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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CULEBRA

AUDITORIA 2006-2007

30 DE JUNIO DE 2007

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
CULEBRA, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2007

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
**BASIC FINANCIAL STATEMENTS ACCOMPANIED
BY REQUIRED SUPPLEMENTARY INFORMATION**
JUNE 30, 2007

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MENDOZA & RAMOS
Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785

INDEPENDENT AUDITOR'S REPORT

TO THE HONORABLE MAYOR AND
MEMBERS OF THE MUNICIPAL LEGISLATURE
MUNICIPALITY OF CULEBRA, PUERTO RICO

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Culebra, Puerto Rico, as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Culebra Conservation and Development Authority- component units, which represent 8 percent, 11 percent, and 15 percent, respectively, of the assets, net assets, and revenues of the Municipality of Culebra. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Conservation and Development Authority- component units, is based on the report of the other auditors.

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

As discussed in Note 5 to the financial statements, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

As discussed in Note 7 to the financial statements, the Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency. At June 30, 2007, the accompanying statement of net assets does not include the required liability for closure and postclosure care costs of the Municipality's solid waste landfill. In addition the expenses and result of operations reported in the statement of activities are understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2007.

In our opinion, based on our audit and the report of other auditors, because of the effects of the matter discussed in the preceding paragraphs, 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 of Culebra, Puerto Rico, as of June 30, 2007, and the changes in financial position, thereof for the year then ended.

In addition, in our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the Municipality of Culebra, Puerto Rico, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also issued our report dated November 30, 2007, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 and the Budgetary Comparison Schedule-General Fund on page 28 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Municipality. The Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
November 30, 2007
Stamp number 2283087 was
affixed to the original of this report.



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007. 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 Government Wide Financial Statements includes the financial activities of the Culebra Conservation and Development Authority, a component unit of the **Municipality**. This component unit issued separate Financial Statements for the Fiscal Year 2006-2007.

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 assets of the **Municipality** exceeded its liabilities at June 30, 2007 by \$8.0 million.
- ❖ The **Municipality's** total net assets decrease by \$1.2 millions during 2007.
- ❖ As of June 30, 2007, the **Municipality's** governmental funds reported combined ending fund balances of \$3.4 million, an increase of \$300 thousand from the prior year.
- ❖ At June 30, 2007, the Unrestricted (Deficit) was \$7.6 million.
- ❖ The **Municipality's** capital assets inventory has no movement during fiscal year.
- ❖ The investment in capital assets for this year was not determinable.
- ❖ Loans principal payments were \$85 thousand and \$80 thousand in 2007 and 2006, 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.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

	2007	2006
Current and non-current assets.....	\$ 6,334,946	\$ 7,292,481
Capital assets	<u>8,412,866</u>	<u>8,412,866</u>
Total Assets.....	<u>14,747,812</u>	<u>15,705,347</u>
Current liabilities	425,999	287,210
Deferred revenues	149,352	117,516
Long-term liabilities	<u>6,174,378</u>	<u>5,752,001</u>
Total Liabilities.....	<u>6,749,729</u>	<u>6,156,727</u>
Net Assets:		
Investment in capital assets	8,222,866	8,167,866
Restricted.....	7,467,828	8,583,699
Deficit.....	<u>(7,692,611)</u>	<u>(7,202,945)</u>
Total Net Assets.....	<u>\$ 7,998,083</u>	<u>\$ 9,548,620</u>

case of the **Municipality**, assets exceeded liabilities by \$8.0 million as of June 30, 2007 versus \$9.5 million as of June 30, 2006. 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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

noted that the resources required 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 \$8.0 million. The Unrestricted (Deficit) was approximately of \$7.7 million at June 30, 2007.

Governmental Activities

During fiscal year 2006-2007 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 revenues not exceed expenses by \$1.2 million. The **Municipality** expended several of the resources restricted projects in the community.

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

Changes in Net Assets For Fiscal Years Ending June 30,		
	2007	2006
Revenues:		
Program Revenues:		
Grants and Contributions	\$ 2,106,658	\$ 3,033,286
General Revenues:		
Property Taxes	515,075	420,187
Volume of Business Taxes	213,294	131,269
Construction Taxes	152,928	290,851
Intergovernmental	2,628,734	2,583,451
Other General Revenues	<u>216,255</u>	<u>449,373</u>
Total revenues	<u>5,832,944</u>	<u>6,908,417</u>
Expenses:		
General Administration	2,567,577	2,086,742
Public Safety	186,542	193,844
Public Works	564,832	504,190
Health and Sanitation	96,187	62,185
Culture and Recreation	108,681	79,032
Human Services and Welfare	2,254,956	1,238,826
Urban Development	1,063,038	1,466,943
Education	179,153	171,383
Interest Costs	<u>23,280</u>	<u>18,871</u>
Total expenses	<u>7,044,246</u>	<u>5,822,016</u>
Changes in net assets	(1,211,302)	1,086,401
Net assets – beginning, as Restated ...	<u>9,209,385</u>	<u>8,462,219</u>
Net assets – ending	<u>\$ 7,998,083</u>	<u>\$ 9,548,620</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 \$1.8 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 \$72 thousand, (2) to pay debt service \$175 thousand or (3) for other restricted purposes \$5.0 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 2007 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ Prior year allocations.
- ❖ 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, 2007 amounted to \$8.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. 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.

Land.....	\$3.4
Buildings.....	4.9
Machinery and Equipment.....	<u>0.1</u>
Total Capital Assets.....	<u>\$8.4</u>

General Obligations.....	\$ 1.3
Others.....	<u>4.9</u>
Total Capital Assets.....	<u>\$ 6.2</u>

Long-term Debt

At June 30, 2007 the **Municipality** had total of \$6.2 million in general obligations and others outstanding debts, as shown in **Table 4**. Of this amount, \$1.3 million comprises debt backed by the full faith and credit of the government and \$4.9 million is other obligations.

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-

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 2007 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, 2007

	<u>Governmental Activities</u>	<u>Component Unit</u>
ASSETS:		
Cash and Investments.....	\$ 2,045,640	\$ 308,050
Cash with Fiscal Agent.....	1,227,472	-
Receivables (net):		
Property Taxes.....	-	-
Federal Grants.....	3,016,591	-
Others.....	45,243	-
	<u>6,334,946</u>	<u>308,050</u>
Capital Assets (Note5):		
Land, Improvements, and Construction in Progress.....	3,366,886	640,000
Other Capital Assets, [Net of Depreciation].....	5,045,980	434,468
Total Capital Assets.....	<u>8,412,866</u>	<u>1,074,468</u>
Total Assets.....	<u>14,747,812</u>	<u>1,382,518</u>
LIABILITIES:		
Accounts Payable and Accrued Expense.....	414,393	26,412
Accrued Interest.....	11,606	-
Deferred Revenue.....	149,352	26,109
Long-Term Liabilities (Note 6):		
Due within One Year.....	1,546,174	79,173
Due in More than One Year.....	4,628,204	72,108
Total Liabilities.....	<u>6,749,729</u>	<u>203,802</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt.....	8,222,866	1,074,468
Restricted for:		
Debt Service.....	175,217	-
Other Purposes.....	7,292,611	-
Unrestricted (Deficit).....	(7,692,611)	104,248
Total Net Assets.....	<u>\$ 7,998,083</u>	<u>\$ 1,178,716</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue	Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Mayor and Municipal Legislature.....	\$ 489,328	\$ -	\$ -	\$ -	\$ (489,328)	
General Government.....	2,078,249	-	-	-	(2,078,249)	
Public Safety.....	186,542	-	-	-	(186,542)	
Public Works.....	564,832	-	-	-	(564,832)	
Culture and Recreation.....	108,681	-	-	-	(108,681)	
Sanitation.....	96,187	-	-	-	(96,187)	
Human Services and Welfare.....	2,254,956	-	494,970	-	(1,759,986)	
Urban Development.....	1,063,038	-	-	1,505,346	442,308	
Education.....	179,153	-	106,342	-	(72,811)	
Interest on Long-Term Debt.....	23,280	-	-	-	(23,280)	
Total Governmental Activities...	\$ 7,044,246	\$ -	\$ 601,312	\$ 1,505,346	(4,937,588)	
Component Unit:						
Human Services and Welfare.....	\$ 847,866	\$ 240,056	\$ 10,149	\$ -		\$ (597,661)
General Revenues:						
Taxes:						
Property Taxes, levied for General Purposes.....					357,841	-
Property Taxes, levied for Debt Services.....					157,234	-
Volume of Business Taxes.....					213,294	-
Construction Taxes.....					152,928	-
Intergovernmental.....					2,628,734	588,600
Rent.....					23,354	-
Miscellaneous.....					192,901	-
Total General Revenues and Special Items.....					3,726,286	(9,061)
CHANGE IN NET ASSETS.....					(1,211,302)	(9,061)
Net Assets - Beginning of Year.....					9,209,385	1,187,777
NET ASSETS - END OF YEAR.....					\$ 7,998,083	\$ 1,178,716

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2007

	General Fund	State Assignment Fund	CDBG Fund	Other Governmental Funds	Total Funds
ASSETS:					
Cash and Investments (Note 2).....	\$ 180,254	\$ 1,499,222	\$ 27,435	\$ 338,729	\$ 2,045,640
Cash with Fiscal Agent.....	-	-	-	1,227,472	1,227,472
Receivables:					
Federal Grants.....	-	291,717	2,618,532	106,342	3,016,591
Due from Other Funds.....	261,361	1,976,564	-	-	2,237,925
State Government.....	14,291	-	-	30,952	45,243
Total Assets.....	\$ 455,906	\$ 3,767,503	\$ 2,645,967	\$ 1,703,495	\$ 8,572,871
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable and Accrued Liabilities.....	\$ 70,085	\$ -	\$ 113,894	\$ -	\$ 183,979
Bonds and Notes Payable.....	-	-	-	85,000	85,000
Accrued Interest.....	-	-	-	11,606	11,606
Due to Governmental Units.....	145,414	-	-	-	145,414
Due to Other Funds.....	1,861,745	-	189,868	186,312	2,237,925
Deferred Revenue:					
Volume of Business Tax.....	86,895	-	-	-	86,895
Federal Grants.....	14,291	-	2,342,205	-	2,356,496
Others.....	-	-	-	62,457	62,457
Total Liabilities.....	2,178,430	-	2,645,967	345,375	5,169,772
Fund Balances:					
Reserve For:					
Encumbrances.....	72,186	-	-	-	72,186
Debt Service.....	-	-	-	175,217	175,217
Other Purposes.....	-	3,767,503	-	1,182,903	4,950,406
Unreserved (Deficit).....	(1,794,710)	-	-	-	(1,794,710)
Total Fund Balances.....	(1,722,524)	3,767,503	-	1,358,120	3,403,099
TOTAL LIABILITIES AND FUND BALANCES...	\$ 455,906	\$ 3,767,503	\$ 2,645,967	\$ 1,703,495	\$ 8,572,871

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2007

Total Fund Balances – Governmental Funds (Page 8) \$ 3,403,099

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 6)
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	
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..... 2,356,496

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	1,281,000	
Compensated Absences.....	351,218	
Claims and Judgments.....	1,939,759	
Treasury Department.....	22,271	
Social Security Debt.....	141,246	
Municipal Revenue Collection Center	<u>2,438,884</u>	
Total Long-Term Liabilities		(6,174,378)

Total Net Assets of Governmental Activities (Page 6)..... \$ 7,998,083

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Assignment Fund	CDBG Fund	Other Governmental Funds	Total Funds
REVENUES					
Property Taxes.....	\$ 343,550	\$ -	\$ -	\$ 157,234	\$ 500,784
Volume of Business Taxes.....	213,294	-	-	-	213,294
Federal Assistances.....	-	-	1,423,064	176,838	1,599,902
Intergovernmental.....	2,628,734	1,577,283	-	391,612	4,597,629
Licenses and Permits.....	152,928	-	-	-	152,928
Rent.....	23,354	-	-	-	23,354
Miscellaneous.....	192,901	-	-	-	192,901
Total Revenues.....	3,554,761	1,577,283	1,423,064	725,684	7,280,792
EXPENDITURES					
Current:					
Mayor and Municipal Legislature.....	489,328	-	-	-	489,328
General Government.....	1,910,107	-	-	-	1,910,107
Public Safety.....	186,542	-	-	-	186,542
Public Works.....	564,832	-	-	-	564,832
Culture and Recreation.....	108,681	-	-	-	108,681
Sanitation.....	96,187	-	-	-	96,187
Human Services and Welfare.....	225,664	132,658	1,423,064	473,570	2,254,956
Urban Development.....	-	912,956	-	150,082	1,063,038
Education.....	-	-	-	179,153	179,153
Debt Service:					
Pincipal.....	-	-	-	85,000	85,000
Interest and Other Charges.....	-	-	-	23,280	23,280
Total Expenditures.....	3,581,341	1,045,614	1,423,064	911,085	6,961,104
OTHER FINANCING SOURCES (USES)					
Transfer- In.....	-	-	-	220,000	220,000
Transfer- Out.....	-	(220,000)	-	-	(220,000)
Total Other Financing Sources and Uses.....	-	(220,000)	-	220,000	-
Net Change in Fund Balances.....	(26,580)	311,669	-	34,599	319,688
Fund Balance - Beginning as Restated (Note13)....	(1,695,944)	3,455,834	-	1,323,521	3,083,411
Fund Balances - Ending.....	\$ (1,722,524)	\$ 3,767,503	\$ -	\$ 1,358,120	\$ 3,403,099

See accompanying notes to basic financial statements.

J. Lopez
2/20/07
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**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, 2007

Net Change in Fund Balances – Total Governmental Funds (Page 10)..... \$ 319,688

Amounts reported for Governmental Activities in the Statement of Activities (Page 7) are different because:

Revenues in the Statement of Revenues that correspond to Prior Year resources are recorded as Revenue in the Statement of Activities (1,447,848)

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..... 85,000

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 MRCC Debt	\$ 40,185
Increase in Social Security Debt.....	(141,246)
Increase in Compensated Absences.....	<u>(67,081)</u>
Total Decreased in Expenditures	<u>(168,142)</u>

Change in Net Assets of Governmental Activities (Page 7)..... (\$1,211,302)

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, 2007

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. The basic financial statements are presented as of June 30, 2007, 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 that The Culebra Conservation and Development Authority meet the criteria to be included as discretely component unit. The Culebra Conservation and Development Authority was created in June 22, 1975 to formulate, adopt and administer the program and plan for the conservation, use and development of natural resources of the Municipality of Culebra.

These financial statements present the respective financial position of the governmental activities, each major fund, the aggregate remaining fund information and component unit of the **Municipality**, as of June 30, 2007, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007, 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:

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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.

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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

CDBG Fund – This is the fund used to account for all the transactions of the Community Development Block Grant Program. The primary objectives of this program is to development of viable communities by providing decent housing, 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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

TABLE 1	
CAPITAL ASSETS	YEARS
Buildings and site Improvements	20-50
Infrastructure	20-50
Motor Vehicles, furniture and fixtures	5-10
Machinery and Equipments	5-20

H. Capital Assets

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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, 2007 (Table 2).

BALANCE JULY 1, 2006	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2007	CURRENT PORTION	LONG-TERM PORTION
<u>\$ 284,137</u>	<u>\$ 67,081</u>	<u>\$ -</u>	<u>\$ 351,218</u>	<u>\$ 351,218</u>	<u>\$ -</u>

J. Insurance

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

K. Interfund Transactions

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 2006-2007 no transfers of this kind was made.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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.

NOTE 3 INTERFUND TRANSFER AND BALANCES

A. INTERFUND TRANSFERS

Transfers are indicative of funding for subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
State Assignment Fund	Other Governmental Fund	\$ <u>220,000</u>	Construction

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2007 are summarized as follows: **(See Table 3)**

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 3 AMOUNT
General Fund	CDBG Fund	\$ 75,049
General Fund	Other Governmental	186,312
State Assignment	General Fund	1,861,745
State Assignment	CDBG Fund	<u>114,819</u>
TOTAL		<u>\$2,237,925</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2007, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	<u>AMOUNT</u>
Water & Sewer Company	\$ 6,520
State Treasury Department.....	113,356
State Retirement System.....	19,700
ELA Employee Association.....	1,951
General Services Administration.....	<u>3,887</u>
 Total Due to Governmental Units	 <u>\$ 145,414</u>

NOTE 5 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2007 was as follows (See Table 4)

TABLE 4	BALANCE JULY 1, 2006	ADJUSTMENTS	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2007
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.....	-	-	-	-	6,285,605
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>
CAPITAL ASSETS, NET	<u>\$ 8,412,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,412,866</u>

During Fiscal Year 2006-2007 no depreciation expense were charged to governmental functions/programs: (See Table 5)

TABLE 5	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, 2007

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, 2007, 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.....	\$ 55,000
\$220,000, Series 2005, for capital outlay purposes, payable in semi annual installments ranging from \$25,000 to \$35,000, excluding interests at 4.62%, through July 1, 2011.....	135,000
\$220,000, Series 2006, for capital outlay purposes, payable in semi annual installments ranging from \$25,000 to \$35,000, excluding interests at 6.00%, through July 1, 2012.....	165,000
\$926,000, Series 2006, for capital outlay purposes, payable in July 1, 2007, excluding interests at 4.50%.....	<u>926,000</u>
Total General Obligations – Bonds.....	<u>\$1,281,000</u>

The annual requirements to amortize the general obligations outstanding as of June 30, 2007 are as follows (See Table 6):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2008	\$ 1,011,000	\$ 120,055	\$ 1,131,055
2009	95,000	14,055	109,055
2010	70,000	9,492	79,492
2011	70,000	5,817	75,817
2012	<u>35,000</u>	<u>2,100</u>	<u>37,100</u>
TOTAL	<u>\$1,281,000</u>	<u>\$ 151,519</u>	<u>\$ 1,432,519</u>

B. OTHER LONG-TERM DEBTS

Following are the Other Long-Term Debts (See Table 7):

DESCRIPTION	BALANCE JULY 1, 2006	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2007
Property Taxes – MRCC	2,139,834	\$ 339,235	\$ 40,185	\$2,438,884
Treasury Department	22,271	-	-	22,271
Claims and Judgments...	1,939,759	-	-	1,939,759
Compensated Absences	284,137	67,081	-	351,218
Social Security.....	-	<u>141,246</u>	-	<u>141,246</u>
TOTAL.....	<u>\$4,386,001</u>	<u>\$ 547,618</u>	<u>\$ 40,185</u>	<u>\$4,893,434</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007 (See Table 8):

TABLE 8 DESCRIPTION	BALANCE JULY 1, 2006	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2007	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General	\$ 1,366,000	\$ -	\$ 85,000	\$1,281,000	\$1,011,000	\$ 270,000
Others Debts	<u>4,386,001</u>	<u>547,618</u>	<u>40,185</u>	<u>4,893,434</u>	<u>535,174</u>	<u>4,358,260</u>
TOTAL	<u>\$ 5,752,001</u>	<u>\$ 547,618</u>	<u>\$ 125,185</u>	<u>\$6,174,434</u>	<u>\$1,546,174</u>	<u>\$4,628,260</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 LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATION

The Municipality owns a municipal solid waste landfill. However, the Municipality has not adopted the required provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. According to these standard and regulations, the Municipality is required to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net assets date. The accompanying statement of net assets does not include the required liability for closure and postclosure care costs of the solid waste landfill using current cost allocated based on the actual landfill capacity used at June 30, 2007.

NOTE 10 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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 PROPERTY TAXES (continuation)

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.

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 11 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 12 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 13 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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 EMPLOYEE'S RETIREMENT PLAN (continuation)

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 defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

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 9)

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS	TABLE 9
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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 EMPLOYEE'S RETIREMENT PLAN (continuation)

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2007 was approximately **\$103,653**. 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, 2007. 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.

NOTE 14 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 a debt for claim and judgments from fiscal year 2006-2007 related to a collection claim by a contractor. This lawsuit is in appeal in court.

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 15 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS

Table 10 reconciles the June 30, 2006 Fund Balance and Net Assets, as previously reported to Beginning Fund Balances and Net Assets as restated, July 1, 2006.

Table 10	
NET ASSETS RESTATED	
The following schedule reconciles the June 30, 2006 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1 2006	
Net Assets as, Previously Reported, at June 30 2006.....	\$9,548,620
Adjustment to MRCC Debt.....	<u>(339,235)</u>
Beginning Net Assets, as Restated, At July 1, 2006.....	<u>\$9,209,385</u>

NOTE 16 SUBSEQUENT EVENTS

On July 29, 2007 was enacted the Act 80, to amend the Act. No. 120 of October 31, 1994, as amended, known as the "Puerto the Internal Revenue Code of 1994", particularly certain provisions included in Act No. 117 of July 4, 2006, known as the "Taxpayer's Justice Act of 2006", in order to make mandatory in all the Municipalities of Puerto Rico, the imposition of a uniform municipal tax of one point five (1.5) percent, from which the municipalities shall collect one (1) percent of the sales and use tax pursuant to what is established in Sections 2410 and 6189 of said Act, which may be levied discretionally, through municipal

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 SUBSEQUENT EVENTS (continuation)

legislation, on food and food ingredients, as defined in Section 2301 (a) of the Act and to provide for the collection by the Secretary of the Treasury of the remaining point five (.5) percent without including food and food ingredients as defined in Section 2301 (a) of the Act, to be used in accordance with the purposes established in the Act 80; to provide for the establishment of the Municipal Development Fund, the Municipal Redemption Fund and the Municipal Improvement Fund, as well as for matters relative to the purposes, implementation and administration of said funds; to provide for the establishment of the necessary mechanisms for the collection of the municipal tax; and for other purposes.

In addition, on September 27, 2007 the Municipality's executive branch approved Ordinances Number 19 and 20, authorizing the issuance of bonds in the amount of \$498,000 and \$731,000 respectively, for construction purposes and acquisition of properties. These bonds are payable with resources of the Municipality's General Fund.

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, 2007

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows)				
Property Taxes	343,550	343,550	343,550	-
Volume of Business Taxes.....	226,583	226,583	213,294	(13,289)
Intergovernmental Revenues.....	2,331,911	2,331,911	2,628,734	296,823
License and Permits.....	1,205,580	1,205,580	152,928	(1,052,652)
Rent.....	22,580	22,580	23,354	774
Miscellaneous.....	285,650	285,650	192,901	(92,749)
Prior Year Allocation.....	-	370,927	-	(370,927)
Total Resources (Inflows).....	4,415,854	4,786,781	3,554,761	(1,232,020)
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature.....	591,521	631,265	497,585	133,680
General Government.....	2,455,001	2,573,877	1,860,979	712,898
Public Safety.....	194,045	219,111	186,542	32,569
Public Works.....	585,083	733,243	568,783	164,460
Culture and Recreation.....	177,876	184,375	110,266	74,109
Sanitation.....	163,005	170,701	96,187	74,514
Human Services and Welfare.....	249,323	274,209	227,454	46,755
Total Charges to Appropriations.....	4,415,854	4,786,781	3,547,796	1,238,985
Excess (Deficiency) of Revenues over Expenditures.....	\$ -	\$ -	\$ 6,965	\$ 6,965

See accompanying notes to required supplementary information.

**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, 2007

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 25)	\$ 3,554,761
Difference – Budget to GAAP:	
Differences.....	_____ -
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 10).....	<u>\$ 3,554,761</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 25)	\$ 3,547,796
Difference – Budget to GAAP:	
Prior Year expenditures are not outflows of budgetary resources but are expenditures For financial reporting purposes	92,133
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(72,186)
Adjustment to Expenditures.....	<u>13,598</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 10).....	<u>\$ 3,581,341</u>

END OF THIS SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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	\$ <u>30,318</u>
U.S. Department of Housing and Urban Development:			
Pass Through State – Office of the Commissioner of Municipal Affairs			
Community Development Block Grant Program	14.219	05-FD, AB 04-FD, AB 03-FD, AB 02-FD, AB 00-FD 98-FD 97-FD 96-FD	<u>1,423,064</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	935
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant	93.575	N/AV	<u>179,152</u>
Total U.S. Department of Health and Human Services			<u>180,087</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$1,633,469</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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.

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

To the Honorable Mayor and
Members of the Municipal Legislature
MUNICIPALITY OF CULEBRA, PUERTO RICO

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Culebra, Puerto Rico (the "Municipality") as of and for the fiscal year ended June 30, 2007, which collectively comprise Municipality of Culebra's basic financial statements and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting as basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Municipality's financial statements that is more than inconsequential will not be prevented or detected by Municipality's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. See 07-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Municipality's internal control.

INDEPENDENT AUDITORS' REPORT

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-01 to be material weakness.

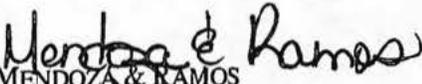
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 07-01.

We noted certain other matters that we reported to management of the Municipality in a separate letter dated November 30, 2007.

Municipality's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

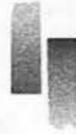
This report is intended solely for the information and use of the management, Municipal Legislature, Office of the Commissioner of Municipal Affairs, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these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


MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
November 30, 2007

Stamp number 2283088 was
affixed to the original of this report.





MENDOZA & RAMOS
Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785

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

To the Honorable Mayor and
Members of the Municipal Legislature
MUNICIPALITY OF CULEBRA, PUERTO RICO

Compliance

We have audited the compliance of the Municipality of CULEBRA, Puerto Rico (the "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, 2007. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such others procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

As described item 07-02, 07-03 and 07-04 in the schedule of findings and questioned costs, the Municipality did not comply with requirements regarding Equipment and Real Property, Davis Bacon and Procurements Standards that are applicable to its Community Development Block Grant Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2007.

INDEPENDENT AUDITORS' REPORT

Internal Control Over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of federal program that is more than inconsequential will not be prevented or detected by the Municipality's internal control. We consider the deficiencies in internal control over control over compliance described in the accompanying schedule of findings and questioned costs as items -02, 07-03 and 07-04 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of federal program will not be prevented or detected by Municipality's internal control. We do not consider any of the deficiencies described in the accompanying schedule of finding and questioned costs to be material weaknesses.

Municipality's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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

Mendoza & Ramos
MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.
Guayama, Puerto Rico
November 30, 2007

Stamp number 2283089 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued:

- Unqualified Opinion Opinion, except for adverse opinion for government-wide financial statement
- Qualified Opinion
- Adverse Opinion
- Disclaimer Opinion

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness (es)? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness (es)? Yes None Reported

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

- Unqualified Opinion
- Qualified Opinion
- Adverse Opinion
- Disclaimer

Any audit findings disclosed that are required to be reported in accordance with 510(a) OMB Circular A-133? Yes No

The Municipality’s major programs were:

CFDA Number	Name of Federal Program
14.219	Community Development 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, 2007**

Section II – Financial Statement Findings

FINDING	NUMBER 07-01
REQUIREMENT	SIGNIFICANT DEFICIENCIES OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
CRITERIA	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the municipality should maintain updated property accounting records. Also the GASB Statements No. 34 requires that all capital assets, including infrastructure, must be presented in the Statements of Net Assets and that these assets must be depreciated during its useful life.
CAUSE	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
EFFECT	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
RECOMMENDATION	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, to comply with the requirements of the GASB Statement No. 34.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	The Municipality is actually working on the physical inventory of the capital assets and the reconciliation of these assets with the property ledger. The property records will include acquisition dates, purchase order number, model or serial number, property description and property transfers.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section III – Federal Award Findings and Questioned Costs

FINDING	NUMBER 07-02
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.219) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CONDITION	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	<p>Subpart C, 24 CFR 85.32 (d) (1), stated that property records must be maintained and it shall includes:</p> <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	The 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	The Municipality should revise and update its property records according to the federal regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Municipality's management gave instructions to the Federal Program Director to assure that the property records contains a description of the property, serial number, the source of property, location, use and condition of the property, any ultimate disposition data including the date of disposition data including the date of disposal and the sale price of property.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section III – Federal Award Findings and Questioned Costs

FINDING	07-03
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.219) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	INTERNAL CONTROL/ COMPLIANCE
NONCOMPLIANCE	DAVIS-BACON ACT
TOPIC SENTENCE	Non-compliance with the Davis-Bacon Act
CONDITION	As part of the evaluation of contracts granted to the entities from which the Municipality procured goods and services, we examined two construction contracts. We determined that the Municipality did not perform the required procedures to ensure that contractors paid prevailing wages according to the Department of Labor rates as established by the Davis-Bacon Act. The Municipality was not verifying that all laborers employed by the contractors were paid according to the wages established by law.
CRITERIA	Davis-Bacon Act, as amended (40 USC 276a – 276a-7). The procedures establish that the Municipality verifies if the contractor is paying the prevailing wages according to the Department of Labor.
CAUSE	The Municipality did not count with personnel to ascertain compliance with such requirement.
EFFECT	As a result of this deficiency, the Municipality could have procured services from an organization that is not complying with the applicable Department of Labor regulations and could result in cost disallowances by the federal awarding agency.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

RECOMMENDATION The Municipality should appoint an employee to be designated as the person responsible for ascertain that all contractors and the Municipality are complying with the requirements established by the Davis-Bacon Act.

QUESTIONED COSTS None.

MANAGEMENT RESPONSE The Municipality's Management will designate an employee to verify that all contractors or subcontractors and the Municipality are complying with the requirements established by Davis-Bacon Act.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	07-04
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.219) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	COMPLIANCE
NONCOMPLIANCE	PROCUREMENT STANDARDS
TOPIC SENTENCE	Contracts lack of required Federal provisions
	CONDITION As part of the evaluation of a contract granted to an individual from which the Municipality procured services, our test revealed that two out of two (100%) contract examined does not contain the following required provisions: regarding compliance with the Davis Bacon Act; regarding compliance with all environmental Protection Agency regulations; regarding Copeland Anti-Kickback Act; and regarding Equal Employment Opportunity
CRITERIA	As stated in 24 CFR 84.36(i); a grantee's and subgrantee's contracts must contain, among others, a provision regarding compliance with: the Davis Bacon Act in cases of construction contracts; compliance with all environmental Protection Agency regulations; Copeland Anti-Kickback Act; and Equal Employment Opportunity.
CAUSE	The Municipality has not ensured that all contracts granted counts with the required provisions due to the lack of understanding of the applicable Federal regulations.
EFFECT	Contracts failure to contain all required federal provisions could expose the Municipality of being liable for contractor's non compliance with applicable federal laws and regulations contained within the required provisions.
RECOMMENDATION	The Municipality should verify and amend their contracts in order to include all required provisions as required by Federal regulations.
QUESTIONED COSTS	None.
MANAGEMENT RESPONSE	The Municipality's Management gave instruction to the Contract Division to establish a checklist that includes all the necessary clauses for a federal contract.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

(1) Audit Findings that have been Fully Corrected:

None

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2006

Finding Number 06-III-02 Equipment and Real Property Management- Property Register.

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 2005

Finding Number 05-III-02 Equipment and Real Property Management- Property Register.

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 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

Questioned Cost None

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

None

(4) Audit findings is no longer valid:

None



ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL DE CULEBRA
CULEBRA, PUERTO RICO 00775

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RECIBIDO
UNIDAD DE CORREO



MUNICIPALITY OF CULEBRA, PUERTO RICO
CORRECTIVE ACTION PLAN
JUNE 30 2007

FEDERAL PROGRAM

PREPARED BY: The Mayor' Office and the Auditor Department

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 2007, and the schedule of prior audits findings and questioned costs accompanying this report.

Finding Number: 07-11-01 Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.

Corrective Action Plan: The Municipality is actually working on the physical inventory of the capital assets and the reconciliation of these assets with the property ledger. The property records will include acquisition dates, purchase order number, model or serial number, property description and property transfers.

Finding Number : 07-111.02 The Municipality does not maintain the appropriate information on the real property record to assure that is in accordance with the federal regulation.

Corrective Action Plan: The Municipality's management gave instructions to the Federal Program Director to assure that the property records contains a description of the property, serial number, the source of property, location, use and condition of the property, any ultimate disposition data including the date of disposal and the sale price of property.

Responsible individual: Shirly Nazario-Finance Director
Ileana Feliciano- Federal Program Director

Anticipate completion date: June 30, 2008

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



ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL DE CULEBRA
CULEBRA, PUERTO RICO 00775



Finding Number 07-III-03: The Municipality did not count with personnel to ascertain compliance with such requirement.

Corrective Action Plan: The Municipality's management will designate an employee to verify that all contractors or subcontractors and the Municipality are complying with the requirements established by the Davis-Bacon Act.

Responsible individual: Shirley Nazario- Finance Director
Ileana Feliciano- Federal Program Director

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

Finding Number 07-III-04: The Municipality has not ensured that all contracts granted counts with the required provisions due to the lack of understanding of the applicable Federal regulations .

Corrective Action Plan: The Municipality's management gave instructions to the Contract Division to establish a checklist that includes all the necessary clauses for a federal contract.

Responsible individual: Shirley Nazario- Finance Director
Ileana Feliciano- Federal Program Director

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

Cordially,

Abraham Peña Nieves
Mayor

Ileana Feliciano
Federal Program Director

Awilda Pagán Nazario
Internal Auditor

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."

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

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 / 2007 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
(787) 742 - 0111

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

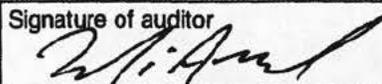
e. Auditor contact FAX
(787) 864 - 9271

f. Auditor contact E-mail
CPAMMENDOZA@YAHOO.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
 03 / 05 / 2008
 Printed Name of certifying official
 Abraham Peña Nieves
 Printed Title of certifying official
 Mayor

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
 03 / 04 / 2008

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 | 08 <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 | 06 <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 | 84 <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	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 30,318.00	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	4,219	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM	\$ 1,423,064.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	FDI	07-02,03,04
9	3,045	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING, TITLE III,	\$ 935.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3,575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 179,152.00	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			
		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 →				\$ 1,633,469.00	<i>IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS</i>				

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

