, an increase of \$2.8 million from the prior year.
- ❖ At June 30, 2005, the Unrestricted (Deficit) Net Assets for the General Fund was \$1.8 million. During Fiscal Year 2004-2005 the **Municipality** does not issue debt.
- ❖ The **Municipality's** capital assets inventory has no movement during fiscal year.
- ❖ The investment in capital assets for this year was not determinable, last year was of \$1.3 million.
- ❖ Loans principal payments were \$50 thousand and \$51 thousand in 2005 and 2004, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the **Municipality's** financial statements. The **Municipality's** basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the **Municipality's** finances, in a manner similar to a private-sector business.

The **Statement of Net Assets** presents information on all of the **Municipality's** assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the **Municipality** is improving or deteriorating.

The **Statement of Activities** presents information showing how the **Municipality's** net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements of the **Municipality** are principally supported by taxes and intergovernmental revenues. The governmental activities of the **Municipality** include general government, public safety, public works, human services and welfare, culture and recreation, physical environment, education and urban development. Property taxes, municipal license tax, state and federal grants finance most of these activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the

	2005	2004
Current and non-current assets	\$ 5,664,524	\$ 3,209,003
Capital assets	8,412,866	8,412,866
Total Assets	<u>14,077,390</u>	<u>11,621,869</u>
Current liabilities	308,077	1,228,555
Deferred revenues	153,646	1,806,853
Long-term liabilities	4,853,331	4,493,716
Total Liabilities	<u>5,315,054</u>	<u>7,529,124</u>
Net Assets:		
Investment in capital assets	8,112,866	8,282,866
Restricted	6,805,537	1,221,882
Deficit	(6,156,067)	(5,412,003)
Total Net Assets	<u>\$ 8,762,336</u>	<u>\$ 4,092,745</u>

case of the Municipality, assets exceeded liabilities by \$3.2 million as of June 30, 2005 versus \$4.1 million as of June 30, 2004. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the Municipality's governmental activities.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required

**COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Municipality's ongoing obligations to citizens and creditors.

Total Net Assets of the Municipality's governmental activities were \$8.7 million. The Unrestricted (Deficit) Net Asset, was approximately of \$6.2 million at June 30, 2005.

Governmental Activities

During fiscal year 2004-05 the Municipality offer services that are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues, however expenses exceed revenues by \$1.4 million. The Municipality expended various of the resources restricted projects in the community.

Table 2 presents the cost of each of the Municipality's largest programs.

Table 2		
Changes in Net Assets For Fiscal Years Ending June 30,		
	2005	2004
Revenues:		
Program Revenues:		
Grants and Contributions.....	\$ 4,894,828	\$ 4,351,419
General Revenues:		
Property Taxes	413,687	313,665
Volume of Business Taxes	79,966	-
Construction Taxes.....	-	-
Intergovernmental.....	2,526,533	-
Other General Revenues.....	339,793	1,071,054
Total revenues	<u>8,254,807</u>	<u>5,736,138</u>
Expenses:		
General Administration	3,352,466	5,377,977
Public Safety.....	264,273	294,816
Public Works.....	577,280	715,913
Health and Sanitation	43,226	808,737
Culture and Recreation.....	163,353	70,994
Solid Waste Disposal.....	-	-
Human Services and Welfare	2,436,577	-
Urban Development.....	2,891,396	-
Education	-	-
Interest Costs	6,186	162,001
Total expenses	<u>9,734,757</u>	<u>7,430,438</u>
Changes in net assets	(1,479,950)	(1,694,300)
Net assets – beginning, as Restated*	<u>10,242,246</u>	<u>5,787,045</u>
Net assets – ending	<u>(\$ 8,762,296)</u>	<u>\$ 4,092,745</u>
Prior Period Adjustments.		

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

The Municipality has an Unreserved (Deficit) of \$1.9 million in its Operating Fund. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate prior year obligations \$116 thousand, (2) to pay debt service \$135 thousand or (3) for other restricted purposes \$4.9 million.

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2005 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ Revenues primarily increased from intergovernmental revenues.
- ❖ The original budget was amended to increase expenditures between expenditures accounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2005 amounted to \$15.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$2.7 million.

Additions during the fiscal year was principally for building construction, purchase of new vehicles and machinery and equipment, necessary to provides services to our citizens.

Table 3 present the major classes of capital assets.

**Table 3
Municipality of Culebra's
Capital Assets
(Net of Depreciation, In Million)**

Land	\$3.0
Construction in Progress	-
Buildings	6.0
Infrastructure	-
Motor Vehicles.....	2.0
Machinery and Equipment.....	<u>0.7</u>
Total Capital Assets.....	<u>\$11.7</u>

**Table 4
Municipality of Culebra's
Long-Term Debts
(In Million)**

General Obligations	\$ 0.3
Others	<u>4.6</u>
Total Capital Assets	<u>\$ 4.9</u>

Long-term Debt

At June 30, 2005 the Municipality had total of \$4.9 million in general obligations and others outstanding debts, as shown in Table 4. Of this amount, \$300 hundred million comprises debt backed by the full faith and credit of the government and \$4.6 million is other obligations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The **Municipality** is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the **Municipality** in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leaves and advances of property taxes. More detailed information about the **Municipality's** long-term liabilities is presented in the notes to the financial statements. The **Municipality** continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the **Municipality's** revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the **Municipality's** budget for the 2006 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the **Municipality's** finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the **Municipality's** Finance Department at (787) 742-3577.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

STATEMENT OF NET ASSETS

June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Cash and Investments.....	\$ 1,735,589
Cash with Fiscal Agent.....	672,142
Receivables (net):	
Property Taxes.....	-
Federal Grants.....	3,005,563
Others.....	<u>251,230</u>
	<u>5,664,524</u>
Capital Assets (Note5):	
Land, Improvements, and Construction in Progress.....	11,951,490
Other Capital Assets, [Net of Depreciation].....	<u>(3,538,624)</u>
Total Capital Assets.....	<u>8,412,866</u>
TOTAL ASSETS	<u>14,077,390</u>
LIABILITIES:	
Bank Overdraft.....	103,059
Accounts Payable and Accrued Expense.....	201,137
Accrued Interest.....	3,881
Deferred Revenue.....	153,646
Long-Term Liabilities (Note 6):	
Due within One Year.....	292,159
Due in More than One Year.....	<u>4,561,172</u>
Total Liabilities	<u>5,315,054</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt.....	8,112,866
Restricted for:	
Special Communities.....	-
State Assignment Fund.....	4,349,867
HUD Fund.....	1,923,241
Special Revenue.....	396,649
Debt Service.....	135,780
Unrestricted (Deficit).....	<u>(6,156,067)</u>
Total Net Assets	<u>\$ 8,762,336</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE (SEE NEXT PAGE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Mayor and Municipal Legislature.....	\$ 615,274	\$ -	\$ -	\$ -	\$ (615,274)
General Government.....	2,737,192	-	-	-	(2,737,192)
Public Safety.....	264,273	-	-	-	(264,273)
Public Works.....	577,280	-	-	-	(577,280)
Culture and Recreation.....	163,353	212,430	-	-	49,077
Health and Sanitation.....	43,226	-	-	-	(43,226)
Solid Waste Disposal.....	-	-	-	-	-
Human Services and Welfare.....	2,436,577	-	1,750,814	-	(685,763)
Urban Developmet.....	2,891,396	-	1,089,411	1,640,000	(161,985)
Capital Outlay.....	-	-	-	-	-
Education.....	-	-	202,173	-	202,173
Interest on Long-Term Debt.....	6,186	-	-	-	(6,186)
Total Governmental Activities...	\$ 9,734,757	\$ 212,430	\$ 3,042,398	\$ 1,640,000	(4,839,929)
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes.....					333,570
Property Taxes, levied for Debt Services.....					80,117
Volume of Business Taxes.....					79,966
Construction Taxes.....					-
Intergovernmental.....					2,526,533
Rent.....					22,579
Miscellaneous.....					317,214
Total General Revenues and Special Items.....					3,359,979
CHANGE IN NET ASSETS.....					(1,479,950)
Net Assets - Beginning of Year.....					10,242,286
NET ASSETS - END OF YEAR.....					\$ 8,762,336

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Department of Labor Fund	State Assignment Fund	HUD Fund	Other Governmental Funds	Total Funds
ASSETS:						
Cash and Investments (Note 2).....	\$ -	\$ 11,876	\$ 1,537,389	\$ 233	\$ 186,091	\$ 1,735,589
Cash with Fiscal Agent.....	-	-	-	-	672,142	672,142
Receivables:						
Property Taxes.....	-	-	-	-	-	-
Federal Grants.....	-	-	456,136	2,476,180	73,247	3,005,563
Due from Other Funds.....	366,621	-	2,356,342	-	-	2,722,963
State Government.....	-	183,086	-	-	68,144	251,230
Total Assets.....	\$ 366,621	\$ 194,962	\$ 4,349,867	\$ 2,476,413	\$ 999,624	\$ 8,387,487
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Bank Overdraft.....	103,059	-	-	-	-	103,059
Accounts Payable and Accrued Liabilities.....	151,137	-	-	-	53,881	205,018
Bonds and Notes Payable.....	-	-	-	-	-	-
Accrued Interest.....	-	-	-	-	-	-
Due to Governmental Units.....	-	-	-	-	-	-
Due to Other Funds.....	1,862,368	194,962	-	553,172	112,461	2,722,963
Deferred Revenue:						
Volume of Business Tax.....	87,088	-	-	-	-	87,088
Federal Grants.....	-	-	-	1,923,241	139,805	2,063,046
Total Liabilities.....	2,203,652	194,962	-	2,476,413	306,147	5,181,174
Fund Balances:						
Reserve For:						
Encumbrances.....	116,462	-	-	-	-	116,462
Debt Service.....	-	-	-	-	135,780	135,780
Other Purposes.....	-	-	4,349,867	-	557,697	4,907,564
Unreserved (Deficit).....	(1,953,493)	-	-	-	-	(1,953,493)
Total Fund Balances.....	(1,837,031)	-	4,349,867	-	693,477	3,206,313
TOTAL LIABILITIES AND FUND BALANCES...	\$ 366,621	\$ 194,962	\$ 4,349,867	\$ 2,476,413	\$ 999,624	\$ 8,387,487

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2005

Total Fund Balances – Governmental Funds (Page 10) \$ 3,206,313

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 8)
are different because:

Capital Assets used in governmental activities are not financial resources and therefore are
not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 3,366,886	
Depreciable Capital Assets	8,584,604	
Infrastructure Assets	-	
Accumulated Depreciation.....	<u>(3,538,624)</u>	
Total Capital Assets		8,412,866

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

CDBG	1,923,241	
Child Care	<u>73,247</u>	
Total Deferred Revenues		1,996,488

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

General Bonds and Notes Payable	300,000	
Compensated Absences	237,159	
Claims and Judgements.....	1,939,759	
Treasury Department.....	27,839	
Municipal Revenue Collection Center	<u>2,348,574</u>	
Total Long-Term Liabilities		(4,853,331)

Total Net Assets of Governmental Activities (Page 8)..... \$ 8,762,336

See accompanying Notes to Basic Financial Statements.

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances – Total Governmental Funds (Page 12)	\$ 794,907
Amounts reported for Governmental Activities in the Statement of Activities (Page 9) are different because:	
Revenues in the Statement of Revenues that correspond to Prior Year resources are recorded as Revenue in the Statement of Activities	(1,643,445)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds received was	(220,000)
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were	50,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Decrease in Treasury Department Debt	\$ 5,568
Decrease in CRIM Debt	203,879
Increase in Claims and Judgements	(912,759)
Decrease in Compensated Absences	<u>241,900</u>
Total Additional Expenditures	<u>(461,412)</u>
Change in Net Assets of Governmental Activities (Page 9)	<u>(\$1,479,950)</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. 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 4 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 more significant policies.

The accompanying basic financial statements of the **Municipality** have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the 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.

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The **Municipality** adopted the provisions of GASBS No. 34, No. 37 and No. 38. They require new information and restructure much of the information that governments have presented in the past.

The accompanying basic financial statements present the financial position and the results of operations of the **Municipality** and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2005, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

A. Financial Reporting Entity

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the **Municipality's** financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the **Municipality** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the **Municipality**.

B. Measurement Focus and Basis of Accounting

The relative importance of each criterion 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** indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the **Municipality** as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Government-wide Financial Statements

The government-wide financial statements (the **Statement of Net Assets** and the **Statement of Activities**) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the **Municipality** may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For some grants, funds must be expended by the **Municipality** on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2005, has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

The basic financial statements include both government-wide (based on the **Municipality** as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the **Municipality** as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide Financial Statements

The government-wide financial statements (the **Statement of Net Assets** and the **Statement of Activities**) report information of all the activities of the **Municipality**. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the **Statement of Net Assets** is designed to be similar to bottom line results for the **Municipality** and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

The **Statement of Net Assets** presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

C. Financial Statement Presentation (continuation)

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted Net Assets** – These results when constraints are placed on net assets use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – These consists of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Municipality's policy to use restricted resources first, then the unrestricted resources as they are needed.

The **Statement of Activities** is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

The fund financial statements (the **Balance Sheet** and the **Statement of Revenues, Expenditures, and Changes in Fund Balances**) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and a separate explanation for each differences.

The Municipality reports its financial position (**Balance Sheet**) and results of operations (**Statement of Revenues, Expenditures and Changes in Fund Balance**) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major fund:

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.

Department of Labor Fund – This is the fund used to account for revenues sources from the Puerto Rico Department of Labor to create job opportunities in the public sector under the grant Law 52.

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primarily objectives of these assignments is the development of projects on communities, not-for-profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

C. Financial Statement Presentation (continuation)

HUD Funds – This is the fund used to account for all the transactions of the HUD Awards. The primary objectives of this program is the development of viable communities by providing decent housing, rent assistance, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide **Statement of Net Assets**.

D. Budgetary Data

The **Municipality** annually adopts the Budget Resolution for all operating funds of the **Municipality** except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The **Municipality's** Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the **Municipality** (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the **Municipality**; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. **Municipality's** Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

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 basic 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.
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. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the **Municipality** to continue making payments for its operating and other expenses until the new budget is approved.
6. 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 Budgetary Comparison Schedule – General Fund.

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 Budgetary Comparison Schedule, is 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Budgetary Data (continuation)

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 9).
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 schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary 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 for such programs.

E. Cash, Cash Equivalent and Investment

The Director of Finance 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.

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 law.

F. Receivable

Receivable 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.

G. Inventories

The General, Special Revenue and Capital Project Funds, purchases 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 basic financial statements.

H. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The **Municipality's** capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

H. Capital Assets

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives: (See Table 1)

	YEARS
Buildings and site Improvements	20-50
Infrastructure	20-50
Motor Vehicles, furniture and fixtures	5-10
Machinery and Equipments	5-20

I. Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's 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 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 accrued 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.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 7).

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2005 (Table 2).

BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2005	CURRENT PORTION	LONG-TERM PORTION
\$ 479,059	\$ -	\$ 241,900	\$ 237,159	\$ 237,159	\$ -

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.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

K. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The **Municipality** has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Residual Equity Transfers – Nonrecurring or no routine transfers of equity between funds. During the Fiscal Year 2004-2005 no transfers of this kind was made.

L. Reservations of Fund Balance – Governmental Funds

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for debt service and other specific purposes are examples of the latter.

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 Long-Term Liabilities 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

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported revenue and expenses during the reporting period. Actual result could differ from those estimates.

NOTE 2 CASH AND CASH EQUIVALENTS

The **Municipality's** cash and cash equivalents 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. As June 30, 2005, the market value of investments recorded in Special Revenue Fund approximated its carrying value as follow: (See Table 3)

NOTE 3 INTERFUND TRANSFER AND BALANCES

A. INTERFUND TRANSFERS

Transfers are no indicative of funding during fiscal year 2004-2005.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 INTERFUND TRANSFER AND BALANCES

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2005 are summarized as follows: (See Table 5)

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 5 AMOUNT
General Fund	Department of Labor	\$ 194,96
General Fund	Other Fund	112,46
General Fund	HUD Fund	59,16
State Assignment	General Fund	1,862,36
State Assignment	HUD Fund	493,97
TOTAL		<u>\$2,722,96</u>

NOTE 5 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2005 was as follows (See Table 6)

TABLE 6	DESCRIPTION	BALANCE JULY 1, 2004	ADJUSTMENTS	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2005
Non-Depreciable Capital Assets:						
	Land	\$ 3,366,886	\$ -	\$ -	\$ -	\$ 3,366,886
	Construction in Progress	-	-	-	-	-
	Total Non-Depreciable Capital Assets	<u>3,366,886</u>	-	-	-	<u>3,366,886</u>
Depreciable Capital Assets:						
	Buildings	6,285,605	-	-	-	6,285,605
	Infrastructure	-	-	-	-	-
	Machinery and Equipment	672,604	-	-	-	672,604
	Motor Vehicles	<u>1,626,395</u>	-	-	-	<u>1,626,395</u>
	Total Depreciable Capital Assets	<u>8,584,604</u>	-	-	-	<u>8,584,604</u>
Less Accumulated Depreciation:						
	Buildings	(1,439,153)	-	-	-	(1,439,153)
	Infrastructure	-	-	-	-	-
	Machinery and Equipment	(670,869)	-	-	-	(670,869)
	Motor Vehicles	<u>(1,428,602)</u>	-	-	-	<u>(1,428,602)</u>
	Total Accumulated Depreciation	<u>(3,538,624)</u>	-	-	-	<u>(3,538,624)</u>
	Total Depreciable Capital Assets (Net)	<u>5,045,980</u>	-	-	-	<u>5,045,980</u>
	4,299,568	-	-	-	-	-
	CAPITAL ASSETS, NET	<u>\$ 8,412,866</u>	\$ -	\$ -	\$ -	<u>\$ 8,412,866</u>

During Fiscal Year 2004-2005 no depreciation expense were charged to governmental functions/programs as follows: (See Table 7)

TABLE 7	AMOUNT
General Government	\$ -
Mayor and Municipal	-
Public Safety	-
Public Works	-
Urban Development	-
Sanitation	-
Human Services and Welfare	-
Culture and Recreation	-
Total Depreciation Expenses	<u>\$ -</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS

The principal long-term obligations of the Municipality are general obligations bonds and special notes 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 8).

General obligations bonds as of June 30, 2005, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$170,000, Series 2003, for capital outlay purposes, payable in semi annual installments ranging from \$20,000 to \$30,000, excluding interests at 4.10, through July 1, 2009.....	\$105,000
\$220,000 Series 2005, for capital outlay purposes, payable in semi annual installments ranging from \$25,000 to \$35,000, excluding interests at 5.00%, through July 1, 2011	<u>195,000</u>
Total General Obligations – Bonds.....	<u>\$ 300,000</u>

The annual requirements to amortize the general obligations outstanding as of June 30, 2005 are as follows (See Table 8):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2006	\$ 55,000	\$ 13,529	\$ 68,530
2007	55,000	9,794	64,793
2008	55,000	8,950	63,950
2009	65,000	6,480	71,480
2010	35,000	3,500	38,500
2011-2015	<u>35,000</u>	<u>1,750</u>	<u>36,750</u>
TOTAL	<u>\$300,000</u>	<u>\$ 44,003</u>	<u>\$ 344,003</u>

B. OTHER LONG-TERM DEBTS

Following are the Other Long-Term Debts (See Table 9):

DESCRIPTION	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005
Property Taxes – MRCC	\$ 2,552,453	\$ -	\$ 203,879	\$ 2,348,574
Tresury Department.....	33,407	-	5,568	27,839
Department of Health.....	201,710	-	201,710	-
Claims and Judgements.	1,097,087	912,759	70,087	1,939,759
Compensated Absences.	<u>479,059</u>	-	<u>241,900</u>	<u>237,159</u>
TOTAL.....	<u>\$4,363,716</u>	<u>\$ 912,759</u>	<u>\$ 723,144</u>	<u>\$4,553,331</u>

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS (continuation)

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2005 (See Table 10):

TABLE 10 DESCRIPTION	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General	\$ 130,000	\$ 220,000	\$ 50,000	\$ 300,000	\$ 55,000	\$ 245,000
Others Debts....	<u>4,363,716</u>	<u>912,759</u>	<u>723,144</u>	<u>4,553,331</u>	<u>237,159</u>	<u>4,316,172</u>
TOTAL	<u>\$4,493,716</u>	<u>\$ 1,132,759</u>	<u>\$ 773,144</u>	<u>\$4,853,331</u>	<u>\$ 292,159</u>	<u>\$4,561,172</u>

NOTE 8 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 9).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 7). 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 9 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 belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, 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 8). The Municipality has not 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 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 \$50,000 to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the Municipality, on monthly 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 PROPERTY TAXES (continuation)

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipal Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

NOTE 10 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 11 INTERGOVERNMENTAL REVENUES

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

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 12 EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its instrumentality (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 instrumentality and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentality, Assistants of 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 GASBS No. 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 contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. 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 define contribution programs to the new savings

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)

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.

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 for 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.

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 (See Table 11)

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS	TABLE 11
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 amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 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. 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 non-vested is not readily available.

Contributions in 2005 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, 2005 was approximately \$183,829. 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 is 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, 2005. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 include an adjustment for potential losses. These lawsuits are in appeal in Court. Accordingly, the financial statements includes adjustments in the Long Term Liabilities.

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. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 14 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS

Also, restatements were presented for prior period adjustment of Special Revenue Funds of the Audited Financial Statements as of June 30, 2004. Table 12 reconciles the June 30, 2004 Fund Balance, as previously reported to Beginning Fund Balances as restated, July 1, 2004.

Table 12			
NET ASSETS RESTATED			
The following schedule reconciles the June 30, 2005 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1 2004.			
Net Assets as, Previously Reported, at June 30 2004.....			\$ 4,092,745
Adjustments Liabilities.....			271,797
Revenues not recorded in prior years.....			<u>5,877,744</u>
Beginning Net Assets, as Restated, At July 1, 2004.....			<u>\$10,242,286</u>
FUND BALANCE RESTATED			
	GENERAL	CAPITAL PROYECT	OTHER FUNDS
Fund Balance (Deficit)/Net Assets, as Reported, June 30, 2004.....	(\$ 886,286)	\$ 1,087,968	\$133,914
Interfund Transaction Restatement.....	(93,430)	-	399,341
Restatement as per GAAP.....		<u>-(1,769,899)</u>	-
Beginning Fund Balance (Deficit) as Restated, July 1, 2004	<u>(\$ 979,716)</u>	<u>\$2,857,867</u>	<u>\$533,255</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for fiscal year beginning after December 15, 2004. Early application is encouraged. The **Municipality** has not adopted the requirement of this statement. Other two pronouncements are issued (GASBS Nos. 43 and 44), but do not apply to the **Municipality**.

END OF NOTES

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
BUDGETARY FUND BALANCE, JULY 1, 2004	\$ (886,286)	\$ (886,286)	\$ (886,286)	\$ -
Resources (Inflows)				
Property Taxes.....	333,570	333,570	333,570	-
Volume of Business Taxes.....	249,738	249,738	79,966	(169,772)
Intergovernmental Revenues.....	2,074,051	2,224,052	2,526,533	302,481
License and Permits.....	1,358,777	1,358,777	94,225	(1,264,552)
Rent.....	60,000	60,000	22,579	(37,421)
Miscellaneous.....	710,700	710,700	227,981	(482,719)
Prior Year Allocation.....	-	-	-	-
Total Resources (Inflows).....	4,786,836	4,936,837	3,284,854	(1,651,983)
Amounts Available for Appropriation.....	3,900,550	4,050,551	2,398,568	(1,651,983)
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature.....	624,935	663,289	629,289	34,000
General Government.....	2,527,859	2,698,761	2,231,909	466,852
Public Safety.....	334,258	314,207	267,749	46,458
Public Work.....	725,178	738,398	603,276	135,122
Culture and Recreation.....	266,849	218,718	165,089	53,629
Health and Sanitation.....	72,083	67,790	50,663	17,127
Urban Development.....	-	-	-	-
Human Services and Welfare.....	235,674	235,674	201,131	34,543
Transfer to Other Funds.....	-	-	-	-
Total Charges to Appropriations.....	4,786,836	4,936,837	4,149,106	787,731
BUDGETARY FUND BALANCE, JUNE 30, 2005.....	\$ (886,286)	\$ (886,286)	\$ (1,750,538)	\$ (864,252)

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

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>GENERAL FUND</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 28).....	(\$ 2,398,568)
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.....	886,286
Prior and Current Adjustments to Revenues.....	(4,992)
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 12).....	<u>\$ 3,279,862</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 28).....	\$ 4,149,106
Difference – Budget to GAAP:	
Prior Year expenditures are not outflows of budgetary resources but are expenditures For financial reporting purposes.....	47,048
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.....	(116,462)
Transfers to other funds are outflows of Budgetary Resources but are not Expenditures For Financial Reporting Purpose.....	57,485
Adjustment to Expenditures.....	<u>4,137,177</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 12).....	<u>\$ 4,137,177</u>

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

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE B Explanation of Differences between Budgetary Fund Balance and GAAP Fund Balance

Budgetary Fund Balance, June 30, 2005 (See Page 28)	(\$ 1,750,538)
Timing Differences:	
Net Change in Encumbrances	(148,970)
Non-budgetary Items	(62,477)
Unreserved Fund Balance, June 30, 2005 (See Page 10)	<u>(\$ 1,837,031)</u>

END OF THIS SECTION

PART II
REPORT REQUIRED BY GOVERNMENT AUDITING
STANDARDS

Pedro C. Ortiz Ledée

Certified Public Accountant

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
Member of the Municipal Legislature
Municipality of Culebra, Puerto Rico**

I have audited the basic financial statements of Municipality of Culebra, Puerto Rico (Municipality) as of and for the fiscal year ended June 30, 2005, and have issued report thereon dated December 29, 2005. I conducted my 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, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 05-II-02

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Municipality's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider being reportable conditions. Reportable conditions involve matters coming to my consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my 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 05-II-01 through 05-II-02.

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 basic 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. My 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, of the reportable conditions described above, I consider item 05-II-02 to be material weakness. I also noted other matters involving the internal control over financial reporting, which I have reported to management of the Municipality in a separate letter dated December 29, 2005.

**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

This report is intended solely for the information and use of the management, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



CPA Pedro C. Ortiz Ledée
Certified Public Accountant
License Number 5200
Expires on December 1, 2008

Guayama, Puerto Rico
December 29, 2005



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

For the Fiscal Year Ended June 30, 2005

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 OMB Circular A-133? Yes No

Identification of Major Program:

CFDA NUMBER

NAME OF FEDERAL PROGRAM OR CLUSTER

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

**MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2005

Section II – Financial Statement Findings

FINDING	FINDING NUMBER 05-II-01
REQUIREMENT	REPORTABLE CONDITION OVER ACCOUNTING RECORDS
CONDITION	During my examination of the accounting records, I noted that the Municipality does not maintain an accurate record over the Special Funds transactions.
CRITERIA	Article 8.010 (c) (2) and (3) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991(as amendment as of January 2004), stated that Municipality should maintain accurate accounting records and controls over funds.
EFFECT	Municipality is not in compliance with Article 8.010 (C) (2) and (3) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991. (as amendment as of January 2004).
CAUSE	Municipality did not maintain an adequate control of the accountability of the Special Funds transactions.
RECOMMENDATION	Municipality should implement adequate internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending corrective action plan

**MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2005

Section II – Financial Statement Findings

FINDING	FINDING NUMBER 05-II-02
REQUIREMENT	REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	During my examination of Municipality's property record and reports we noted the following deficiencies; (a) balance in computerized property records and reports do not reconcile with the ending balances reported in the audited financial statements; (b) Construction in Progress are not accounted for as part of Property, Plant and Equipment account balance; (c) there is not adequate internal control procedures to assure the proper valuation and timeliness of recognition of real estate inventory. In addition the Municipality has not recorded depreciation expense for the fiscal year.
CRITERIA	Article 10.002 of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991 - August 30, 1991</i> (as amendment as of January 2004), stated that Municipality should maintain updated property accounting records.
EFFECT	Municipality is not in compliance with Article 9.002 of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991 - August 30, 1991</i> (as amendment as of January 2004).
CAUSE	Municipality did not maintain an adequate control of the property accounting records.
RECOMMENDATION	Municipality should implement adequate internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending corrective action plan

**MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2005

Section II – Financial Statement Findings

FINDING	FINDING NUMBER 05-II-03
REQUIREMENT	REPORTABLE CONDITION OVER ACCOUNTING RECORDS
CONDITION	During the fiscal year, the Municipality used state grants – <i>Resoluciones Conjuntas</i> - (Special Revenue Funds), restricted funds as definition, as loan to paid salaries and operational cost of the General Fund. During the fiscal year the total of loans were of \$1,348,852.
CRITERIA	Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991(as amendment as of January 2004), stated that the restricted funds received by the Municipality should be only used for the purposes established by these resources.
EFFECT	The Municipality is not in compliance with Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991(as amendment as of January 2004).
CAUSE	Municipality did not maintain an adequate control regards the administration and uses of restricted resources.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending corrective action plan

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

REPORT AND INFORMATION REQUIRED BY
OMB CIRCULAR A-133

FISCAL YEAR ENDED JUNE 30, 2005

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
REPORT AND INFORMATION
REQUIRED BY OMB CIRCULAR A-133
FISCAL YEAR ENDED JUNE 30, 2005**

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND THE REPORT REQUIRED BY 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, 2005

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U. S. Department of Agriculture:			
Pass Through State – Department of Education			
Child and Adult Care Food Program.....	10.558	N/AV	\$ 21,561
Direct Program:			
Rural Business Enterprise Grants	10.769		<u>78,000</u>
Total U.S. Department of Agriculture.....			<u>99,561</u>
U.S. Department of Housing and Urban Development:			
Pass Through State – Office of the Commissioner of Municipal Affairs			
State Block Grant Program (SBGP).....	14.228	03-FD 02-FD 01-FD 99-FD 98-FD 97-FD 95-FD 94-FD	<u>1,628,723</u>
U.S. Department of Interior:			
Direct Program:			
Fish & Wildlife Management Assistance.....	15.608		<u>12,341</u>
U.S. Department of Health and Human Services			
Pass-Through Office of the Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B.....	93.045	N/AV	15,562
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant	93.575	N/AV	<u>180,890</u>
Total U.S. Department of Health and Human Services			<u>196,452</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS ...			<u>\$1,937,077</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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/AV are not available.

NOTE 5 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

Pedro C. Ortiz Ledée

Certified Public Accountant

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Compliance

I 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, 2005. The Municipality's major federal programs are identified in the summary of auditors' result 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. My responsibility is to express an opinion on the Municipality's compliance based on my audit.

I conducted my 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 I 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 other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Municipality's compliance with those requirements.

As discussed in the accompanying Schedule of Findings and Questioned Costs listed in the Table of Contents, the Municipality did not comply with the requirements regarding allowed or unallowed costs that are applicable to its State Block Grant Program. Compliance with such requirement is necessary, in my opinion, for the Municipality to comply with requirements applicable to that program.

In my opinion, except for the instances of non-compliance identified above, 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, 2005. However, the results of my auditing procedures disclosed an instance 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.

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 my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

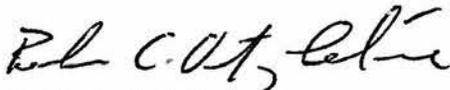
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Page 2

I noted certain matter involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my 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 condition is described in the accompanying Schedule of Findings and Questioned Costs as 05-III-01 through 05-III-05.

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 caused by error or fraud 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. My 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, I believe that none of the reportable conditions described above are a material weaknesses.

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



CPA Pedro C. Ortiz Ledée
Certified Public Accountant
License Number 5200
Expires on December 1, 2008

Guayama, Puerto Rico
January 11, 2006



FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2005

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued: Unqualified Opinion Qualified pinion
 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 OMB Circular A-133? Yes No

Identification of Major Program:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
14.228	State Block Grant 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 YEAR ENDED JUNE 30, 2005

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 05-III-01
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (SBGP) (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	During my tests regards the Municipality's internal control over disbursement process, we noted that supporting documents related to four (4) issued checks were no stamp as paid.
CRITERIA	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) (OMB Common Rule) requires to grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets, to assure they will be used solely for authorized purposes.
EFFECT	The Municipality could paid liabilities twice. The Municipality is not in compliance with CFR 24, Section 570.89 (d) (1) and Section 85.20 (b) (3)
CAUSE	Municipality did not maintain an adequate control over the disbursement process.
RECOMMENDATION	Municipality should implement adequate procedures to ensure that all supporting documents shall be stamp as paid in order to comply with this requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 05-III-02
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (SBGP) (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE CONDITION	EQUIPMENT AND REAL PROPERTY MANAGEMENT Federal Program Department does not have a property register that includes all the required information; it only includes the property number and its description.
CRITERIA	Subpart C, 24 CFR 85.32 (d) (1), stated that property records must be maintained and it shall includes: <ul style="list-style-type: none">• a description of the property,• serial number or other identification number,• the source of property, percentage of Federal participation in the property,• the location,• use and condition of the property,• any ultimate disposition data including the date of disposal,• sale price of property, <p>Also, a physical inventory of the property must be taken and the result reconciled with the property records at least on every two years, respectively.</p>
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d) (1).
CAUSE	The Municipality does not maintain the appropriate information on the real property records to assure that it is in accordance with the federal regulation.
RECOMMENDATION	Municipality should revise and update its property records according to the federal regulation
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2005

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 05-III-03
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (SBGP) (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	During my tests regards the Municipality's internal control over disbursement process, two (2) supporting documents (i.e. invoices, contracts, purchases orders, receiving reports, disbursement's vouchers, etc) were not available for my examination.
CRITERIA	OMB Circular A-87 has established that a cost allocable to a particular Federal award must be adequately documented to be allowable. Also, 24 CFR, Subtitle A, Section 85.20 (b) (6) has established that accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant awards documents, and others.
EFFECT	The Municipality is not in compliance with 24 CFR, Subtitle A, Section 85.20 (b) (6).
CAUSE	Municipality did not maintain an adequate control over the maintenance of the documents that justify the disbursements.
RECOMMENDATION	Municipality should implement an adequate control over the maintenance of the documents that justify the disbursements.
QUESTIONED COSTS	\$32,947
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2005

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 05-III-04
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (SBGP) (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	DAVIS-BACON ACT
CONDITION	Municipality did not develop a monitoring system to ensure that contractors paid prevailing wages payments according to Department of Labor.
CRITERIA	Davis-Bacon Act, as amended (40 USC 276a – 276a-7). Construction Contracts shall contain a clause setting forth the minimum wages to be paid for each type of employee. In addition, Contractors shall paid to its employees, employed directly upon the site of the work, no less than the locally prevailing wages and fringe benefits paid on projects of a similar character.
EFFECT	Municipality is not in compliance with Davis-Bacon Act (40 USC 276a – 276a-7).
CAUSE	Municipality did not develop an adequate monitoring system to ensure contractors and subcontractors compliance with the act. The Municipality does not assure that the contractors paid the correct salary to its employees by obtaining the contractor's payrolls and comparing the salaries paid with the salaries established in the construction contract.
RECOMMENDATION	Municipality should develop a monitoring system and shall assign the responsibility of monitoring contractors' compliance with this act to one employee. Among other things, this employee shall obtain contractors' payrolls and comparing the salaries paid with the salaries established in the construction contract (in accordance with the Department of Labor). In addition, this employee shall perform interviews to the contractor's employees in order to corroborate the compliance of this Act.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 05-III-05
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (SBGP) (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During my Participant Files Test of Housing Rehabilitation I selected a sample of eight (8) participant file and noted that six (6) of them, 75%, does not have the initial (preliminary), intermediate and the final unit inspection.
CRITERIA	The Operational Guide of Housing Rehabilitation (the guide) provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the Municipality has to conduct an initial unit inspection to determine if the unit is eligible to be rehabilitating under the criteria of the program. In addition, the guide stated that the Municipality has to conduct an intermediate and a final inspection to determined if the unit is being rehabilitate and that the rehabilitation has been completed, respectively.
EFFECT	The Municipality is not in compliance with the Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs.
CAUSE	The Municipality does not have adequate internal controls to ensure that all the require units' inspections are perform in order to comply with this requirement.
RECOMMENDATION	Municipality should implement adequate procedures in order to comply with this pass through entity requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2004

Finding Number	04-III-01	Cash Management- request of funds in excess of needs.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		System and procedures corrected.

FISCAL YEAR 2004

Finding Number	04-III-02	Reporting- filing in a timely basis.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		System and procedures corrected.

FISCAL YEAR 2003

Finding Number	03-III-02	Cash Management- request of funds in excess of needs.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		System and procedures corrected.

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2004

Finding Number	04-III-03	Equipment and Real Property Management- Subsidiary Records.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		The Federal Programs Director will implement internal control procedures to assure compliance with this finding.

FISCAL YEAR 2003

Finding Number	03-III-03	Equipment and Real Property Management- Subsidiary Records.
CFDA Number	14.228	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

(2) Audit Findings not Corrected or Partially Corrected: (continuation)

FISCAL YEAR 2003

Questioned Cost None

Auditee Comments The Federal Programs Director will implement internal control procedures to assure compliance with this finding.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

CORRECTIVE ACTION PLAN

MUNICIPALITY OF CULEBRA, PUERTO RICO

CORRECTIVE ACTION PLAN

JUNE 30, 2005

FEDERAL PROGRAM

PREPARED BY: The Mayor's Office and the Auditor Department

March 23, 2006

The following represents the corrective action plan to correct findings and conditions noted and included on single audit report of fiscal year ended June 30, 2005, and the schedule of prior audits findings and questioned costs accompanying this report.

Finding Number: 05-111-01 Page Number 6

INTERNAL CONTROL FEDERAL PROGRAM

Municipality did not maintain an adequate control over the disbursement process.

Corrective Action Plan: The Finance Director will be in charge of the follow up that the accounting clerk will stamp as "paid" voucher and supporting documents.

Responsible individual: Shirley Nazario- Finance Director

Anticipated completion date: June 30, 2006

Person in charge of follow up the corrective action: Awilda Pagán Nazario- Internal Auditor

Finding Number 05-111-02- Page Number 7

COMPLIANCE AND INTERNAL CONTROL

The Municipality does not maintain the appropriate information on the real property records to assure that it is in accordance with the federal regulation.

Corrective Action Plan: The Municipality works on the annual physical inventory to correct any differences between accounting records and physical inventory. Property records will include acquisition dates, disbursement order number, model or serial number, property description, property transfer, property receive and supplier.

Responsible individual: Shirley Nazario-Finance Director

Emerito Amaro-Federal Program Director

Anticipate completion date: June 30, 2006

Person in charge of follow up the corrective action: Awilda Pagán Nazario- Internal Auditor

CORRECTIVE ACTION PLAN

Finding Number: 05-111-03-Page Number 8

Compliance and internal control

Municipality did not maintain an adequate control over the maintenance of the documents that justify the disbursements.

Corrective Action Plan: During an examination in the Department of Finance the two (2) supporting documents for the amount o \$32,947 were found. The Federal Program Director designate an employee to maintain an adequate control over the payment documents.

Finding Number: 05-111-04- Page Number 9

Compliance and internal control.

Municipality did not develop an adequate monitoring system to ensure contractors and subcontractors compliance with the act. The Municipality does not assure that the contractors paid the correct salary to its employees by obtaining the contractors' payrolls and comparing the salaries paid with the salaries established in the construction contract.

Corrective Action Plan: The Federal Program Director will designate an employee to verify that all contractors or subcontractors will pay wages to their employees according to the federal prevailing wages to labor classification.

Responsible individual: Shirley Nazario- Finance Director

Emerito Amaro- Federal Program Director

Person in charge of follow up the corrective action: Awilda Pagán Nazario- Intenal Auditor .

Finding Number 05-111-05 -Page Number 10

Compliance and internal control

The Municipality does not have adequate internal controls to ensure that all the require units' inspections are perform in order to comply with this requirement.

Corrective Action Plan: The Federal Program Director will designate employee to implement adequate internal control to ensure procedures with the Operation Guide of Housing Rehabilitation.

CORRECTIVE ACTION PLAN


ABRAHAM PEÑA NIEVES
Mayor


EMERITO AMARO
Federal Program Director


AWILDA PAGAN NAZARIO
Internal Auditor

CORRECTIVE ACTION PLAN

**MUNICIPALITY OF CULEBRA, PUERTO RICO
CORRECTIVE ACTION PLAN**

JUNE 30,2005

**PREPARED BY: The Mayor's Office and the Auditor Department
April 12, 2006**

The following represents the corrective action plan to correct findings and conditions noted and included on single audit report of fiscal year ended June 30, 2005, and the schedule of prior audits findings and questioned costs accompanying this report.

Finding Number: 05-011-01=Page Number 34

REPORTABLE CONDITION OVER ACCOUNTING RECORDS

Municipality did not maintain an adequate control of the accountability of the Special Funds transactions.

Corrective Action Plan: Model 4 (a) will be prepared during the following months. The Municipality will contract a private Company during the following month to complete the accounting records.

Responsible Individual: Shirly Nazario- Finance Director
Anticipated Completion Date: June 30, 2006

Person in charge of follow up the corrective action: Awilda Pagán Nazario- Internal Auditor

Finding Number 05-011-02 = Page Number 35

Reportable condition over property, plant and equipment.

Municipality did not maintain an adequate control of the property accounting records.

Responsible Individual: Shirly Nazario- Finance Director

Corrective Action Plan: The Municipality works on the annual physical inventory to correct any differences between accounting records and physical inventory. Property records will include acquisition dates, disbursement order number, model or series number, property description, property transfer, property receive and supplier.

Person in charge of follow up for to Corrective Action: Awilda Pagán Nazario= Internal Auditor

Anticipate Completion Date: June 30, 2006

CORRECTIVE ACTION PLAN

Finding Number: 05-011-03 Page Number 36

REPORTABLE CONDITION OVER ACCOUNTING RECORDS

Municipality did not maintain an adequate control regards the administration and uses of restricted resources

Responsible Individual: Shirly Nazario= Finance Director

Correction Action Plan: The Municipality understands that a complete study of the Special Revenue Funds is in need and in the following month will contract a private Company for the study and recommendation. ✓

Anticipated Completion Date: June 30, 2006

Person in charge of follow up the corrective action: Awilda Pagán Nazario= Internal Auditor

Corrective Action Plan for the Single Audit report of the Year Ended June 30. 2005

The information stated above has been determined to be accurate based upon information available as of June, 30, 2005


Hon. Abraham Peña Nieves
Mayor


Awilda Pagán Nazario
Internal Auditor

FORM **SF-SAC**
(5-2004)

U.S. DEPT. OF COMM.— Econ. and Stat. Adm.— 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 in 2004, 2005, or 2006**

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 items 4 and 7)

1. Fiscal period ending date for this submission Month Day Year 06 / 30 / 2006 Fiscal Period End Dates Must Be in 2004, 2005, or 2006		2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	
3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other - <input type="text"/> Months		4. FEDERAL GOVERNMENT USE ONLY Date received by Federal clearinghouse	

5. Auditee Identification Numbers

a. Primary Employer Identification Number (EIN)
 66 - 0660106

b. Are multiple EINs covered in this report? 1 Yes 2 No

c. If Part I, item 5b = "Yes," complete Part I, item 5c on the continuation sheet on Page 4.

d. Data Universal Numbering System (DUNS) Number
 - -

e. Are multiple DUNS covered in this report? 1 Yes 2 No

f. If Part I, item 5e = "Yes," complete Part I, item 5f on the continuation sheet on Page 4.

6. AUDITEE INFORMATION

a. Auditee name
MUNICIPALITY OF CULEBRA

b. Auditee address (Number and street)
P.O. BOX 189
 City
CULEBRA
 State ZIP + 4 Code
PR 00775 -

c. Auditee contact Name
ABRAHAM PEÑA NIEVES
 Title
MAYOR

d. Auditee contact telephone
(787) 742 - 3577

e. Auditee contact FAX
() -

f. Auditee contact E-mail

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name
MENDOZA & RAMOS, CPA

b. Auditor address (Number and street)
P.O. BOX 35
 City
GUAYAMA
 State ZIP + 4 Code
PR 00785 -

c. Auditor contact Name
MIGUEL MENDOZA
 Title
PARTNER

d. Auditor contact telephone
(787) 864 - 9271

e. Auditor contact FAX
(787) 864 - 9271

f. Auditor contact E-mail
CPAMENDOZA@SANTANDERNET.COM

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 Date
 Month Day Year
 Printed Name of certifying official
 Printed Title of certifying official

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 7, 8, and 9a-9f, 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 Date
 Month Day Year

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

Mark either: 1 Unqualified opinion OR
any combination of: 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. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1 Yes 2 No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 300,000

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

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1 Yes 2 No -SKIP to Item 6

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

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

7. Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1 Yes 2 No

8. 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)

- | | | | |
|--|--|---|--|
| <input type="checkbox"/> 08 U.S. Agency for International Development | <input type="checkbox"/> 83 Federal Emergency Management Agency | <input type="checkbox"/> 43 National Aeronautics and Space Administration | <input type="checkbox"/> 98 Social Security Administration |
| <input type="checkbox"/> 10 Agriculture | <input type="checkbox"/> 39 General Services Administration | <input type="checkbox"/> 89 National Archives and Records Administration | <input type="checkbox"/> 19 U.S. Department of State |
| <input type="checkbox"/> 23 Appalachian Regional Commission | <input type="checkbox"/> 93 Health and Human Services | <input type="checkbox"/> 05 National Endowment for the Arts | <input type="checkbox"/> 20 Transportation |
| <input type="checkbox"/> 11 Commerce | <input type="checkbox"/> 97 Homeland Security | <input type="checkbox"/> 06 National Endowment for the Humanities | <input type="checkbox"/> 21 Treasury |
| <input type="checkbox"/> 94 Corporation for National and Community Service | <input type="checkbox"/> 14 Housing and Urban Development | <input type="checkbox"/> 07 National Science Foundation | <input type="checkbox"/> 82 United States Information Agency |
| <input type="checkbox"/> 12 Defense | <input type="checkbox"/> 03 Institute of Museum and Library Services | <input type="checkbox"/> 07 Office of National Drug Control Policy | <input type="checkbox"/> 64 Veterans Affairs |
| <input type="checkbox"/> 84 Education | <input type="checkbox"/> 15 Interior | <input type="checkbox"/> 59 Small Business Administration | <input checked="" type="checkbox"/> 00 None |
| <input type="checkbox"/> 81 Energy | <input type="checkbox"/> 16 Justice | | <input type="checkbox"/> Other - Specify: |
| <input type="checkbox"/> 86 Environmental Protection Agency | <input type="checkbox"/> 17 Labor | | <input type="text"/> |
| | <input type="checkbox"/> 09 Legal Services Corporation | | <input type="text"/> |

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 Federal cognizant agency

Count total number of boxes marked above and submit this number of reporting packages 1

FORM SF-SAC (5-2004)

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

10. AUDIT FINDINGS

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)	
Federal Agency Prefix ¹ (a)	Extension ² (b)					Major program (g)	If yes, type of audit report ³ (h)			
1	0	558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD & ADULT CARE FOOD PROGRAM	\$ 29,143 .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	\$ 313,072 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	F	06-III-02
1	5	608	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FISH & WILDLIFE MANAGEMENT ASSISTANCE	\$ 8,549 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3	045	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING, TITLE III, PART B	\$ 963 .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 & DEVELOPMENT BLOCK GRANT	\$ 171,384 .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 <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			
			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			

TOTAL FEDERAL AWARDS EXPENDED →

\$ 523,111 .00

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

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

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

³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

⁴ 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 | E. Eligibility | I. Procurement and suspension and debarment | L. Reporting |
| B. Allowable costs/cost principles | F. Equipment and real property management | J. Program income | M. Subrecipient monitoring |
| C. Cash management | G. Matching, level of effort, earmarking | K. Real property acquisition and relocation assistance | N. Special tests and provisions |
| D. Davis - Bacon Act | H. Period of availability of Federal funds | | O. None |
| ⁵ N/A for NONE | | | P. Other |

PART I Item 5 Continuation Sheet

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

1	N	/	A	21	-	41	-
2	-			22	-	42	-
3	-			23	-	43	-
4	-			24	-	44	-
5	-			25	-	45	-
6	-			26	-	46	-
7	-			27	-	47	-
8	-			28	-	48	-
9	-			29	-	49	-
10	-			30	-	50	-
11	-			31	-	51	-
12	-			32	-	52	-
13	-			33	-	53	-
14	-			34	-	54	-
15	-			35	-	55	-
16	-			36	-	56	-
17	-			37	-	57	-
18	-			38	-	58	-
19	-			39	-	59	-
20	-			40	-	60	-

f. List the multiple DUNS covered in the report.

1	N	/	A	21	-
2	-			22	-
3	-			23	-
4	-			24	-
5	-			25	-
6	-			26	-
7	-			27	-
8	-			28	-
9	-			29	-
10	-			30	-
11	-			31	-
12	-			32	-
13	-			33	-
14	-			34	-
15	-			35	-
16	-			36	-
17	-			37	-
18	-			38	-
19	-			39	-
20	-			40	-

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

FORM SF-SAC (5-2004)

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 in 2004, 2005, or 2006

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 Items 4 and 7)

1. Fiscal period ending date for this submission
Month Day Year
06 / 30 / 2005
Fiscal Period End Dates Must Be In 2004, 2005, or 2006
2. Type of Circular A-133 audit
1 [X] Single audit 2 [] Program-specific audit

3. Audit period covered
1 [X] Annual 2 [] Biennial 3 [] Other - [] Months
4. FEDERAL GOVERNMENT USE ONLY
Date received by Federal clearinghouse

5. Auditee Identification Numbers
a. Primary Employer Identification Number (EIN)
66 - 0660106
b. Are multiple EINs covered in this report? 1 [] Yes 2 [X] No
c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.

d. Data Universal Numbering System (DUNS) Number
[] - [] - []
e. Are multiple DUNS covered in this report? 1 [] Yes 2 [X] No
f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.

6. AUDITEE INFORMATION
a. Auditee name
MUNICIPALITY OF CULEBRA
b. Auditee address (Number and street)
P.O. BOX 189
City
CULEBRA
State ZIP + 4 Code
PR 00775 -
c. Auditee contact
Name
ABRAHAM PEÑA NIEVES
Title
MAYOR
d. Auditee contact telephone
(787) 742 - 3577
e. Auditee contact FAX
() -
f. Auditee contact E-mail

7. AUDITOR INFORMATION (To be completed by auditor)
a. Auditor name
CPA PEDRO C. ORTIZ LEDEE
b. Auditor address (Number and street)
P.O. BOX 352
City
GUAYAMA
State ZIP + 4 Code
PR 00785 -
c. Auditor contact
Name
PEDRO C. ORTIZ LEDEE
Title
SOLE PRACTITIONER
d. Auditor contact telephone
(787) 864 - 5490
e. Auditor contact FAX
(787) 864 - 5590
f. Auditor contact E-mail
CPAPEDROC@HOTMAIL.COM

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
Date Month Day Year
01 / 13 / 2006
Printed Name of certifying official
Abraham Penas Nieves
Printed Title of certifying official
Mayor

9. 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 7, 8, and 9a-9f, 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
Date Month Day Year
01 / 13 / 2006

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

Mark either: 1 Unqualified opinion **OR**
any combination of: 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. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1 Yes 2 No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 300,000

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

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1 Yes 2 No -SKIP to Item 6

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

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

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1 Yes 2 No

8. 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)

- | | | | |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. 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"/> U.S. Department of 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 | 97 <input type="checkbox"/> Homeland Security | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input type="checkbox"/> Housing and Urban Development | 07 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 03 <input type="checkbox"/> Institute of Museum and Library Services | 47 <input type="checkbox"/> National Science Foundation | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 00 <input checked="" type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 17 <input type="checkbox"/> Labor | | <input type="text"/> |
| | 09 <input type="checkbox"/> Legal Services Corporation | | <input type="text"/> |

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 Federal cognizant agency

Count total number of boxes marked above and submit this number of reporting packages 1

FORM SF-SAC (5-2004)

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
Federal Agency Prefix ¹ (a)	Extension ² (b)					Major program (g)	If yes, type of audit report ³ (h)		
1	0	558	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	CHILD & ADULT CARE FOOD PROGRAM	\$ 21,561.00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
1	0	769	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	RURAL BUSINESS ENTERPRISE GRANT	\$ 78,000.00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
1	4	228	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	STATE BLOCK GRANT PROGRAM	\$ 1,628,723.00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Q	BFDN 05-III-01,02,03,04,05
1	5	608	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	FISH & WILDLIFE MANAGEMENT ASSISTANCE	\$ 12,341.00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
9	3	045	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING, TITLE III, PART B	\$ 15,562.00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
9	3	575	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	CHILD CARE & DEVELOPMENT BLOCK GRANT	\$ 180,890.00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	O	N/A
			<input type="checkbox"/> Yes <input type="checkbox"/> No		\$.00	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No		
			<input type="checkbox"/> Yes <input type="checkbox"/> No		\$.00	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No		
			<input type="checkbox"/> Yes <input type="checkbox"/> No		\$.00	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No		
			<input type="checkbox"/> Yes <input type="checkbox"/> No		\$.00	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED					\$ 1,937,077.00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

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

³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

⁴ 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	E. Eligibility	I. Procurement and suspension and debarment	L. Reporting
B. Allowable costs/cost principles	F. Equipment and real property management	J. Program income	M. Subrecipient monitoring
C. Cash management	G. Matching, level of effort, earmarking	K. Real property acquisition and relocation assistance	N. Special tests and provisions
D. Davis - Bacon Act	H. Period of availability of Federal funds		O. None
⁵ N/A for NONE			P. Other

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.										f. List the multiple DUNS covered in the report.													
1	N	/	A			21	-			41	-			1	N	/	A			21	-		
2						22	-			42	-			2						22	-		
3						23	-			43	-			3						23	-		
4						24	-			44	-			4						24	-		
5						25	-			45	-			5						25	-		
6						26	-			46	-			6						26	-		
7						27	-			47	-			7						27	-		
8						28	-			48	-			8						28	-		
9						29	-			49	-			9						29	-		
10						30	-			50	-			10						30	-		
11						31	-			51	-			11						31	-		
12						32	-			52	-			12						32	-		
13						33	-			53	-			13						33	-		
14						34	-			54	-			14						34	-		
15						35	-			55	-			15						35	-		
16						36	-			56	-			16						36	-		
17						37	-			57	-			17						37	-		
18						38	-			58	-			18						38	-		
19						39	-			59	-			19						39	-		
20						40	-			60	-			20						40	-		

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