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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION**

FISCAL YEAR ENDED JUNE 30, 2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION**

FISCAL YEAR ENDED JUNE 30, 2009

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NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITORS' 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, each major fund, and the aggregate remaining fund information of the **Municipality of Culebra**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. We have also audited the accompanying Statement of Revenues and Expenditures – Budget and Actual – Budgetary Basis – General Fund of the Municipality for the fiscal year then ended, which is presented as part of the basis financial statement. 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 4 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.

INDEPENDENT AUDITORS' REPORT

(Continuation)

As discussed in Note 9 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 Post-closure Care Costs, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency. At June 30, 2009, the accompanying statement of net assets does not include the required liability for closure and post-closure 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, 2009.

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 as of June 30, 2009, 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 previously present fairly, in all material respects, the respective financial position of each major fund, an the aggregate remaining fund information of the Municipality, as of June 30, 2009, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the general fund for the fiscal year then ended in conformity with the budgetary (statutory) basis of accounting, as described in Note 1.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

December 21, 2009
San Juan, Puerto Rico

Nieves Velázquez A.B., P.S.C.

Stamp No. 2320835 the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009. 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. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2002-2003. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

- a broader basis in focusing important issues;
- acknowledgement of an overview of the Municipality's financial activities;
- provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
- identification of uses of funds in the financing of the Municipality's variety of activities and;
- assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The total assets of the Municipality exceeded its total liabilities at June 30, 2009 by \$8.0 million, and at June 30, 2008 by \$7.9 million, as restated;
- ❖ The Municipality's total net assets increased by \$142 thousand during fiscal year 2008-2009;
- ❖ As of June 30, 2009, the Municipality's governmental funds reported combined ending fund balances of \$5.7 million, and increase \$1.2 million from the prior year;
- ❖ At June 30, 2009, the unrestricted (Deficit) was \$5.2 million. During fiscal year 2008-2009, the Municipality issue \$2.1 million in bonds debt;
- ❖ The Municipality's capital assets inventory had no movement during fiscal year; due to its accounting records have not been updated.
- ❖ The investment in capital assets for this year was not determinable;
- ❖ Loans principal payments were \$125,000 and \$85,000 in 2009 and 2008, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, culture and recreation, health and sanitation, solid waste disposal, human services and welfare, urban development and education. 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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 case of the Municipality, assets exceeded liabilities by \$8,015,460 as of June 30, 2009 versus \$7,873,270 as of June 30, 2008. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the Municipality's governmental activities.

TABLE 1
STATEMENT OF NET ASSETS

	<u>2009</u>	<u>2008</u>
Current and non-current assets	\$ 7,097,968	\$ 4,299,788
Capital assets	<u>8,412,866</u>	<u>8,412,866</u>
Total Assets	<u>15,510,834</u>	<u>12,712,654</u>
Current liabilities	1,371,760	525,161
Long-term liabilities	<u>6,123,614</u>	<u>4,314,223</u>
Total Liabilities	<u>7,495,374</u>	<u>4,839,384</u>
Net assets:		
Investment in capital assets, net of related debt	6,317,866	8,277,866
Restricted	6,905,457	4,954,794
Deficit	<u>(5,207,863)</u>	<u>(5,359,390)</u>
Total Net Assets	<u>\$ 8,015,460</u>	<u>\$ 7,873,270</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

GOVERNMENTAL ACTIVITIES

Governmental activities increased the Municipality's net assets. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$5,377,295. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues exceed net expenses by \$142,190.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The Municipality experienced an increase in sales taxes, intergovernmental revenues and other miscellaneous revenues. Also, a 1.5% sales tax was imposed by the Municipality, commencing on November 15, 2006. The cost of all governmental activities this year was \$7,978,080. **Table 2** presents the cost of each of the Municipality's largest programs.

TABLE 2
STATEMENT OF ACTIVITIES

	<u>2009</u>	<u>2008</u>
Revenues		
Grants and contributions	\$2,600,785	\$1,447,923
General revenues:		
Property taxes	459,616	532,897
Volume of business taxes	155,365	122,504
Sales taxes	1,522,495	1,009,280
Intergovernmental	2,663,828	2,590,326
Rent	21,702	-
Licenses and permits	287,726	993,608
Miscellaneous	<u>408,753</u>	<u>168,964</u>
Total revenues	<u>8,120,270</u>	<u>6,865,502</u>
Expenses		
General government	2,195,437	2,426,662
Public safety	260,421	166,661
Public works	669,946	568,064
Culture and recreation	130,292	121,893
Human services and welfare	940,498	787,143
Urban development	3,514,609	1,960,935
Education	210,495	157,558
Interest on long-term debts	<u>56,382</u>	<u>17,667</u>
Total expenses	<u>7,978,080</u>	<u>6,206,583</u>
Changes in net assets	142,190	658,919
Net assets – beginning, as restated	<u>7,873,270</u>	<u>7,214,351</u>
Net assets – ending, as restated	<u>\$8,015,460</u>	<u>\$7,873,270</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT FUND FINANCIAL ANALYSIS (CONTINUED)

GOVERNMENT FUND FINANCIAL ANALYSIS

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

TABLE 3
BALANCE SHEET

	<u>2009</u>	<u>2008</u>
Assets:		
Total assets – Major Funds	\$ 8,887,310	\$ 4,650,905
Total assets – Other Funds	<u>1,399,764</u>	<u>1,958,173</u>
Combined total assets	<u>10,287,074</u>	<u>6,609,078</u>
Liabilities:		
Total liabilities – Major Funds	4,050,829	2,444,390
Total liabilities – Other Funds	<u>510,037</u>	<u>390,061</u>
Combined total liabilities	<u>4,560,866</u>	<u>2,834,451</u>
Fund Balances:		
Reserved – Major Funds	6,072,919	3,456,550
Reserved – Other Funds	889,727	1,568,112
Unreserved – Major Funds	<u>(1,236,438)</u>	<u>(1,250,035)</u>
Combined total fund balances	<u>5,726,208</u>	<u>3,774,627</u>
Total liabilities and fund balances	<u>\$10,287,074</u>	<u>\$ 6,609,078</u>

TABLE 4
CHANGES IN FUND BALANCE

	<u>2009</u>	<u>2008</u>
Revenues:		
Total revenues – Major Funds	\$7,148,479	\$5,824,723
Total revenues – Other Funds	<u>971,791</u>	<u>1,055,070</u>
Combined total revenues	<u>8,120,270</u>	<u>6,879,793</u>
Expenditures:		
Total expenditures – Major Funds	6,659,795	5,544,639
Total expenditures – Other Funds	<u>1,633,894</u>	<u>897,078</u>
Combined total expenditures	<u>8,293,689</u>	<u>6,441,717</u>
Other financing sources (uses):		
Proceed from issuance of bonds	2,125,000	-
Transfer – In	627,398	-
Transfer – Out	<u>(627,398)</u>	<u>-</u>
Combined other financing sources (uses), net	<u>2,125,000</u>	<u>-</u>
Net changes in fund balance	1,951,581	438,076
Fund Balance – beginning, as restated	<u>3,774,627</u>	<u>3,336,551</u>
Fund Balance – ending	<u>\$5,726,208</u>	<u>\$3,774,627</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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. At June 30, 2009, the Municipality's governmental funds reported combined ending fund balances of \$5,726,208, an increase of \$1,951,581 from the prior year.

The Municipality has an unreserved fund deficit of \$1,236,438 in its General Fund. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed; (a) to liquidate prior year obligations (\$57,189) (b) to pay debt service (\$295,326) and (c) for other restricted purposes (\$6,610,131).

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 2009 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ The original budget was amended to increase expenditures between expenditures accounts.
- ❖ In addition, the expenditures were increased by a prior year allocation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2009 amounted to \$8,412,866 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, and bridges. **Table 5** present the major classes of capital assets.

Capital Assets	Amount
Land	\$3,366,886
Buildings	4,846,452
Motor vehicles	197,793
Machinery and equipment	1,735
Total Assets	<u>\$8,412,866</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

LONG-TERM DEBT

At June 30, 2009 the Municipality had total of \$6,123,615 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$3,196,000 comprises debt backed by the full faith and credit of the government and \$2,927,615 is other obligations.

Table 6	
Long Term Debts	Amount
General obligations	\$3,196,000
Others	<u>2,927,614</u>
Total Long Term Debts	<u>\$6,123,614</u>

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 leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, sales 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 2009 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) 742-3510.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
STATEMENT OF NET ASSETS**

June 30, 2009

	Governmental Activities
ASSETS:	
Cash and Investments	\$ 3,469,386
Cash with Fiscal Agent	2,841,389
Receivables (net):	
Federal Grants	750,256
State Grants	30,487
Others	6,450
	7,097,968
Capital Assets (Note 4):	
Property, Plant and Equipment	11,951,490
Accumulated Depreciation	(3,538,624)
Total Capital Assets	8,412,866
Total Assets	15,510,834
 LIABILITIES:	
Accounts Payable and Accrued Expense	969,148
Accrued Interest	31,732
Due to Governmental Units	122,118
Deferred Revenue	248,762
Long-Term Liabilities (Note 10):	
Due within One Year	1,380,049
Due in More than One Year	4,743,565
Total Liabilities	7,495,374
 NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	6,317,866
Restricted for:	
Debt Service	295,326
Other Purposes	6,610,131
Unrestricted (Deficit)	(5,207,863)
Total Net Assets	\$ 8,015,460

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, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 519,823	-	-	-	(519,823)
General Government	1,675,614	-	-	-	(1,675,614)
Public Safety	260,421	-	102,842	-	(157,579)
Public Works	491,144	-	299,365	-	(191,779)
Culture and Recreation	130,292	-	-	1,983,851	1,853,559
Sanitation	178,802	-	-	-	(178,802)
Human Services and Welfare	940,498	-	-	-	(940,498)
Urban Development	3,514,609	-	-	-	(3,514,609)
Education	210,495	-	-	214,727	4,232
Interest on Long-Term Debt	56,382	-	-	-	(56,382)
Total Governmental Activities	\$ 7,978,080	-	402,207	2,198,578	(5,377,295)

General Revenues:

Taxes:

Property Taxes, levied for General Purposes	407,211
Property Taxes, levied for Debt Services	52,405
Volume of Business Taxes	155,365
Construction Taxes	287,726
Sales Taxes, levied for Other Purposes	1,228,533
Sales Taxes, levied for Debt Services	293,962
Intergovernmental	2,663,828
Rent	21,702
Miscellaneous	408,753

Total General Revenues 5,519,485

CHANGE IN NET ASSETS 142,190

Net Assets - Beginning of Year, as restated (Note 18) 7,873,270

NET ASSETS - END OF YEAR \$ 8,015,460

See accompanying notes to basic financial statements.

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

June 30, 2009

	General Fund	State Assignment Fund	CDBG Fund	Sales Tax Fund	Loans Fund	Other Governmental Funds	Total Funds
ASSETS:							
Cash	\$ 676,191	610,106	41,170	1,210,536	-	454,713	2,992,716
Cash with Fiscal Agent	-	-	-	-	2,553,350	764,709	3,318,059
Receivables:							
Federal Grants	-	-	659,303	-	-	90,953	750,256
State Grants	-	4,618	-	-	-	25,869	30,487
Due from Other Funds	432,734	2,692,852	-	-	-	63,520	3,189,106
Others	6,450	-	-	-	-	-	6,450
Total Assets	\$ 1,115,375	3,307,576	700,473	1,210,536	2,553,350	1,399,764	10,287,074
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts Payable and Accrued Liabilities	\$ 84,602	307,425	199,287	213,975	-	36,940	842,229
Bonds and Notes Payable	-	-	-	-	-	125,000	125,000
Accrued Interest	-	-	-	-	-	31,732	31,732
Due to Governmental Units	124,037	-	-	-	-	-	124,037
Due to Other Funds	1,981,550	-	501,186	60,818	473,514	172,038	3,189,106
Deferred Revenue:							
Volume of Business Tax	104,435	-	-	-	-	-	104,435
Federal Grants	-	-	-	-	-	144,327	144,327
Total Liabilities	2,294,624	307,425	700,473	274,793	473,514	510,037	4,560,866
Fund Balances:							
Reserve For:							
Encumbrances	57,189	-	-	-	-	-	57,189
Debt Service	-	-	-	-	-	295,326	295,326
Other Purposes	-	3,000,151	-	935,743	2,079,836	594,401	6,610,131
Unreserved (Deficit)	(1,236,438)	-	-	-	-	-	(1,236,438)
Total Fund Balances	(1,179,249)	3,000,151	-	935,743	2,079,836	889,727	5,726,208
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,115,375	3,307,576	700,473	1,210,536	2,553,350	1,399,764	10,287,074

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, 2009

	General Fund	State Assignment Fund	CDBG Fund	Sales Tax Fund	Loans Fund	Other Governmental Funds	Total Funds
REVENUES:							
Property Taxes	\$ 407,211	-	-	-	-	52,405	459,616
Volume of Business Taxes	155,365	-	-	-	-	-	155,365
Sales Taxes	-	-	-	1,228,533	-	293,962	1,522,495
Federal Assistances	-	-	846,040	-	-	426,574	1,272,614
Intergovernmental	2,663,828	1,129,321	-	-	-	198,850	3,991,999
Licenses and Permits	287,726	-	-	-	-	-	287,726
Rent	21,702	-	-	-	-	-	21,702
Miscellaneous	408,753	-	-	-	-	-	408,753
Total Revenues	3,944,585	1,129,321	846,040	1,228,533	-	971,791	8,120,270
EXPENDITURES:							
Current:							
Mayor and Municipal Legislature	519,823	-	-	-	-	-	519,823
General Government	1,627,457	-	-	-	8,662	230,499	1,866,618
Public Safety	155,784	-	-	-	-	104,637	260,421
Public Works	491,144	-	-	-	-	-	491,144
Culture and Recreation	130,292	-	-	-	-	-	130,292
Sanitation	178,802	-	-	-	-	-	178,802
Human Services and Welfare	212,967	809	-	297,862	-	428,860	940,498
Urban Development	-	881,312	846,040	628,659	680,182	478,021	3,514,214
Education	-	-	-	-	-	210,495	210,495
Debt Service:							
Principal	-	-	-	-	-	125,000	125,000
Interest and Other Charges	-	-	-	-	-	56,382	56,382
Total Expenditures	3,316,269	882,121	846,040	926,521	688,844	1,633,894	8,293,689
OTHER FINANCING SOURCES (USES):							
Proceed of Bond Issuance	-	-	-	-	2,125,000	-	2,125,000
Transfer- In	-	-	-	-	-	627,398	627,398
Transfer- Out	(627,398)	-	-	-	-	-	(627,398)
Total Other Financing Sources and Uses	(627,398)	-	-	-	2,125,000	627,398	2,125,000
Net Change in Fund Balances	918	247,200	-	302,012	1,436,156	(34,705)	1,951,581
Fund Balance - Beginning as Restated (Note13)	(1,180,167)	2,752,951	-	633,731	643,680	924,432	3,774,627
Fund Balances - Ending	\$(1,179,249)	3,000,151	-	935,743	2,079,836	889,727	5,726,208

05/20/09
05/20/09

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Total Fund Balances – Governmental Funds **\$ 5,726,208**

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

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

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

Some 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	(3,196,000)	
Compensated Absences	(404,175)	
Claims & Judgments	(109,518)	
Law 42	(2,350,781)	
LIMS	(9,348)	
Law146	(7,886)	
Treasury Department	(5,567)	
CRIM Settlement	<u>(40,339)</u>	
Total Long-Term Liabilities		<u>(6,123,614)</u>

Total Net Assets of Governmental Activities **\$ 8,015,460**

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

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, 2009

Net Change in Fund Balances – Total Governmental Funds		\$ 1,951,581
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds received was		(2,125,000)
Repayment of debt proceeds 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.		125,000
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:		
Increased in Compensated Absences	(44,369)	
Decrease in Claims & Judgments	205,220	
Decrease in Law 42	45,393	
Decrease in LIMS	3,372	
Decrease in Law 146	343	
Decrease in Social Security Debt	9,853	
Decrease in Treasury Department Debt	11,136	
Increased in CRIM Settlement	<u>(40,339)</u>	
Total Additional Expenditures		<u>190,609</u>
Change in Net Assets of Governmental Activities		<u>\$ 142,190</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

STATEMENT OF REVENUES AND EXPENDITURES –
BUDGET AND ACTUAL – BUDGET BASIS – GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows)				
Property Taxes	\$ 385,647	385,647	407,211	21,564
Volume of Business Taxes	166,294	166,294	152,495	(13,799)
Intergovernmental Revenues	2,663,581	2,663,581	2,663,828	247
License and Permits	525,368	525,368	284,146	(241,222)
Rent	20,000	20,000	21,702	1,702
Miscellaneous	329,875	329,875	390,250	60,375
Prior Year Allocation	-	498,061	-	(498,061)
Total Resources (Inflows)	<u>4,090,765</u>	<u>4,588,826</u>	<u>3,919,632</u>	<u>(669,194)</u>
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature	639,872	639,872	530,632	109,240
General Government	2,116,122	2,100,872	1,575,516	525,356
Public Safety	225,180	225,688	155,959	69,729
Public Works	518,741	536,731	493,862	42,869
Culture and Recreation	184,987	170,116	133,538	36,578
Sanitation	172,471	182,012	178,802	3,210
Human Services and Welfare	233,392	235,474	209,687	25,787
Transfers to Other Funds	-	498,061	498,061	-
Total Charges to Appropriations	<u>4,090,765</u>	<u>4,588,826</u>	<u>3,776,057</u>	<u>812,769</u>
Excess (Deficiency) of Revenues over Expenditures	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>143,575</u></u>	<u><u>143,575</u></u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Culebra, Puerto Rico (Municipality) was founded in the year 1880, and operates as a governmental unit of the Commonwealth of Puerto Rico, under Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipality Act of the Commonwealth of Puerto Rico (Law No. 81)*.

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature, which consists of 4 Legislators also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban and economic development, and many 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, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established new financial reporting requirements for state and local governments. On July 1, 2002, the Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below.

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, 2009, 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.

According to the new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

The required supplementary information, which consists of a management discussion and analysis (MD&A), is information presented along with, but separate from, the Municipality's basic financial statements. The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2009, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As previously mentioned, on July 1, 2002, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 – *Accounting and Financial Reporting for Non-exchange Transactions*, (2) GASB Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, (3) GASB Statement No. 38 – *Certain Financial Statement Note Disclosures* and (4) GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB No. 34 also required that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, in conjunction and simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 – *Accounting Changes*, (2) APB Opinion No. 21 – *Interest on Receivables and Payables*, (3) FASB Statement No. 5 – *Accounting for Contingencies* and (4) FASB Statement No. 16 – *Prior Period Adjustments*. The Municipality has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

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.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Municipality as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2009, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting

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 Non-exchange 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, 2009, 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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:

- ❖ **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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

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 funds:

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 primary objectives of this assignments is the development of projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

CDBG Fund – CDBG Fund is used to account for revenues derived from the Department of Housing and Urban Development, related to Community Development Block Grants – State Program.

Sales Tax Fund – This is the fund used to account for all the transactions related to the citizenship contribution of 1.0% over all business or personal transactions related to sale of goods and services made on the Municipality. In addition, this fund is used to account the State contribution to the Municipality of the Sales Tax. The resources collected by this tax are used in activities like health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, public safety and maintenance of all public facilities of the Municipalities.

Loans Fund – This is the fund used to account for all financial resources and transactions related to the loans for operational purposes, construction purposes and capital outlays of the Municipality, which is financed by loans from the Government Development Bank of Puerto Rico.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Reporting Presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund – Is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Fund– This is the fund used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state statutes.

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

Capital Projects Fund – This is the fund used to account for financial resources used for the acquisition or construction of major capital facilities. The uses and limitations of each capital projects fund are specified by Municipality ordinances or state statutes.

E. 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 supplemental appropriations. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

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:

- ❖ Prior of May 31 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;
- ❖ The budget document is available for public inspection prior to its approval by the Municipal Legislature;
- ❖ 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;
- ❖ Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
- ❖ 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;
- ❖ 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;
- ❖ Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general fund's budgetary basis and GAAP actual amounts is presented as follows:

SOURCES/INFLOWS OF RESOURCES:	
Available for appropriations	\$3,919,632
Difference – Budget to GAAP:	
Prior and current adjustments to revenues	<u>24,953</u>
TOTAL REVENUES AS REPORTED ON STATEMENT OF GOV. REVENUES AND EXPENDITURES	<u>\$3,944,585</u>
USES/OUTFLOWS OF RESOURCES:	
Appropriations	\$3,776,057
Difference – Budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources but are expenditures for financial reporting purposes	88,490
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes	(50,217)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(498,061)
Adjustment to expenditures	<u>-</u>
TOTAL EXPENDITURES AS REPORTED ON THE STATEMENT OF GOV. REVENUES AND EXPENDITURES	<u>\$3,316,269</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

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 Major and Non Major 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.

F. 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.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

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

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The 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.

G. Receivables

Receivable are stated net 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.

H. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Capital Assets	Years
Buildings and site improvements	20-50
Infrastructure	20-50
Works of art	5-10
Vehicles	5-10
Furniture and fixtures	5-10
Machinery and equipment	5-20

J. Long-Term Obligations

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

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

K. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences (Continued)

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.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2009.

<u>BALANCE</u> <u>JULY 1, 2008</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2009</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 359,806	44,369	-	404,175	141,461	262,714

L. 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.

M. 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 reciprocal and nonreciprocal interfund activities:

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Reservations of Fund Balance – Governmental Funds

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

- ❖ **Encumbrances** – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- ❖ **Debt Service Fund** – Represents net assets available to finance future debt service payments. 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.
- ❖ **Other Purposes** – Represents net assets available for specific use and/or legally segregated for other specific future use.

O. 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.

P. 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.

Q. Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Accounting for Pension Costs (Continued)

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

R. Risk Financing

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2009 amounted to \$84,665. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$93,123 for workers compensation insurance covering all municipal employees.

S. Municipal Solid Waste Landfill Closure and Post-closure Care Costs

Municipal solid waste landfill closure and post-closure care costs are accounted for under the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs*, issued by GASB (GASB No. 18.)

The estimated liability for municipal solid waste landfill closure and post-closure care costs (including monitoring and maintenance) includes an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill. In the government-wide statement of net assets, this liability should be recognized under the accrual basis of accounting over the useful life of the landfill, even though such costs will only be incurred near or after the close of the landfill.

The estimates of closing and post-closing costs include: (1) the cost of equipment and/or facilities that will be acquired near the time the landfill stops accepting waste or after for the purposes of post-closure care and monitoring, (2) the cost of applying the final cover and (3) the cost of post-closure maintenance and monitoring. The cost estimates required have not been determined by the Municipality (see Note 8).

T. Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2009:

- ❖ GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009;
- ❖ GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement establishes accounting and reporting requirements for derivative instruments, including hedge accounting. This statement is effective for periods beginning after June 15, 2009;

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Future Adoption of Accounting Pronouncements (Continued)

- ❖ GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement changes the classification and terminology of fund balances and amends the definitions of the different types of governmental funds. This statement is effective for periods beginning after June 15, 2010;
- ❖ GASB Concepts Statements No. 5, *Service Efforts and Accomplishments – an Amendment of GASB Concepts Statements No. 2*. This statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2. ;

The Municipality's management has concluded that the future adoption of these GASB Statements do not have any impact on the Municipality's basic financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

The Municipality's bank balances in commercial banks of \$676,191 in the General Fund, \$610,106 in the State Assignment Fund, \$41,170 in the CDBG Fund and the \$1,210,536 in the Sales Tax fund were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of \$454,713 that were fully collateralized.

The deposits at GDB of \$2,253,350 in the Loans Fund and \$764,709 in the Other Governmental Fund, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 – RECEIVABLES

A. Federal Grants Receivable

Federal grants receivable in the CDBG fund and in other governmental funds represent expenditures incurred not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants receivable:

<u>Description</u>	<u>Amount</u>
Community Development Block Grant – State Program	\$ 659,303
Child and Adult Care Development Block Grant	<u>90,953</u>
Total	<u>\$ 750,256</u>

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 3 – RECEIVABLES (CONTINUED)

B. State Government Receivables

State government receivables in other governmental funds represent expenditures incurred not yet reimbursed by the state agencies. Following is a detail of the state government receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Port Authority	\$ 4,618
Department of Labor and Human Resources – Law 52	<u>25,869</u>
Total	<u>\$ 30,487</u>

C. Due From Other Funds

Interfund receivables and payables at June 30, 2009 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	\$ 432,734
State Assignment Fund	General Fund	Loans between funds	1,918,029
State Assignment Fund	CDBG Fund	Reimbursable expenditures	232,263
State Assignment Fund	Other Governmental Funds	Reimbursable expenditures	8,228
State Assignment Fund	Loans Fund	Reimbursable expenditures	473,514
State Assignment Fund	Sales Tax Fund	Reimbursable expenditures	60,818
Other Governmental Funds	General Fund	Cash pool in the same bank account and reimbursable expenditures	<u>63,520</u>
Total			<u>\$ 3,189,106</u>

D. Other Receivables

Other receivables in other governmental funds, for the amount of \$6,450, represent \$2,870 of Volumes Business Tax receivables and \$3,580 for Licenses and Permits at June 30, 2009.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 – CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance July 1, 2008 As Restated	Additions	Retirements / Reclassifications	Balance June 1, 2009
Capital asset, not being depreciated:				
Land	\$ 3,366,886	-	-	3,366,886
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>3,366,886</u>	-	-	<u>3,366,886</u>
Capital assets, being depreciated:				
Buildings	6,285,605	-	-	6,285,605
Infrastructure	-	-	-	-
Machinery and equipment	672,604	-	-	672,604
Motor vehicles	1,626,395	-	-	1,626,395
Total capital assets being depreciated	<u>8,584,604</u>	-	-	<u>8,584,604</u>
Total cost basis of capital assets	<u>11,951,490</u>	-	-	<u>11,951,490</u>
Less accumulated depreciation for:				
Buildings	(1,439,153)	-	-	(1,439,153)
Infrastructure	-	-	-	-
Machinery and equipment	(670,869)	-	-	(670,869)
Motor vehicles	(1,428,602)	-	-	(1,428,602)
Total accumulated depreciation	<u>(3,538,624)</u>	-	-	<u>(3,538,624)</u>
Total capital assets being depreciated, net	<u>5,045,980</u>	-	-	<u>5,045,980</u>
Governmental activities capital assets, net	<u>\$ 8,412,866</u>	-	-	<u>8,412,866</u>

Due to incomplete Capital Assets accounting records depreciation expense could not be determined to be charged to the following governmental functions/programs:

Governmental activities	Amount
General government	\$ -
Urban development	-
Education	-
Public Safety	-
Public Works	-
Culture and Recreation	-
Human services and welfare	-
Total depreciation expenses	<u>\$ -</u>

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

The Municipality has not maintained complete accounting records of the capital assets and, accordingly, the above balances have not been updated. Also, GASB Statement No. 34 requires to retroactively applying the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES LIABILITIES

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2008-2009, and not paid by the Municipality at June 30, 2009. Following is a detail of these accounts payable and accrued liabilities:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 38,789	45,813	84,602
State Assignment Fund	307,425	-	307,425
CDBG Fund	199,287	-	199,287
Sales Tax Fund	213,975	-	213,975
Other Governmental Funds	<u>36,940</u>	-	<u>36,940</u>
Total	<u>\$ 796,416</u>	<u>45,813</u>	<u>842,229</u>

NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2009, balance due to other governmental units consists of the following:

Governmental Agency	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 1,919
State Department of Treasury	118,231
General Service Administration	<u>3,887</u>
Total	<u>\$ 124,037</u>

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 7 – DEFERRED REVENUES

- A. Volume of business tax** – The deferred revenues of \$104,435 in the general fund relates to volume of business tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.
- B. Federal Grants** – The deferred revenues presented in the head start fund and in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Child Care Food Program	\$ 38,697
Public Assistance Grants	6,003
Special Programs for the Aging Title III-Part B	37,613
Economic Development Administration	5,522
Rural Development	9,726
Loans Account	46,766
Total	<u>\$ 144,327</u>

NOTE 8 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2009 is as follows:

<u>Description</u>	<u>Beginning Balance, as restated</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and Notes Payable	\$ 1,196,000	2,125,000	125,000	3,196,000	1,031,000
Property Tax Advances – Treasury Department	16,703	-	11,136	5,567	5,567
Property Tax Debt – Law 42	2,396,174	-	45,393	2,350,781	48,245
Compensated absences	359,806	44,369	-	404,175	141,461
LIMS Repayment Plan	12,720	-	3,372	9,348	3,576
Property Tax Debt – Law 146	8,229	-	343	7,886	343
Claims and Judgments	314,738	-	205,220	109,518	109,518
CRIM Settlement 2008-2009	-	40,339	-	40,339	40,339
Social Security	9,853	-	9,853	-	-
Estimated liability for municipal solid waste landfill closure and post-closure care costs	-	-	-	-	-
Total	<u>\$ 4,314,223</u>	<u>2,209,708</u>	<u>400,317</u>	<u>6,123,614</u>	<u>1,380,049</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2009, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$220,000, Series 2005, for capital outlay purposes, payable in semiannual installments ranging from \$25,000 to \$35,000, excluding interest at 4.62%, through July 1, 2011.	\$ 70,000
\$220,000, Series 2006, for capital outlay purposes, payable in semiannual installments ranging from \$25,000 to \$35,000, excluding interest at 6.00%, through July 1, 2012.	105,000
\$926,000, Series 2006, for capital outlay purposes, payable in July 1, 2010, excluding interest at 4.50%	926,000
\$2,125,000, Series 2009, for construction purposes, payable in annual installments ranging from \$30,000 to \$175,000, excluding interests at 7.50%, through July 1, 2033	<u>2,095,000</u>
Total General Obligations – Bonds	<u>\$ 3,196,000</u>

These bonds, except by the \$2,125,000 bond, are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. Bond amounting \$2,125,000 is payable with the Sales Tax resources, and the Government Development Bank for Puerto Rico retains the payment of principal and interest.

B. BONDS AND NOTES AMORTIZATION

The annual requirements to amortize the general obligations outstanding as of June 30, 2009 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2010	\$1,031,000	136,960	1,167,960
2011	105,000	160,317	265,317
2012	75,000	153,975	228,975
2013	40,000	148,875	188,875
2014	45,000	145,875	190,875
2015-2019	280,000	675,500	955,500
2020-2024	400,000	551,249	951,249
2025-2029	580,000	377,250	957,250
2030-2034	<u>640,000</u>	<u>123,750</u>	<u>763,750</u>
Total	<u>\$3,196,000</u>	<u>2,473,751</u>	<u>5,669,751</u>

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)

C. PROPERTY TAX ADVANCES – TREASURY DEPARTMENT

The Municipality entered into a financing agreement with the Puerto Rico Treasury Department to pay a debt related to the excess of property tax advances over collections made by the Puerto Rico Treasury Department prior to the creation of CRIM in 1993. The outstanding principal balances of the note payable to the Puerto Rico Treasury Department amounted to \$5,567 at June 30, 2009.

D. PROPERTY TAX DEBT – LAW 42

The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$2,350,781.

E. COMPENSATED ABSENCES

The government-wide statement of net assets includes \$404,175 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

F. LIMS REPAYMENT PLAN

The Municipality entered into a financing agreement with the CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by the CRIM on behalf of all municipalities, for the management of a digital database of taxpayer's properties located in Puerto Rico. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$9,348.

G. PROPERTY TAX DEBT – LAW 146

On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$7,886.

H. CRIM Settlements

Fiscal year final settlements – For the fiscal year ended on June 30, 2009 the CRIM notify to the Municipality that the preliminary settlement of property tax advances versus actual collections through fiscal year 2009 result in an overpayment to the Municipality of \$40,339.

I. CLAIMS AND JUDGMENTS

Liabilities of \$109,518 reported in the statement of net assets represent the balance owed for claims and judgments at June 30, 2009, as described in Note 16.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 9 – LANDFILL CLOSURE AND POST-CLOSURE 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 Post-closure 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 days after closure. Although closure and post-closure 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 post-closure 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 post-closure care costs of the solid waste landfill using current cost allocated based on the actual landfill capacity used at June 30, 2009.

NOTE 10 – DEBT RETIREMENT

Revenues of the debt service fund consist 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.

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality. 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 11 – PROPERTY TAXES

The Municipality is authorized by Law No. 81 to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2009 was 6.08% (of which taxpayers pay 5.25% and 1.03% is reimbursed by the Department of Treasury).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated to 1957 market prices. The total real property tax rate in force at June 30, 2009 was 8.08% (of which 7.25% is paid by taxpayers and 1.03% is also reimbursed by the Department of Treasury).

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4% and 6% for personal and real property, respectively) to the Municipality, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 11 – PROPERTY TAXES (CONTINUED)

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to the Municipality based on the initial estimated collections. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than each December 31. If CRIM remits to the Municipality property tax advances, which are less than the property tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 81 provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied and collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.50% of the total personal and real property taxes collected by CRIM is restricted for the Municipality's debt service requirements and is retained by GDB for such purposes.

The Additional Lottery System of the Commonwealth (the "Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- ❖ Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- ❖ An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

NOTE 12 – VOLUME OF BUSINESS TAXES

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Culebra. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2009, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 12 – VOLUME OF BUSINESS TAXES (CONTINUED)

Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax returns. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration.

The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5% discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues in the GWFS and the GFFS (See Note 7).

NOTE 13 – SALES TAXES

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on July 1, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

NOTE 14 – 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 State Assignment, Sales Tax and Loans Funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 15 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2009, are summarized as follows:

Transfer Out	Transfer In	Purpose	Amount
General Fund	Other Governmental Fund	Creation of a new Special Revenue Fund	\$ 498,061
General Fund	Other Governmental Fund	To cover operating expenditures	<u>129,337</u>
Total			<u>\$ 627,398</u>

NOTE 16 – EMPLOYEE'S RETIREMENT PLAN

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

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

The Municipality adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution programs to the new savings 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 16 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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:

- ❖ The present value of the future pension payments was computed by using a discount of 9%.
- ❖ 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:

<u>YEARS OF SERVICE</u>	<u>PARTICIPANT'S AGE</u>	<u>PENSION BENEFITS</u>
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 2006 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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 16 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2009 was approximately \$108,960. 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, 2009. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public 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, P.R. 00940.

NOTE 17 – CONTINGENCIES

Under GASB Statement No. 50, Pension Disclosures, the note disclosures for pension plans of governmental entities have been expanded. However, the methods of measurement and recognition have not changed and remain defined by Statements No. 25 and No. 27.

The changes required on pension disclosures have the intention of align the reporting requirements for pension plans with the requirements for other post employment benefits (OPEB). As noted previously, the Municipality of Culebra does not offer its employees post-employment benefits plan, apart from the aforementioned Employee's Retirement System.

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. With respect to pending litigation, the Municipality has reported liabilities of \$109,518 in the government wide statement of net assets.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

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 counsels with the information currently available cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 17 – CONTINGENCIES (CONTINUED)

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 18 – ACCOUNTING CHANGES AND RESTATEMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund
Fund balance, beginning	\$(1,113,619)
Adjustment to accounts receivables not supported in prior years	<u>(66,548)</u>
Fund balance, beginning as restated	<u>\$ (1,180,167)</u>

The general fund deficit had incurred in substantial excess of expenditures over revenues (deficit) prior to fiscal year 2007-2008 however, it has incurred excess in revenues over expenditures during the most recent two years, and, therefore, the deficit has been reduced to \$1,180,167.

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

Description	Total
Net assets, beginning	\$ 7,939,818
Adjustment to accounts receivables not supported in prior years Adjustment to bonds and interest payables	<u>(66,548)</u>
Net assets, beginning as restated	<u>\$ 7,873,270</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 19 – SUBSEQUENT EVENTS

A. THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act of 2009 (ARRA), is an economic stimulus package endorsed by the President of the United States of America, and approved by Congress. This Act is designed primarily to combat the rising unemployment trends, put more money in the hands of consumers, and reduce the likelihood that state and local governments will need to raise taxes significantly. According to the White House press release, the legislation will do the following:

- ❖ Create or save 3.5 million jobs in the next 2 years;
- ❖ Provide direct tax relief to working and middle class families;
- ❖ Double the U.S. renewable energy generating capacity over 3 years;
- ❖ Stimulate private investment in renewable energy through tax credits and loan guarantees;
- ❖ Invest \$150 billion in U.S. infrastructure projects, and;
- ❖ Provide funds to U.S. state and local governments to support health and education programs.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5.6 million in grants and is eligible to obtain additional funding through other competitive federal programs. Therefore, the Municipality will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

B. INVESTMENT ON OUR INFRASTRUCTURE PLAN (PINI)

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 9, which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The following are the objectives of this Plan:

- ❖ Provide an immediate stimulus to the economy through funding of infrastructure Projects Island wide, and;
- ❖ Speed-up priority infrastructure projects in all municipalities of Puerto Rico.

In the first phase, the municipalities can use the funds for the following:

- ❖ Funding of essential infrastructure, and;
- ❖ Those municipalities with deficit can use those them to partially or fully liquidate existing debts with governmental agencies.

The Municipality assigned these funds for construction of infrastructure.



NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

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, 2009, which collectively comprise **Municipality of Culebra's** basic financial statements and have issued our report thereon dated December 21, 2009. The report on the Governmental Activities has an adverse opinion because we were unable to obtain sufficient evidence related to the Capital Assets and **the Municipality** was not in compliance with GASB-18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs*. 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. As 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 Finding and Questioned Costs to be significant deficiencies in internal control over financial reporting. See Findings II-09-01 and II-09-02.

**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
(Continuation)**

Internal Control Over Financial Reporting

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.

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 II-09-01 and II-09-02 to be material weaknesses.

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 II-09-01 and II-09-02.

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.

December 21, 2009
San Juan, Puerto Rico

Nieves Velazquez & Co., P.S.C.

CPA Stamp No. 2320847 was affixed
to the original of this report.





NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

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 on 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, 2009. **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.

In our opinion, **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, 2009. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items III-09-1 and III-09-2.

**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
(Continuation)**

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 III-09-1 and III-09-2 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 requirements 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 Findings 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Municipality** as of and for the year ended June 30, 2009, and have issued our report thereon dated December 21, 2009. Our audit was performed for the purpose of forming an opinion 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 OMB Circular A-133 and is not a required part of the basic financial statements. Such information has 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.

**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
(Continuation)**

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.

December 21, 2009
San Juan, Puerto Rico

Nieves Velázquez & Co., P.S.C.

CPA Stamp No. 2320848 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, 2009

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	\$ 22,751
U.S. Department of Housing and Urban Development:			
Pass Through State – Office of the Commissioner of Municipal Affairs			
Community Development Block Grant Program	14.228	Various	846,040
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	106,714
Pass-Through Administration of Children and Families: Child Care and Development Block Grant	93.575	N/AV	184,661
U.S. Department of Homeland Security:			
Pass- Through Office of the Governor:			
Public Assistant Grant	97.036	N/AV	68,807
Homeland Security Grant Program	97.067	N/AV	<u>102,842</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$1,331,815</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. **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. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

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.

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 sub-recipient. Numbers identified as N/AV are not available.

5. MAJOR PROGRAMS

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

6. RECONCILING OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE GENERAL PURPOSE FINANCIAL STATEMENTS

Amounts included in the accompanying schedule agree with the amounts included in the basic financial statements as follows:

<u>FUND</u>	<u>FEDERAL ASSISTANCE</u>	<u>OTHER ASSISTANCE</u>	<u>FINANCIAL STATEMENTS</u>
CDBG	\$ 846,040	-	846,040
Other Governmental	<u>485,775</u>	<u>848,119</u>	<u>1,333,894</u>
Totals	<u>\$1,331,815</u>	<u>848,119</u>	<u>2,179,934</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor's Results

Financial Statements

- Type of auditors' report issued: **Unqualified Opinion, except for adverse opinion for Government-wide Financial Statement**

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 Program: **Unqualified Opinion**

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

14.228

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 FISCAL YEAR ENDED JUNE 30, 2009

Section II – Financial Statement Findings

FINDING	II-09-1
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. This finding is repeated from prior years.
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 Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement 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 capital 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	Actually, the Municipality's Property Division is updating the capital assets inventory. In addition, the Municipality is considering engaging with an external consultant to help update the subsidiary ledger of the capital assets, including the infrastructure, in order to comply with the GASB No. 34 capital assets requirements for the fiscal year ended on June 30, 2009.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section II – Financial Statement Findings

FINDING	II-09-2
CATEGORY	INTERNAL CONTROLS
TOPIC SENTENCE	ACCOUNTING SYSTEM
CONDITIONS	<p>The accounting system and manuals used by the Municipality to account and register the financial transactions during the fiscal year does not provide for the summarization of transactions that permit the preparation of Municipality's financial statements in conformity with the General Accepted Accounting Principles of the United States of America (GAAP). This finding is repeated from prior year.</p>
CRITERIA	<p>According to Article 8.010(a) and (b) of Law Num. 81 for the Municipalities of Puerto Rico, the computerized system and the procedures of accounting and property will be design so that it allows the Municipality to carry out its functions, at the same time as they serve to maintain an uniform and coordinated accounting, that provide a complete picture of the financial operations of the Municipality and the necessary financial information that assist the Municipality Legislature, the Governor, and the Secretary of the Puerto Rico Treasury Department in the performance of its respective responsibilities. Municipalities accounting will be based on funds, Generally Accepted Accounting Principles and the requirements established by the Governmental Accounting Standard Board. Also the pronouncements of the National Committee on Governmental Accounting and the "Blue Book" will be used to design municipalities' accounting systems and fiscal procedures.</p>
CAUSE	<p>Municipality's accounting system and financial reports are subject to State's agencies requirements which does not allow nor provide the Municipality with the necessary tools capable of recapturing the financial information and provide financial statements.</p>
EFFECT	<p>The lack of an adequate accounting system which can captures all the financial information and generates Municipality's financial statements for each fiscal year affect the Municipality ability to measure the financial and non-financial performance of programs and activities; adequately safeguard significant assets and properly record various transactions; and hinder the Municipality from having reliable financial information to operate in an economical, efficient, and effective manner.</p> <p>Sound decisions on the current results and future direction of vital programs and policies are made more difficult without timely, reliable and useful financial performance information.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section II – Financial Statement Findings

FINDING	II-09-2 (Continuation)
RECOMMENDATION	The Municipality should establish and implement the necessary measures that allow the summarization of the financial transactions in order to prepare the financial statements in conformity with GAAP.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	<p>The Municipality maintains two (2) set of accounting records; a manual system and a uniform computerized accounting system. The manual system is the primary financial records for financial statements preparation purposes at the end of each fiscal year due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accumulated accounting errors.</p> <p>In a short term, we are in the process of implementing the Peachtree Accounting Software in order to maintain monthly reconciled records of all of our funds and the accounting information centralized in one computerized system.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section III – Federal Award Findings and Questioned Costs

FINDING	III-09-1
CATEGORY	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.228) 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
CONDITIONS	Federal Program Department does not have a property register that includes all the required information; it only includes the property number and its description.
CRITERIA	Subpart C, 24 CFR 85.32(d)(1), stated that property records must be maintained and its shall includes: 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 and sales price of property. 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.
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.
EFFECT	The Municipality is not in compliance with Subpart C, 24 CFR 85.32(d)(1).
RECOMMENDATION	The Municipality should revise and update its property records according to the federal regulation.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	The program staff were instructed to update the Program capital assets subsidiary ledger in order to comply with the 24 CFR, Subpart C, Section 85.32 (d)(1). In addition, see Management Response of Finding II-09-1.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section III – Federal Award Findings and Questioned Costs

FINDING	III-09-2
CATEGORY	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE- OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	Compliance
NONCOMPLIANCE	Suspension and Debarment
TOPIC SENTENCE	Lack of Control over Suspension and Debarment
CONDITIONS	<p>The Municipality does not have procedures in place to verify the status of an entity as to suspensions and debarments when contracting services or procuring goods with federal funds.</p> <p>In testing procurement, suspension and debarments, we were not able to find evidence indicating that the Municipality performs procedures to assure that the individuals and entities that receive contracts or sub-awards are not suspended or debarred from participation in federal programs.</p>
CRITERIA	As stated in 24 CFR 85.35 grantee and sub-grantee must not make any award or permit any award (sub-grant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal Assistance Program under Executive Order 12549, "Debarment and Suspension".
CAUSE	The Municipality has no policies and procedures for the use of the list of parties excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties.
EFFECT	As a result of this deficiency, the Municipality could have procured goods or services from organizations and individuals that are suspended or debarred which could result in cost disallowances by the federal awarding agency.
RECOMMENDATION	The Municipality should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. The Municipality should also require the entities or individuals to submit a certification stating that they are not suspended or debarred.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	We will improve our procurement procedures including a step to verify through the electronic version available on the Internet (http://epls.arnet.gov) whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2009

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2008	CDBG	08-03	<p><u>COMPLIANCE AND INTERNAL CONTROL</u></p> <p><u>EQUIPMENT AND REAL PROPERTY MANAGEMENT</u></p> <p>Federal Program Department does not have a property register that includes all the required information; it only includes the property number and its description. Subpart C, 24 CFR 85.32 (d)(1), stated that property records must be maintained and it shall include: 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 and sale price of property.</p> <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>	<p>Finding still prevails. See current year Finding III-09-1.</p>
		08-04	<p><u>COMPLIANCE</u></p> <p><u>PROCUREMENT</u></p> <p>Lack of adequate procurement procedures.</p> <p>In testing compliance with the procurement requirement, we examined the processes carried out to procure goods and services, which were paid during the fiscal year 2007-2008. In relation to such examination, we determined the Projects architecture design and supervision services were contracted without obtaining at least quotations or celebrating an adequate procurement process.</p>	<p>This year the testing provided compliance with the procurement procedures.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2009

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2008	CDBG	08-04	<p><u>COMPLIANCE</u></p> <p><u>PROCUREMENT (Continuation)</u></p> <p>24 CFR 85.36(c)(1)(4) state that all procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 85.36. Grantee and sub-grantees will ensure that all pre-qualified lists of persons, firms, or products, which are used in acquiring goods and services, are current and include enough qualified sources to ensure maximum open and free competition.</p> <p>Chapter VIII, Part III, Section I of the Basic Standards for the Municipalities of Puerto Rico establishes that public bids will be announced by the municipalities each time procure goods or constructions works which exceed \$40,000 and \$100,000, respectively.</p>	
		08-05	<p><u>COMPLIANCE</u></p> <p><u>SUSPENSION AND DEBARMENT</u></p> <p>Lack of controls over Suspension and Debarment</p> <p>The Municipality does not have procedures in place to verify the status of an entity as to suspensions and debarments when contracting services or procuring goods with federal funds.</p> <p>In testing procurements, suspension and debarments, we were not able to find evidence indicating that the Municipality performs procedures to assure that the individuals and entities that receive contracts or sub-awards are not suspended or debarred from participation if federal programs.</p> <p>As stated in 24 CFR 85.35 grantee and sub-grantee must not make any award or permit any award (sub-grant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal Assistance Program under Executive Order 12549, "Debarment and Suspension".</p>	Finding still prevails. See current year Finding III-09-2.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2009

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2008	CDBG	08-06	<p><u>COMPLIANCE</u></p> <p><u>SPECIAL TEST</u></p> <p>Disbursement of funds before the request for release of funds</p> <p>During the fiscal year 2007-2008, the Program encumbered funds amounting \$11,626 before the related request of release of funds (RROF) was authorized for disbursements by the Lead Agency (OCAM). Funds were encumbered or paid five to eight months before the approval of the RROF.</p> <p>As stated in 24 CFR 58.22 neither a recipient nor any participant in the development process, including public or private nonprofit or for-profit entities, or any of their contractors, may commit HUD assistance under a program listed in 58.1(b) on an activity or project until HUD or the state has approved the recipient's RROF and the related certification from the responsible entity. In addition, until the RROF and the related certification have been approved, neither a recipient nor any participant in the development process may commit non-HUD funds on or undertake an activity or project under a program listed in 58.1(b) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives.</p>	<p>We were informed that this finding was subsequently cleared by OCAM.</p>

AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: AS REPORTED BY PRIOR AUDITORS:

06/30/2007	07-02	<p><u>Equipment and Real Property Management-Property Register</u></p> <p>CFDA Number: 14.228</p> <p>Questioned Cost: None</p> <p>Auditee Comments: The Federal Programs Director will implement internal control procedures to assure compliance with this finding.</p>
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2009

AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: AS REPORTED BY PRIOR AUDITORS:
(Continuation)

06/30/2006	06-III-02	<u>Equipment and Real Property Management-Property Register</u> CFDA Number: 14.228 Questioned Cost: None Auditee Comments: The Federal Programs Director will implement internal control procedures to assure compliance with this finding.
06/30/2005	05-III-02	<u>Equipment and Real Property Management-Property Register</u> CFDA Number: 14.228 Questioned Cost: None Auditee Comments: The Federal Programs Director will implement internal control procedures to assure compliance with this finding.
06/30/2004	04-III-03	<u>Equipment and Real Property Management-Property Register</u> CFDA Number: 14.228 Questioned Cost: None Auditee Comments: The Federal Programs Director will implement internal control procedures to assure compliance with this finding.
06/30/2003	03-III-03	<u>Equipment and Real Property Management-Property Register</u> CFDA Number: 14.228 Questioned Cost: None Auditee Comments: The Federal Programs Director will implement internal control procedures to assure compliance with this finding.



TRAMITE DE CORRESPONDENCIA

25 Marzo/10

Dirigido a:

Fecha: _____

Hora: _____

Oficina del Comisionado

- | | |
|--|---|
| <input type="checkbox"/> Oficina del Comisionado | <input type="checkbox"/> Asesoramiento Legal |
| <input type="checkbox"/> Auditora Interna | <input type="checkbox"/> Oficial de Comunicaciones |
| <input type="checkbox"/> Asesor Convenio Colectivo | <input type="checkbox"/> Programa de Justicia Juvenil |

Comisionados Auxiliares

- | | |
|--|--|
| <input type="checkbox"/> Programas Federales | <input checked="" type="checkbox"/> Area de Asesoramiento,
Reglamentación e Int. Fiscal |
| <input type="checkbox"/> Sistemas de Información | <input type="checkbox"/> Organizaciones Comunitarias |
| <input type="checkbox"/> Código Orden Público | <input type="checkbox"/> Hogar Propio |
| <input type="checkbox"/> FEM | |

Administración

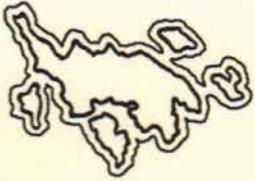
(Para uso de la Oficina de Administración)

- | | |
|--|--|
| <input type="checkbox"/> Recursos Humanos | <input type="checkbox"/> Finanzas |
| <input type="checkbox"/> Servicios Generales | <input type="checkbox"/> Presupuesto/Planificación |
| <input type="checkbox"/> Informática | |

TRÁMITE:

- | | | | |
|------------------------------------|-----------------------------------|--|---------------------------------|
| <input type="checkbox"/> Contestar | <input type="checkbox"/> Informar | <input type="checkbox"/> Discutir | <input type="checkbox"/> Firmar |
| <input type="checkbox"/> Revisar | <input type="checkbox"/> Aprobar | <input type="checkbox"/> Acción Pertinente | |

Asunto: _____



OFICINA DEL COMISIONADO
ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL DE CULEBRA
Apartado 189
Culebra, Puerto Rico



RECIBIDO
UNIDAD DE CORREO

10/03/0730

26 de marzo de 2010

Oficina del Comisionado de Asuntos Municipales
P.O. Box 70167
San Juan, Puerto Rico 00936-0167

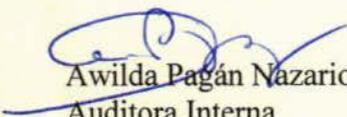
Estimados señores:

Saludos, desde nuestra Isla Bonita, Culebra.

Adjunto le incluyo el Informe de "Single Audit" 2008-2009 y copia de la Forma SF-SAC. Posteriormente se enviará el Plan de Acción Correctiva.

Agradecemos su atención.

Cordialmente,


Awilda Pagán Nazario
Auditora Interna

FORM SF-SAC (8-6-2008)

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 2008, 2009, or 2010

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

PART 1 GENERAL INFORMATION (To be completed by auditee, except for Items 6, 7, and 8)

1. Fiscal period ending date for this submission
2. Type of Circular A-133 audit
3. Audit period covered

4. Auditee Identification Numbers
a. Primary Employer Identification Number (EIN)
d. Data Universal Numbering System (DUNS) Number

5. AUDITEE INFORMATION
a. Auditee name
b. Auditee address
c. Auditee contact
d. Auditee contact telephone
e. Auditee contact FAX
f. Auditee contact E-mail

6. PRIMARY AUDITOR INFORMATION
a. Primary auditor name
b. Primary auditor address
c. Primary auditor contact
d. Primary auditor contact telephone
e. Primary auditor contact FAX
f. Primary auditor contact E-mail

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.

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.

Auditee certification Date
ELECTRONICALLY CERTIFIED 3/23/2010
Name of certifying official
SHIRLEY NAZARIO
Title of certifying official
FINANCE DIRECTOR

7a. Add Secondary auditor information? (Optional)
1 Yes 2 No
b. If "Yes," complete Part I, Item 8 on the continuation sheet on page 5.
Auditor certification Date
ELECTRONICALLY CERTIFIED 3/23/2010

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

Mark either: 1 Unqualified opinion **OR**
any combination of: 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

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

3. Is a significant deficiency disclosed? 1 Yes 2 No - SKIP to Item 5

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

5. Is any significant deficiency reported for any major program 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 U.S. Agency for International Development

10 Agriculture

23 Appalachian Regional Commission

11 Commerce

94 Corporation for National and Community Service

12 Defense

84 Education

81 Energy

66 Environmental Protection Agency

39 General Services Administration

93 Health and Human Services

97 Homeland Security

14 Housing and Urban Development

03 Institute of Museum and Library Services

15 Interior

16 Justice

17 Labor

09 Legal Services Corporation

43 National Aeronautics and Space Administration

39 National Archives and Records Administration

05 National Endowment for the Arts

06 National Endowment for the Humanities

47 National Science Foundation

07 Office of National Drug Control Policy

59 Small Business Administration

96 Social Security Administration

19 U.S. Department of State

20 Transportation

21 Treasury

64 Veterans Affairs

00 None

Other - Specify:

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PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

10. AUDIT FINDINGS

Federal Agency Prefix ¹ (a)	CFDA Number Extension ² (b)	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)
						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	\$ 22,751 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 4	.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM	\$ 846,040 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	FI	III-09-1 AND III-09-02
9 3	.045	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING TITLE III-PART B	\$ 106,714 .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	\$ 184,661 .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	.036	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANT PROGRAM	\$ 68,807 .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 7	.067	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOMELAND SECURITY GRANT PROGRAM	\$ 102,842 .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			
TOTAL FEDERAL AWARDS EXPENDED				\$ 1,331,815 .00					

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, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a) reported for each Federal program.

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act

- E. Eligibility
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds

- I. Procurement and suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance

- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None
- P. Other

⁵ N/A for NONE

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PART I GENERAL INFORMATION - Continued

8. Part I, Item 8, Secondary Auditor's Contact Information. (List the Secondary Auditor's Contact information)

1. a. Secondary Auditor name N / A	2. a. Secondary Auditor name	3. a. Secondary Auditor name
b. Secondary Auditor address (Number and street)	b. Secondary Auditor address (Number and street)	b. Secondary Auditor address (Number and street)
City	City	City
State ZIP + 4 Code	State ZIP + 4 Code	State ZIP + 4 Code
c. Secondary Auditor contact Name	c. Secondary Auditor contact Name	c. Secondary Auditor contact Name
Title	Title	Title
d. Secondary Auditor contact telephone	d. Secondary Auditor contact telephone	d. Secondary Auditor contact telephone
e. Secondary Auditor contact FAX	e. Secondary Auditor contact FAX	e. Secondary Auditor contact FAX
f. Secondary Auditor contact E-mail	f. Secondary Auditor contact E-mail	f. Secondary Auditor contact E-mail
4. a. Secondary Auditor name	5. a. Secondary Auditor name	6. a. Secondary Auditor name
b. Secondary Auditor address (Number and street)	b. Secondary Auditor address (Number and street)	b. Secondary Auditor address (Number and street)
City	City	City
State ZIP + 4 Code	State ZIP + 4 Code	State ZIP + 4 Code
c. Secondary Auditor contact Name	c. Secondary Auditor contact Name	c. Secondary Auditor contact Name
Title	Title	Title
d. Secondary Auditor contact telephone	d. Secondary Auditor contact telephone	d. Secondary Auditor contact telephone
e. Secondary Auditor contact FAX	e. Secondary Auditor contact FAX	e. Secondary Auditor contact FAX
f. Secondary Auditor contact E-mail	f. Secondary Auditor contact E-mail	f. Secondary Auditor contact E-mail

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