

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE CULEBRA**

**AUDITORIA 2010-2011**

**30 DE JUNIO DE 2011**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2011

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2011**

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

**Certified Public Accountants and Financial Consultants**

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### **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Municipality Legislative Body  
Municipality of Culebra  
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 as of and for the year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express 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 Governmental Audits 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 described in Note 1 to the financial statements, the Municipality does not record additions to capital assets nor has depreciation been recorded. Accounting principles generally accepted in the United States of America require that capital asset additions be capitalized and depreciated over their estimated useful lives, which would increase the assets, net assets and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determinable.

As discussed in Note 8 to the financial statements, the Municipality did not comply with the requirement established by Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Cost, issued by the Governmental Accounting Standards Boards and the regulation set forth by the U.S. Environment Protection Agency. At June 30, 2011, the accompanying statement of net assets does not include the required liability for closures 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, 2011.

**INDEPENDENT AUDITOR'S REPORT**  
(Continued)

In our opinion, because of the effects of not capitalizing capital asset additions, not recording depreciation, and not recording and disclose landfill cost, as discussed in the third and fourth paragraphs, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality of Culebra, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Culebra, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated January 20, 2012 on our consideration of the Municipality of Culebra' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information of the general fund on pages 3 through 9 and 41 through 42, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

January 20, 2012  
San Juan, Puerto Rico

Stamp No. 2490944 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

*Nieves Velázquez & Co., P.S.C.*



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 assets of the Municipality exceeded its liabilities at June 30, 2011 by \$7.7 million, and at June 30, 2010 by \$6.9 million, as restated;
- ❖ The Municipality's total net assets increased by \$824 thousand during fiscal year 2010-2011;
- ❖ As of June 30, 2011, the Municipality's governmental funds reported combined ending fund balances of \$4.6 million, an increase of \$56 thousand from the prior year;
- ❖ At June 30, 2011, the unrestricted deficit was \$4.0 million.
- ❖ The Municipality's capital assets inventory has no movement during fiscal year;
- ❖ The investment in capital assets for this year was not determinable;
- ❖ Loans principal payments were \$115,000 and \$105,000 in 2011 and 2010, respectively.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

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.

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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 \$7,724,954 as of June 30, 2011 versus \$6,901,335, as restated, as of June 30, 2010. Our analysis below focuses on the net assets (**Table 1**) and changes in net assets of the Municipality's governmental activities.

<b>Table 1</b>		
<b>Statement of Net Assets</b>	<b>2011</b>	<b>2010</b>
Current and non-current assets	\$ 5,324,374	\$ 5,597,028
Capital assets	8,412,866	8,412,866
<b>Total Assets</b>	<b>13,737,240</b>	<b>14,009,894</b>
Current liabilities	654,032	1,018,464
Long-term liabilities	5,358,254	6,090,095
<b>Total Liabilities</b>	<b>6,012,286</b>	<b>7,108,559</b>
Net assets:		
Investment in capital assets, net of related debt	6,352,866	5,321,866
Restricted	5,338,351	5,781,450
Deficit	(3,966,263)	(4,201,981)
<b>Total Net Assets</b>	<b>\$ 7,724,954</b>	<b>\$ 6,901,335</b>

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.

**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 \$4,789,819. 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 \$823,619.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**GOVERNMENTAL ACTIVITIES (CONTINUED)**

The Municipality experienced an increase in property taxes, sales taxes and other miscellaneous revenues. Also, a decreased in expenses of \$1,284,406 was reflected during fiscal year 2010-2011. The cost of all governmental activities this year was \$7,298,052. **Table 2** presents the cost of each of the Municipality's largest programs.

<b>Table 2</b>			
<b>Statement of Activities</b>		<b>2011</b>	<b>2010</b>
Revenues			
Grants and contributions	\$	2,508,233	\$ 2,850,011
General revenues:			
Property taxes		697,733	471,649
Volume of business taxes		178,566	148,026
Sales taxes		1,385,539	1,237,961
Intergovernmental		2,696,155	2,686,811
Rent		19,788	19,397
Licenses and permits		225,337	216,714
Miscellaneous		410,320	216,729
Total revenues		<u>8,121,671</u>	<u>7,847,298</u>
Expenses			
General government		2,498,912	2,064,223
Public safety		200,649	189,177
Public works		853,900	888,470
Culture and recreation		153,875	149,480
Human services and welfare		660,250	740,342
Urban development		2,662,151	4,312,268
Education		219,337	200,530
Interest on long-term debts		48,978	37,968
Total expenses		<u>7,298,052</u>	<u>8,582,458</u>
Changes in net assets		823,619	(735,160)
Net assets – beginning, as restated		<u>6,901,335</u>	<u>7,636,495</u>
<b>Net assets – ending, as restated</b>	<b>\$</b>	<b><u>7,724,954</u></b>	<b>\$ <u>6,901,335</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**GOVERNMENT FUND FINANCIAL ANALYSIS**

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

<b>Table 3</b>			
<b>Balance Sheet</b>		<b>2011</b>	<b>2010</b>
<b>Assets:</b>			
Total assets – Major Funds	\$	7,708,999	\$ 7,098,433
Total assets – Other Funds		576,143	1,439,632
Combined total assets		<u>8,285,142</u>	<u>8,538,065</u>
<b>Liabilities:</b>			
Total liabilities – Major Funds		3,159,182	3,485,627
Total liabilities – Other Funds		491,355	473,874
Combined total liabilities		<u>3,650,537</u>	<u>3,959,501</u>
<b>Fund Balances:</b>			
Restricted – Major Funds		5,253,563	4,712,009
Restricted – Other Funds		84,788	965,758
Unrestricted – Major Funds		(703,746)	(1,099,203)
Combined total fund balances		<u>4,634,605</u>	<u>4,578,564</u>
<b>Total liabilities and fund balances</b>	<b>\$</b>	<b><u>8,285,142</u></b>	<b>\$ <u>8,538,065</u></b>

<b>Table 4</b>			
<b>Changes in Fund Balances</b>		<b>2011</b>	<b>2010</b>
<b>Revenues:</b>			
Total revenues – Major Funds	\$	7,564,480	\$ 6,780,889
Total revenues – Other Funds		521,454	1,066,409
Combined total revenues		<u>8,085,934</u>	<u>7,847,298</u>
<b>Expenditures:</b>			
Total expenditures – Major Funds		7,849,494	7,847,982
Total expenditures – Other Funds		580,399	984,719
Combined total expenditures		<u>8,429,893</u>	<u>8,832,701</u>
<b>Other financing sources (uses):</b>			
Proceed from issuance of bonds		400,000	-
Transfer – In		15,927	-
Transfer – Out		(15,927)	-
Combined other financing sources (uses), net		<u>400,000</u>	<u>-</u>
Net changes in fund balance		56,041	(985,403)
Fund Balance – beginning, as restated		4,578,564	5,563,967
<b>Fund Balance – ending</b>	<b>\$</b>	<b><u>4,634,605</u></b>	<b>\$ <u>4,578,564</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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, 2011, the Municipality's governmental funds reported combined ending fund balances of \$4,634,605, an increase of \$56,041 from the prior year.

The Municipality has an unrestricted fund deficit of \$703,746 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 restricted; (a) to pay debt service (\$1,163,769) and (b) for other restricted purposes (\$4,174,582).

**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 2011 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.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2011 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** presents the major classes of capital assets.

<b>Table 5</b>	
<b>Capital Assets</b>	<b>Amount</b>
Land	\$ 3,366,886
Buildings	4,846,452
Motor vehicles	197,793
Machinery and equipment	<u>1,735</u>
<b>Total Assets</b>	<b><u>\$ 8,412,866</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**LONG-TERM DEBT**

At June 30, 2011 the Municipality had a total of \$5,358,254 in general obligations and other outstanding debts, as shown in **Table 6**. Of this amount, \$2,450,000 comprises debt backed by the full faith and credit of the government and \$2,908,254 is other obligations.

<b>Table 6 Long Term Debts</b>	<b>Amount</b>
General obligations	\$ 2,450,000
Others	<u>2,908,254</u>
<b>Total Long Term Debts</b>	<b><u>\$ 5,358,254</u></b>

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 2011 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**  
 STATEMENT OF NET ASSETS  
 June 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Cash	\$ 2,461,636
Cash with Fiscal Agent	2,261,807
Receivables (net):	
Property Tax	38,371
Sales Tax	20,374
Federal Grants	347,675
Intergovernmental	193,379
Other Assets	<u>1,132</u>
	<u>5,324,374</u>
Capital Assets:	
Property, Plant and Equipment	11,951,490
Accumulated Depreciation	<u>(3,538,624)</u>
Total Capital Assets	<u>8,412,866</u>
<b>Total Assets</b>	<b><u>13,737,240</u></b>
 <b>LIABILITIES:</b>	
Accounts Payable and Accrued Expense	282,853
Bonds Payable	115,000
Accrued Interest	29,337
Due to Governmental Units	10,957
Deferred Revenue	-
Volume of Business Tax	103,234
Federal Grants	112,651
Long-Term Liabilities:	
Due within One Year	162,332
Due in More than One Year	<u>5,195,922</u>
<b>Total Liabilities</b>	<b><u>6,012,286</u></b>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	6,352,866
Restricted for:	
Debt Service	1,163,769
Other Purposes	4,174,582
Unrestricted (Deficit)	<u>(3,966,263)</u>
<b>Total Net Assets</b>	<b><u>\$ 7,724,954</u></b>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF CULEBRA**  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature	\$ (494,702)	-	-	-	(494,702)
General Government	(2,004,210)	-	4,796	-	(1,999,414)
Public Safety	(200,649)	-	20,128	-	(180,521)
Public Works	(498,322)	-	-	-	(498,322)
Culture and Recreation	(153,875)	-	-	-	(153,875)
Sanitation	(355,578)	-	-	-	(355,578)
Human Services and Welfare	(660,250)	1,600	234,547	-	(424,103)
Urban Development	(2,662,151)	-	-	2,027,714	(634,437)
Education	(219,337)	4,632	214,816	-	111
Interest on Long-Term Debt	(48,978)	-	-	-	(48,978)
<b>Total Governmental Activities</b>	<b>\$ (7,298,052)</b>	<b>6,232</b>	<b>474,287</b>	<b>2,027,714</b>	<b>(4,789,819)</b>

General Revenues:

Taxes:

Property Taxes, levied for General Purposes	483,595
Property Taxes, levied for Debt Services	214,138
Volume of Business Taxes	178,566
Construction Taxes	225,337
Sales Taxes, levied for Other Purposes	1,093,955
Sales Taxes, levied for Debt Services	291,584
Intergovernmental	2,696,155
Rent	19,788
Miscellaneous	410,320
<b>Total General Revenues</b>	<b>5,613,438</b>

**CHANGE IN NET ASSETS**

Net Assets - Beginning of Year, as restated

**NET ASSETS - END OF YEAR**

	<b>823,619</b>
	6,901,335
	<b>\$ 7,724,954</b>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2011

	General Fund	State Assignment Fund	CDBG Fund	Loans Fund	Sales Tax Fund	Debt Service Fund	Other Governmental Funds	Total Funds
<b>ASSETS:</b>								
Cash	\$ 799,131	756,050	168,402	-	642,731	-	95,322	2,461,636
Cash with Fiscal Agent	-	-	-	917,002	-	1,285,098	59,707	2,261,807
Receivables:								
Property Tax	35,737	-	-	-	-	2,634	-	38,371
Sales Tax	-	-	-	-	-	20,374	-	20,374
Federal Grants	-	-	172,976	-	-	-	174,699	347,675
Intergovernmental	-	4,618	-	-	-	-	188,761	193,379
Due from Other Funds	521,824	2,381,290	-	-	-	-	57,654	2,960,768
Other Assets	1,132	-	-	-	-	-	-	1,132
<b>Total Assets</b>	<b>\$ 1,357,824</b>	<b>3,141,958</b>	<b>341,378</b>	<b>917,002</b>	<b>642,731</b>	<b>1,308,106</b>	<b>576,143</b>	<b>8,285,142</b>
<b>LIABILITIES AND FUND BALANCES:</b>								
<b>Liabilities:</b>								
Accounts Payable and Accrued Liabilities	\$ 74,627	5,818	186,773	-	15,635	-	-	282,853
Bonds and Notes Payable	-	-	-	-	-	115,000	-	115,000
Accrued Interest	-	-	-	-	-	29,337	-	29,337
Due to Governmental Units	10,957	-	-	-	-	-	-	10,957
Due to Other Funds	1,837,015	-	154,605	590,444	-	-	378,704	2,960,768
Deferred Revenue:								
Volume of Business Tax	103,234	-	-	-	-	-	-	103,234
Property Tax	35,737	-	-	-	-	-	-	35,737
Federal Grants	-	-	-	-	-	-	112,651	112,651
<b>Total Liabilities</b>	<b>2,061,570</b>	<b>5,818</b>	<b>341,378</b>	<b>590,444</b>	<b>15,635</b>	<b>144,337</b>	<b>491,355</b>	<b>3,650,537</b>
<b>Fund Balances:</b>								
Restricted	-	3,136,140	-	326,558	627,096	1,163,769	84,788	5,338,351
Unassigned	(703,746)	-	-	-	-	-	-	(703,746)
<b>Total Fund Balances</b>	<b>(703,746)</b>	<b>3,136,140</b>	<b>-</b>	<b>326,558</b>	<b>627,096</b>	<b>1,163,769</b>	<b>84,788</b>	<b>4,634,605</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,357,824</b>	<b>3,141,958</b>	<b>341,378</b>	<b>917,002</b>	<b>642,731</b>	<b>1,308,106</b>	<b>576,143</b>	<b>8,285,142</b>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Assignment Fund	CDBG Fund	Loans Fund	Sales Tax Fund	Debt Service Fund	Other Governmental Funds	Total Funds
<b>REVENUES</b>								
Property Taxes	\$ 447,858	-	-	-	-	214,138	-	661,996
Volume of Business Taxes	178,566	-	-	-	-	-	-	178,566
Sales Taxes	-	-	-	-	1,093,955	290,914	-	1,384,869
Federal Assistances	-	-	1,066,387	-	-	-	371,228	1,437,615
Intergovernmental	2,696,155	920,392	-	-	-	-	145,594	3,762,141
Licenses and Permits	225,337	-	-	-	-	-	-	225,337
Rent	19,788	-	-	-	-	-	-	19,788
Miscellaneous	410,320	-	-	-	-	670	4,632	415,622
<b>Total Revenues</b>	<b>3,978,024</b>	<b>920,392</b>	<b>1,066,387</b>	<b>-</b>	<b>1,093,955</b>	<b>505,722</b>	<b>521,454</b>	<b>8,085,934</b>
<b>EXPENDITURES</b>								
Current:								
Mayor and Municipal Legislature	494,702	-	-	-	-	-	-	494,702
General Government	1,784,067	13,033	-	187,730	-	-	9,908	1,994,738
Public Safety	180,521	20,128	-	-	-	-	-	200,649
Public Works	498,322	-	-	-	-	-	-	498,322
Culture and Recreation	153,875	-	-	-	-	-	-	153,875
Sanitation	245,154	-	-	-	110,424	-	-	355,578
Human Services and Welfare	225,926	-	-	-	198,574	-	235,750	660,250
Urban Development	-	796,624	1,066,387	265,018	418,718	-	115,404	2,662,151
Education	-	-	-	-	-	-	219,337	219,337
Debt Service:								
Principal	-	-	-	921,328	-	115,000	-	1,036,328
Interest and Other Charges	-	-	-	104,985	-	48,978	-	153,963
<b>Total Expenditures</b>	<b>3,582,567</b>	<b>829,785</b>	<b>1,066,387</b>	<b>1,479,061</b>	<b>727,716</b>	<b>163,978</b>	<b>580,399</b>	<b>8,429,893</b>
Excess (deficiency) of revenues over (under) expenditures	395,457	90,607	-	(1,479,061)	366,239	341,744	(58,945)	(343,959)
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds of Bond	-	-	-	400,000	-	-	-	400,000
Transfer- In	-	7,672	-	-	8,255	-	-	15,927
Transfer- Out	-	(8,255)	-	-	(7,672)	-	-	(15,927)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(583)</b>	<b>-</b>	<b>400,000</b>	<b>583</b>	<b>-</b>	<b>-</b>	<b>400,000</b>
Net Change in Fund Balances	395,457	90,024	-	(1,079,061)	366,822	341,744	(58,945)	56,041
Fund Balances - Beginning as Restated (Note 17)	(1,099,203)	3,046,116	-	1,405,619	260,274	822,025	143,733	4,578,564
<b>Fund Balances - Ending</b>	<b>\$ (703,746)</b>	<b>3,136,140</b>	<b>-</b>	<b>326,558</b>	<b>627,096</b>	<b>1,163,769</b>	<b>84,788</b>	<b>4,634,605</b>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**Total Fund Balances – Governmental Funds** **\$ 4,634,605**

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:

Capital Assets	\$ 11,951,490	
Accumulated Depreciation	<u>(3,538,624)</u>	
Total Capital Assets		8,412,866

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

Municipal Revenue Collection Center	35,737
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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	(2,450,000)	
Compensated Absences	(431,093)	
Law 42	(2,251,258)	
LIMS	(1,980)	
Law 146	(7,200)	
Health Insurance Administration	<u>(216,723)</u>	
Total Long-Term Liabilities		<u>(5,358,254)</u>

**Total Net Assets of Governmental Activities** **\$ 7,724,954**

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 BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Net Change in Fund Balances – Total Governmental Funds** **\$ 56,041**

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

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds 35,737

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the Statement of Net Assets. In the current period, these amounts are:

General obligation bond (400,000)

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. 1,041,000

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:

Increase in Compensated Absences	(114,428)	
Decrease in Law 42	51,277	
Decrease in LIMS	3,792	
Decrease in Law 146	343	
Decrease in Claims & Judgments	109,518	
Decrease in CRIM Settlement 08-09	<u>40,339</u>	
Net		<u>90,841</u>

**Change in Net Assets of Governmental Activities** **\$ 823,619**

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, 2011**

**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.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds. The basic financial statements are presented as of June 30, 2011, and for the fiscal year then ended.

According to the 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 separates 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, 2011, 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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2011, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

**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 it occurs and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar non-exchange transactions 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, 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 that principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Measurement Focus and Basis of Accounting (Continued)**

**Governmental Fund Financial Statements (Continued)**

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 unconditional 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, 2011, has been reported only in the government-wide financial statements.

**C. Financial Statement Presentation**

**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 Statement of Net Assets presents the Municipality's 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Financial Statement Presentation (Continued)**

**Government-Wide Financial Statements (Continued)**

- ❖ **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 focused on the major funds in the governmental category. Non-major funds are aggregated into a single column.

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

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.

GASB No. 34 established criteria 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 main operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

**State Assignment Fund** – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primarily objectives of this assignment 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Financial Statement Presentation (Continued)**

**Governmental Fund Financial Statements (Continued)**

**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.

**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.

**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.

**D. Fund Balances**

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The fund balances are reported in five categories: 1) Nonspendable, 2) Restricted, 3) Committed, 4) Assigned and 5) Unassigned:

- ❖ **Nonspendable** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ❖ **Restricted** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- ❖ **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision-making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- ❖ **Assigned** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Fund Balances (Continued)**

- ❖ **Unassigned** – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

At June 30, 2011, the accompanying fund financial statements reported fund balances as restricted and unassigned.

**E. Budgetary Control**

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.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 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;
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Budgetary Control (Continued)**

6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. 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.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the 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 Equivalents 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. At June 30, 2011, the Municipality does not have any type of investment.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Cash, Cash Equivalents and Investment (Continued)**

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**

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivables 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, purchase office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

**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 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 are expensed as incurred.

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

<u>Capital Assets</u>	<u>Years</u>
Buildings and site improvements	20-50
Infrastructure	20-50
Vehicles	5-10
Machinery and equipment	5-20

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 funds 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.

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.

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Interfund Activity**

Interfund activity is 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 activity is treated as transfers. 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. 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.

**N. 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.

**O. 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.

**P. 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  
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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.

Q. 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, 2011 amounted to \$63,048. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$97,352 for workers compensation insurance covering all municipal employees.

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 counter party 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 are considered low at June 30, 2011.

**Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2011, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2011, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2011, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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 un-collateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

**Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2011.

The Municipality's bank balances in commercial banks of \$799,131 in the General Fund, \$756,050 in the State Assignment Fund, \$168,402 in the CDBG Fund and the \$642,731 in the Sales Tax Fund were fully collateralized at June 30, 2011. In the Other Governmental Funds there were deposits with commercial banks of \$95,322 that were fully collateralized.

The deposits at GDB of \$917,002 in the Loans Fund, \$1,285,098 in the Debt Service Fund and \$59,707 in the Other Governmental Fund, are unsecured and un-collateralized, 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:

Description	Amount
Community Development Block Grant – State Program	\$ 172,976
Child Care Development Block Grant	125,129
Special Programs for the Aging Title III-Part B	49,570
<b>Total</b>	<b><u>\$ 347,675</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 3 – RECEIVABLES (CONTINUED)**

**B. Commonwealth Government Receivables**

Commonwealth government receivables in Other Governmental Funds represent expenditures incurred not yet reimbursed by the commonwealth agencies. Following is a detail of the state government receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Port Authority	\$ 4,618
State Department of Labor and Human Resources – Law 52	<u>188,761</u>
<b>Total</b>	<b><u>\$ 193,379</u></b>

**C. Due From Other Funds**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental CDBG Funds	Payroll and related accruals paid and not reimbursed	\$ 370,476
General Fund	CDBG Fund	Payroll and related accruals paid and not reimbursed	151,348
State Assignment Fund	General Fund	Loans between funds	1,779,361
State Assignment Fund	CDBG Fund	Loans between funds	3,257
State Assignment Fund	Other Governmental Funds	Loans between funds	8,228
State Assignment Fund	Loans Fund	Loans between funds	590,444
Other Governmental Funds	General Fund	Cash pool in the same bank account and reimbursable expenditures	<u>57,654</u>
<b>Total</b>			<b><u>\$ 2,960,768</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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 2011, 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, 2010	Additions	Retirements / Reclassifications	Balance June 1, 2011
Capital asset, not being depreciated:				
Land	\$ 3,366,886	-	-	3,366,886
Construction in progress	-	-	-	-
<b>Total capital assets not being depreciated</b>	<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
<b>Total capital assets being depreciated</b>	<u>8,584,604</u>	-	-	<u>8,584,604</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)
<b>Total accumulated depreciation</b>	<u>(3,538,624)</u>	-	-	<u>(3,538,624)</u>
<b>Total capital assets being depreciated, net</b>	<u>5,045,980</u>	-	-	<u>5,045,980</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,412,866</u>	-	-	<u>8,412,866</u>

Depreciation expenses have not been provided.

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 GASB Statement No. 34.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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 2010-2011, and not paid by the Municipality at June 30, 2011. Following is a detail of these accounts payable and accrued liabilities:

<b>Major Governmental Funds</b>	<b>Accounts Payable</b>	<b>Accrued Liabilities</b>	<b>Total</b>
General Fund	\$ 36,089	38,538	74,627
State Assignment Fund	5,818	-	5,818
CDBG Fund	186,773	-	186,773
Sales Tax Fund	<u>15,635</u>	<u>-</u>	<u>15,635</u>
<b>Total</b>	<b><u>\$ 244,315</u></b>	<b><u>38,538</u></b>	<b><u>282,853</u></b>

**NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2011, balance due to other governmental units consists of the following:

<b>Governmental Agency</b>	<b>Amount</b>
State Insurance Corporation	\$ 1,334
State Department of Labor	5,736
General Service Administration	<u>3,887</u>
<b>Total</b>	<b><u>\$ 10,957</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 7 – DEFERRED REVENUES**

- A. The deferred revenues of \$103,234 in the General Fund relates to the volume of business tax collected in fiscal year 2010-2011 that will be earned in fiscal year 2011-2012. In addition, the \$35,737 in the General Fund is the property taxes that represent advances from fiscal year 2010-2011, not collected by the Municipality at June 30, 2011.
- 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	\$ 40,241
Public Assistance Grants	66,728
American Recovery and Re- investment Grants	<u>5,682</u>
<b>Total</b>	<b><u>\$ 112,651</u></b>

**NOTE 8 – GENERAL LONG-TERM DEBTS**

Long-term liability activity for the year ended June 30, 2011, was 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	\$ 3,091,000	400,000	1,041,000	2,450,000	85,000
Property Tax Debt – Law 42	2,302,535	-	51,277	2,251,258	54,499
Compensated absences	316,665	114,428	-	431,093	20,510
LIMS Repayment Plan	5,772	-	3,792	1,980	1,980
Property Tax Debt – Law 146	7,543	-	343	7,200	343
Claims and Judgments	109,518	-	109,518	-	-
CRIM Settlement 2008-2009	40,339	-	40,339	-	-
Health Insurance Administration	<u>216,723</u>	<u>-</u>	<u>-</u>	<u>216,723</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 6,090,095</u></b>	<b><u>514,428</u></b>	<b><u>1,246,269</u></b>	<b><u>5,358,254</u></b>	<b><u>162,332</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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, 2011, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$220,000, Series 2006, for capital outlay purposes, payable in semiannual installments ranging from \$25,000 to \$35,000, excluding interest from 1.55% to 6.00%, through July 1, 2012.	\$ 35,000
\$2,125,000, Series 2009, for construction purposes, payable in annual installments ranging from \$30,000 to \$175,000, excluding interests from 1.55% to 7.50%, through July 1, 2033	2,025,000
\$400,000, Series 2011, for operational purposes, payable in annual installments ranging from \$10,000 to \$35,000, excluding interests from 6.00% to 7.50%, through July 1, 2031	<u>390,000</u>
<b>Total General Obligations – Bonds</b>	<b><u>\$ 2,450,000</u></b>

These bonds and notes are payable with the following Municipality's resources:

- ❖ Special ad valorem property tax, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes and;
- ❖ Municipal sales taxes resources restricted for debt service.

**B. BONDS AND NOTES AMORTIZATION**

The annual requirements to amortize the general obligations outstanding as of June 30, 2011 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2012	\$ 85,000	137,254	222,254
2013	50,000	177,375	227,375
2014	55,000	173,625	228,625
2015	60,000	169,500	229,500
2016	60,000	165,000	225,000
2017-2021	400,000	746,252	1,146,252
2022-2026	570,000	573,003	1,143,003
2027-2031	830,000	323,627	1,153,627
2032-2036	<u>340,000</u>	<u>38,625</u>	<u>378,625</u>
<b>Total</b>	<b><u>\$ 2,450,000</u></b>	<b><u>2,504,261</u></b>	<b><u>4,954,261</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**C. 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, 2011 amounted to \$2,251,258.

**D. COMPENSATED ABSENCES**

The government-wide statement of net assets includes \$431,093 of accrued sick leave benefits, and accrued vacation benefits, as follows:

<u>BALANCE JULY 1, 2010</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS AND CURRENT MATURATES</u>	<u>BALANCE JUNE 30, 2011</u>	<u>CURRENT PORTION</u>	<u>LONG-TERM PORTION</u>
\$316,665	114,428	-	431,093	20,510	410,583

**E. 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, 2011 amounted to \$1,980.

**F. 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, 2011 amounted to \$7,200.

**G. HEALTH INSURANCE ADMINISTRATION**

Liabilities of \$216,723 reported in the statement of net assets represent the balance owed for services provided by the State Insurance Health Administration to the Municipality and not paid at June 30, 2011.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 8 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**H. 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 standards and regulations, the Municipality is required to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality is required to report 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, 2011.

**NOTE 9 – 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 10 – 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, 2010 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, 2010 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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 10 – 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 11 – 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, 2010, 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.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 11 – VOLUME OF BUSINESS TAXES (CONTINUED)**

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 12 – 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 sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale 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 13 – 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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 14 – 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 defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

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

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

- ❖ 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 14 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

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.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2011 was approximately \$299,648. 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, 2011. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 15 – CONTINGENCIES**

**A. CLAIMS AND JUDGMENTS**

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities.

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.

**B. FEDERAL GRANTS**

In the normal course of operations, the Municipality receives grants from various Federal and Commonwealth 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 16 – FUND BALANCE (DEFICIT)**

As of June 30, 2011, the fund balance (deficit) classifications are as follows:

Fund Balance (Deficit)	General Fund	State Assignment Fund	Loans Fund	Sales Tax Fund	Debt Service Fund	Other Governmental Fund	Total
<b>Restricted for:</b>							
Public Safety	\$ -	-	-	-	-	35	35
Human Services and Welfare	-	-	-	-	-	11,794	11,794
Urban Development	-	3,136,140	326,558	627,096	-	26,082	4,115,876
Education	-	-	-	-	-	46,877	46,877
Debt Service	-	-	-	-	1,163,769	-	1,163,769
<b>Unassigned</b>	<u>(703,746)</u>	-	-	-	-	-	<u>( 703,746)</u>
<b>Total Fund Balance (Deficit)</b>	<u>\$ (703,746)</u>	<u>3,136,140</u>	<u>326,558</u>	<u>627,096</u>	<u>1,163,769</u>	<u>84,788</u>	<u>4,634,605</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 17 – 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 adjustments to the beginning fund balances:

Description	General Fund	State Assignment Fund	Sales Tax	Debt Service	Other Governmental Funds
Fund balance, beginning	\$ (1,103,599)	3,270,050	172,133	-	971,417
Adjustment as per GASB 54	4,396	-	-	-	(5,659)
Elimination of interfund activity	-	(223,934)	-	-	-
Elimination of outstanding checks	-	-	88,141	-	-
Major fund reclassification	-	-	-	822,025	(822,025)
<b>Fund balance, beginning as restated</b>	<b><u>\$ (1,099,203)</u></b>	<b><u>3,046,116</u></b>	<b><u>260,274</u></b>	<b><u>822,025</u></b>	<b><u>143,733</u></b>

**B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS**

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

Description	Total
Net assets, beginning	\$ 7,255,114
Elimination of account receivables	(225,197)
Elimination of outstanding checks	88,141
To adjust the balance of the Health Insurance Administration debt	(216,723)
<b>Net assets, beginning as restated</b>	<b><u>\$ 6,901,335</u></b>

**NOTE 18 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 20, 2012, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2011.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND  
(SEE NOTE TO BUDGETARY COMPARISON SCHEDULE)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
<b>REVENUES:</b>				
Property taxes	\$ 571,472	571,472	447,858	(123,614)
Volume of Business Taxes	170,987	170,987	178,566	7,579
Intergovernmental Revenues	2,664,382	2,664,382	2,696,155	31,773
Licenses, permits and other local taxes	348,000	348,000	225,337	(122,663)
Rent of Property	26,112	26,112	19,788	(6,324)
Miscellaneous	<u>560,497</u>	<u>560,497</u>	<u>410,320</u>	<u>(150,177)</u>
<b>Total revenues</b>	<u>4,341,450</u>	<u>4,341,450</u>	<u>3,978,024</u>	<u>(363,426)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
Mayor and Municipal Legislature	628,241	623,117	513,443	109,674
General government	2,192,703	2,160,708	1,675,004	485,704
Public safety	202,113	210,130	180,765	29,365
Public works	570,549	598,302	505,606	92,696
Culture and Recreation	187,311	187,361	157,064	30,297
Sanitation	287,735	288,334	245,154	43,180
Human Service and Welfare	<u>272,798</u>	<u>273,498</u>	<u>225,926</u>	<u>47,572</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>4,341,450</u>	<u>4,341,450</u>	<u>3,502,962</u>	<u>838,488</u>
<b>EXCESS REVENUES OVER EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>-</u>	<u>475,062</u>	<u>475,062</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTE TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE A – EXPLANATION OF DIFFERENCE BETWEEN BUDGETARY INFLOWS AND  
OUTFLOWS AND GAAP REVENUES AND EXPENDITURES**

**Explanation of Differences:**

**Sources/inflows of resources:**

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 3,978,024
Differences-budget to GAAP:	
Prior and current GAAP adjustments to revenues	_____
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	
	<u>\$ 3,978,024</u>

**Uses/outflows of resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 3,502,962
Differences-budget to GAAP:	
Prior Year expenditure are not outflows of budgetary resources but are expenditure for financial purposes	36,784
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(70,575)
GAAP adjustment to expenditures	<u>113,396</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	
	<u>\$ 3,582,567</u>



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

**Certified Public Accountants and Financial Consultants**

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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Municipal Legislative Body  
Municipality of Culebra  
Culebra, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Culebra, Puerto Rico, as of and for the year ended June 30, 2011, which collectively comprise the Municipality of Culebra, Puerto Rico's basic financial statements and have issued our report thereon dated January 20, 2012. We expressed an adverse opinion on the financial position of the governmental activities at June 30, 2011 and the related change in financial position for the year then ended due to several GAAP departures. 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**

Management of the Municipality is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality'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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to (as items 11-II-1 and 11-II-2) be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. (Items 11-II-3)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)**

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

**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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters 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 11-II-1, 11-II-2 and 11-II-3.

We noted certain other matters that we reported to management of Municipality of Culebra in a separate letter dated January 20, 2012.

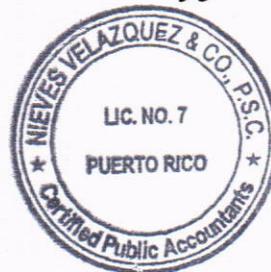
The Municipality of Culebra's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Municipality's response and, accordingly, we express no opinion on it.

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

San Juan, Puerto Rico  
January 20, 2012

Stamp No. 2490945 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

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





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

**Certified Public Accountants and Financial Consultants**

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

To the Honorable Mayor and  
Municipal Legislative Body  
Municipality of Culebra  
Culebra, Puerto Rico

#### **Compliance**

We have audited Municipality of Culebra compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have direct and material effect of the Municipality's major federal programs for the year ended June 30, 2011. The Municipality of Culebra major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality's management. Our responsibility is to express an opinion on 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 Municipality of Culebra compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Municipality of Culebra compliance with those requirements

As described in item(s), 11-III-1 and 11-III-2 in the accompanying schedule of findings and questioned costs, Municipality of Culebra, did not comply with requirements that are applicable to its Compliance with such requirements is necessary, in our opinion, for Municipality of Culebra, to comply with the requirements applicable to that program.

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

In our opinion, except for the noncompliance described in the preceding paragraph, Municipality of Culebra, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 11-III-3.

**Internal Control Over Compliance**

Management of Municipality of Culebra, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Culebra's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Culebra's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of finding and questioned costs as items 11-III-1 and 11-III-2 to be material weaknesses.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-III-3 to be a significant deficiency.

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

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

San Juan, Puerto Rico  
January 20, 2012

Stamp No. 2490946 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

*Nieves Velázquez & Co., P.S.C.*



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number (Note 2)</u>	<u>Pass-through Entity Identifying Number (Note 3)</u>	<u>Federal Expenditures (Notes 1 and 4)</u>
<b><u>U.S. Department of Agriculture</u></b>			
Direct Programs:			
Community Facilities Loans and Grants	10.766	N/A	\$ 104,859
Pass-Through State – Department of Education			
Child and Adult Care Food Program	10.558	N/A	<u>22,142</u>
Total U.S. Department of Agriculture			<u>127,001</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Direct Program:			
Homelessness Prevention and Rapid Re-housing Program (HPRP) (Recovery Act Funded) - ARRA	14.257	N/A	20,848
Indirect Programs:			
Passed-Through State – Office of the Commissioner of Municipal Affairs:			
ARRA Community Development Block Grant	14.255	N/A	95,847
Community Development Block Grant – State's Grants	14.228	N/A	<u>970,539</u>
Total U.S. Department of Housing and Urban Development			<u>1,087,234</u>
<b><u>U.S. Department of Health and Human Service</u></b>			
Pass-Through Office of Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B	93.045	N/A	<u>69,706</u>
Pass-Through the Commonwealth of Puerto Rico – Administration for Children and Families:			
Child Care and Development Block Grant	93.575	N/A	169,197
ARRA – Child Care and Development Grant	93.713	N/A	<u>23,477</u>
Total Child Care Development Block Grant Cluster			192,674
Total U.S. Department of Health and Human Service			<u>262,380</u>
<b><u>U.S. Department of Homeland Security</u></b>			
Pass-Through the Commonwealth of Puerto Rico Governor Office – Public Security Affairs Office			
Disaster Grants – Public Assistance	97.036	N/A	<u>10,545</u>
Total U.S. Department of Homeland Security			<u>10,545</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$1,487,160</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

**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 Government and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the governmental funds financial statements. The reporting entity is defined in Note 1 (A) to the governmental funds 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 CFDDA 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 redistributions 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 PROGRAM**

Major program is identified in the Summary of Auditor's Results of the Schedule of Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

**6. RECONCILING OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE GOVERNMENTAL FUNDS FINANCIAL STATEMENT**

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

<u><i>Fund</i></u>	<u><i>Federal Assistance</i></u>	<u><i>Other Assistance</i></u>	<u><i>Financial Statements</i></u>
CDBG	\$1,066,387	-	1,066,387
Other Governmental Funds	<u>420,773</u>	<u>159,626</u>	<u>580,399</u>
<b>Totals</b>	<b><u>\$1,487,160</u></b>	<b><u>159,626</u></b>	<b><u>1,646,786</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**Section I. Summary of Audit Results**

**Part I. Financial Statements**

- |    |   |   |  |
|----|---|---|--|
| 1. | Type of audit report issued – Governmental Activities   | <b>Adverse</b>                          |  |
| 2. | Internal control over financial reporting: Mayor funds and aggregate remaining fund information | <b>Unqualified</b>                      |  |
|    | ❖ Material weakness (es) identified?  | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No            |
|    | ❖ Significant deficiency (ies) identified?  | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No            |
| 3. | Noncompliance material to financial statement noted?  | <input type="checkbox"/> Yes            | <input checked="" type="checkbox"/> No |

**Part II. Federal Awards**

- |    |  |   |                             |
|----|--|---|-----------------------------|
| 1. | Internal control over major programs:  |   |                             |
|    | ❖ Material weakness (es) identified?   | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
|    | Significant deficiency (ies) identified?   | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. | Type of auditors report issued on compliance for major programs:   | <b>Qualified</b>                        |                             |
| 3. | Any audit findings disclosed that are required to be reported in accordance with 510(a) of OMB Circular A-133? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

4. Identification of major programs:

**Name of Federal Program or Cluster**

**CFDA Number (s)**

- |    |   |   |
|----|---|---|
| 5. | Community Development Block Grant                                       | 14.228  |
|    | ARRA Community Development Block Grant                                  | 14.255  |
| 5. | Dollar threshold used to distinguish between Type A and Type B programs | \$300,000   |
| 6. | Auditee qualified as low-risk auditee?                                  | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Section II. Financial Statement Findings

FINDING	11-II-1
REQUIREMENT	<b>SIGNIFICANT DEFICIENCIES OVER PROPERTY, PLANT AND EQUIPMENT</b>
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 net assets 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 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, 2011.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**Section II. Financial Statement Findings**

<b>FINDING</b>	<b>11-II-2</b>
<b>CATEGORY</b>	<b>INTERNAL CONTROLS</b>
<b>TOPIC SENTENCE</b>	<b>ACCOUNTING SYSTEM</b>
<b>CONDITIONS</b>	<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>
<b>CRITERIA</b>	<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 Boards.</p>
<b>CAUSE</b>	<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>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Section II. Financial Statement Findings

FINDING

11-II-2 (Continuation)

EFFECT

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.

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.

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

The Municipality maintains two (2) sets 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.

Annually, the Municipality hires an external CPA Consultant who prepares all financial data from the accounting records (manual and computerized) which is the source to prepare the financial statement following GAAP.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**Section II. Financial Statement Findings**

FINDING	11-II-3
REQUIREMENT	<b>MUNICIPAL SOLID WASTE LANDFILL – GASB 18</b>
CONDITION	The Municipality has not maintained complete and adequate records in order to obtain, competent evidential matter with respect to closure and post-closure cost of the municipal solid waste landfill.
CRITERIA	The Governmental Accounting Standards Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Cost require that the Municipality maintain adequate accounting records to support the estimated closing and post closing care cost.
CAUSE	The Municipality does not have the resources to determine the required closing and post closing care cost of it landfill.
EFFECT	The accountants report on the Statement of Activities and Net Assets is an adverse opinion.
RECOMMENDATION	We recommend the Municipality to hire an external professional source to determine the closing and post closing care cost to comply with GASB No. 18.
QUESTIONED COST	None
MANAGEMENT RESPONSE	We agree with the recommendation an will hire such professional

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

FINDING	11-III-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. Also, no physical inventory has been taken in the last two years.
CRITERIA	Subpart C, 24 CFR 85.32 (d)(1), states 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.
MANAGEMENT RESPONSE	See Corrective Action Plan submitted with the Audit Package.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

FINDING	11-III-2
CATEGORY	<b>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</b>
REQUIREMENT	<b>Compliance</b>
NONCOMPLIANCE	<b>Suspension and Debarment</b>
TOPIC SENTENCE	<b>Lack of Control Over Suspension and Debarment</b>
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 if federal programs.</p>
CRITERIA	<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>
CAUSE	<p>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.</p>
EFFECT	<p>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.</p>
RECOMMENDATION	<p>The Municipality should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list or 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.</p>
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	See Corrective Action Plan submitted with the Audit Package.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Section III – Federal Award Findings and Questioned Costs

FINDING	11-III-3
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	Cash Management
CONDITIONS	The program does not maintain proper procedures to minimize time elapsing between funds received and disbursed.
CRITERIA	The Cash Management General Requirement of Circular OMB-102 requires that funds should include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury (Pass-through State – Office of Commissioner of Municipal Affair) and the disbursement elapsing between 10 to 68 days. This finding is repeated from prior years.
CAUSE	The program officials does not follow up when funds are received to disburse them immediately.
EFFECT	The Municipality is not in compliance with the Circular OMB-102 Cash Management Requirement.
RECOMMENDATION	We recommend the Municipality officials to implement and/or improve its cash management procedures to comply with the requirement.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	See Corrective Action Plan submitted with the Audit Package.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2011**

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

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2010	CDBG	4-10	<p><b>Equipment and Real Property Management</b></p> <p>Criteria and Condition:</p> <p>Subpart C, 24 CFR 85.32 (d)(1), states that property records must be maintained and its shall includes: a description of the property, serial number of 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 prices 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. The Municipality does not have a property register that includes all the required information; it only includes the property number and its description.</p>	Finding repeated in the current year. (11-III-1)
06/30/2010	CDBG	5-10	<p><b>Procurement, Suspension and Debarment</b></p> <p>Criteria and Condition:</p> <p>States, and governmental sub-recipients of States, shall use the same State policies and procedures used for procurements from non-federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive order and their implementing regulations.</p> <p>Local governments and Indian tribal governments which are not sub-recipients of States will use their own procurements procedures provided that they conform to applicable Federal Law and Regulations and standards identified in the A-102 Common Rule.</p>	Finding repeated in the current year. (11-III-2)

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2011**

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

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2010	CDBG	5-10	<p><b>Procurement Suspension and Debarment (Continuation)</b></p> <p>Criteria and Condition:</p> <p>All non-federal entities shall follow Federal laws and implementing regulations applicable to procurements as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular 2 CFR, Part 180 states that non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. CFR, Section 180.220 of the government-wide non-procurement debarment and suspension guidance contains those additional limited circumstances. All non-procurement transactions (i.e., sub-awards to sub-recipients), irrespective of award amount, are considered covered transactions.</p> <p>When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.</p>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2011**

**Section III. Federal Award Findings and Questioned Costs**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2010	CDBG	5-10	<p><b>Procurement Suspension and Debarment (Continuation)</b></p> <p>Criteria and Condition:</p> <p>As part of the audit procedures the prior auditor examined 14 disbursements to test the compliance with the Procurement and Suspension and Debarment requirement for Community Development Block Grant program. In 10 of the 14 disbursements amounting \$919,712.44, the Municipality did not comply with Suspension and Debarment requirement and in one disbursement amounting to \$27,900 the Municipality did not comply with the procurement requirement.</p>	
06/30/2010	CDBG	6/10	<p><b><u>Davis-Bacon Act</u></b></p> <p>Criteria and Condition:</p> <p>Section 40 USC 3141-3144, 346 and 347 state that when required by the Davis-Bacon Act, the Department of Labor's (DOL) government wide implementation of the Davis-Bacon Act, or by Federal program legislation, all labor and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal Assistance Fund must be paid wages not less than those established for the locality of the project (prevailing wage rate) by the DOL.</p> <p>Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR, Part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). This includes a requirement for the contractor or subcontractor to submit to the non-federal weekly, for each week in which any contract</p>	Finding did not occur in the current year

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2011**

**Section III. Federal Award Findings and Questioned Costs**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2010	CDBG	6-10	<p><b><u>Davis-Bacon Act (Continuation)</u></b></p> <p>Criteria and Condition:</p> <p>Weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR, Section 5.5 and 5.6). This reporting is often done using Optional Form WH-247, which includes the required statement of compliance (OMB No. 1215-0149).</p> <p>As part of the audit procedures the prior auditor tested 14 disbursements to the test the compliance with the Davis-Bacon Act for Public Assistance Grants Program. In 2 of the 8 the contractors did not submit the payrolls to the Municipality for examination</p>	
06/30/2010	CDBG	7-10	<p><b><u>Reporting</u></b></p> <p>Criteria and Condition:</p> <p>Memorandum Circular OCAM-1994 requires that the quarterly reports should be received in the agency the last day of the subsequent month to the quarter end. The Municipality did not provide the prior auditor to examination the quarterly report of January to March 2010.</p>	Finding did not occur in the current year
06/30/2010	CDBG	8-10	<p><b><u>Cash Management</u></b></p> <p>Criteria and Condition:</p> <p>Memorandum Circular OCAM-2009-21 requires that opening a different bank account to the CDBG funds form the deposit of the funds assigned for ARRA funds.</p>	Finding repeated in the current year. (11-III-3)



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



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

JUNE 30, 2011  
FEDERAL PROGRAM

Prepared by: The Mayor's Office and the Auditor Department

The following represents the corrective action plan to correct findings and conditions noted and included on the single audit report for the fiscal year ended June 30, 2011, and the schedule of prior audits findings and questioned costs accompanying this report.

**Finding Number 11-11-1 Page Number 52**

**SIGNIFICANT DEFICIENCIES OVER PROPERTY, PLANT AND EQUIPMENT**

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.

**Corrective Action Plan:**

The Municipality does not maintain adequate capital assets records. We understand that it is important to comply with this issue. During the year we will work develop a work plan to correct this finding.

**Finding Number 11-11-2 Page Number 53**

**INTERNAL CONTROLS**

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.

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When the current administration took over the Municipality's finances the accounting records were inadequate. The Municipality did not know the amount of its assets and liabilities. Internal control over the accounting function was very weak or non-existent. In order to improve its accounting function, the Municipality has contracted accounting consultants with substantial experience in governmental accounting and financial reporting. These consultants will assist the Municipality in strengthening its internal control and in establishing accounting records that account for transactions in conformity with accounting principles generally accepted in the United States of America.

**Finding Number 11-11-3 Page Number 55**

**MUNICIPAL SOLID WASTE LANDFILL-GASB 18**

The Municipality has not maintained complete and adequate records in order to obtain, competent evidential matter with respect to closure and post-closure cost of the municipal solid waste landfill.



**Corrective Action Plan:**

The Municipality of Culebra will contract a private Company during the following months to complete the study.

**Finding Number: 11-111-1 Page Number 56**

COMPLIANCE AND INTERNAL CONTROL

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

**Corrective Action Plan:**

The Municipality should revise and update its property records according to the federal regulation.

**Finding Number: 11-111-2 Page Number 57**

COMPLIANCE

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.

**Corrective Action Plan:**

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.

**Finding Number: 11-111-3 Page Number 58**

COMPLIANCE AND INTERNAL CONTROL

The Municipality is not in compliance with the Circular OMB-1o2 Cash Management Requirement.

**Corrective Action Plan:**

The Director of Federal Programs and the Accountant will prepare the disbursement immediately after OCAM releases the transferred funds, and there will be no more dilations.

**Finding Number: 6-10 Page Number 61**

DAVIS-BACON ACT

Section 40 USC 3141-3144, 346 and 347 state that when required by the Davis-Bacon Act, the Department of Labor's (DOL) government wide implementation of the Davis- Bacon Act, or by Federal program legislation, all labor and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance Fund must



be paid wages not less than those established for the locality of the Project (prevailing wage rate) by the DOL.

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As part of the audit procedures the prior auditor tested 14 disbursements to the test the compliance with the Davis-Bacon Act for Public Assistance Grants Program. In 2 of the 8 the contractors did not submit the payrolls to the Municipality for examination.

**Corrective Action Plan:**

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

Responsible individual: Finance Director and Federal Programs Director

Anticipate completion date: June 30, 2013

Person in charge of follow up the corrective action: Internal Auditor

Cordially,

Riccardo López-Cepero Aparicio  
Mayor

FORM SF-SAC (5-18-2010)

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 2010, 2011, or 2012

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

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

1. Fiscal period ending date for this submission: Month 06, Day 30, Year 2011. 2. Type of Circular A-133 audit: 1 [X] Single audit. 3. Audit period covered: 1 [X] Annual.

4. Auditee Identification Numbers: a. Primary Employer Identification Number (EIN) 66-0860106. d. Data Universal Numbering System (DUNS) Number. e. Are multiple DUNS covered in this report? 2 [X] No.

5. AUDITEE INFORMATION: a. Auditee name: MUNICIPALITY OF CULEBRA. b. Auditee address: APARTADO 189, CULEBRA, PR. ZIP + 4 Code: 00775. c. Auditee contact Name: MORAIMA VALENTIN, Title: FINANCE DIRECTOR. d. Auditee contact telephone: (787) 742-3521. e. Auditee contact FAX: (787) 742-0111. f. Auditee contact E-mail: FINMUNCUL@COQUI.NET.

6. PRIMARY AUDITOR INFORMATION (To be completed by auditor): a. Primary auditor name: NIEVES VELAZQUEZ & CO., P.S.C. b. Primary auditor address: 421 MUÑOZ RIVERA AVE. SUITE 314, SAN JUAN, PR. ZIP + 4 Code: 00918. c. Primary auditor contact Name: JORGE NIEVES VELAZQUEZ, Title: PRESIDENT. d. Primary auditor contact telephone: (787) 250-1712. e. Primary auditor contact FAX: (787) 250-1713. f. Primary auditor contact E-mail: NIEVELAZ@COQUI.NET.

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-9g, 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: MORAIMA VALENTIN, Date: 3/28/2012. Name of certifying official: MORAIMA VALENTIN. Title of certifying official: FINANCE DEPARTMENT DIRECTOR.

7a. Add Secondary auditor information? (Optional) 2 [X] No. b. If "Yes," complete Part I, Item 8 on the continuation sheet on page 5. Auditor certification: ELECTRONICALLY CERTIFIED, Date: 3/28/2012.

**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

**4. Is a material weakness disclosed?** 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 13)** 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

**5. Is a material weakness disclosed for any major program? (§ 510(a)(1))** 1  Yes 2  No

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

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

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

- |  |   |  |  |
|--|---|--|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development      | 39 <input type="checkbox"/> General Services Administration               | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> U.S. Department of State |
| 10 <input type="checkbox"/> Agriculture                                    | 93 <input type="checkbox"/> Health and Human Services                     | 95 <input type="checkbox"/> National Endowment for the Arts              | 20 <input type="checkbox"/> Transportation           |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 97 <input type="checkbox"/> Homeland Security                             | 06 <input type="checkbox"/> National Endowment for the Humanities        | 21 <input type="checkbox"/> Treasury                 |
| 11 <input type="checkbox"/> Commerce                                       | 14 <input checked="" type="checkbox"/> Housing and Urban Development      | 47 <input type="checkbox"/> National Science Foundation                  | 64 <input type="checkbox"/> Veterans Affairs         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute of Museum and Library Services      | 07 <input type="checkbox"/> Office of National Drug Control Policy       | 00 <input type="checkbox"/> None                     |
| 12 <input type="checkbox"/> Defense  | 15 <input type="checkbox"/> Interior                                      | 59 <input type="checkbox"/> Small Business Administration                | <input type="checkbox"/> Other - Specify:            |
| 84 <input type="checkbox"/> Education                                      | 16 <input type="checkbox"/> Justice                                       | 96 <input type="checkbox"/> Social Security Administration               | <input type="text"/>                                 |
| 81 <input type="checkbox"/> Energy   | 17 <input type="checkbox"/> Labor   |  | <input type="text"/>                                 |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 09 <input type="checkbox"/> Legal Services Corporation                    |  |  |
|  | 43 <input type="checkbox"/> National Aeronautics and Space Administration |  |  |

**PART III FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR										10. AUDIT FINDINGS	
Federal Agency Prefix <sup>1</sup>	CFDA Number	Extension <sup>2</sup>	Research and development	A R A <sup>3</sup>	Name of Federal program	Amount expended	Direct award	Major program	If yes, type of audit report <sup>4</sup>	Type(s) of compliance requirement(s) <sup>5</sup>	Audit finding reference number(s) <sup>6</sup>
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(a)	(b)	
1 0	.766		<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	COMMUNITY FACILITIES AND GRANTS LOANS	104,859.00	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N		O	N/A
1 0	.558		<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	CHILD AND ADULT CARE FOOD PROGRAM	22,142.00	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N		O	N/A
1 4	.228		<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	COMMUNITY DEVELOPMENT BLOCK GRANT-STATE	970,539.00	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	Q	CFI	11-III-1, 11-III-2 & 11-III-3
1 4	.255		<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	ARRA COMMUNITY DEVELOPMENT GRANTS	95,847.00	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	Q	CFI	11-III-1, 11-III-2 & 11-III-3
1 4	.257		<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	HOMELESS PREVENTION AND BLOCK GRANT	20,848.00	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N		O	N/A
9 3	.045		<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	RAPID-HOUSING PROGRAM SPECIAL PROGRAM FOR AGING TITLE III PART B	69,700.00	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N		O	N/A
9 3	.575		<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	CHILD CARE AND DEVELOPMENT BLOCK GRANT	169,197.00	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N		O	N/A
9 3	.713		<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	CHILD CARE AND DEVELOPMENT GRANT	23,477.00	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N		O	N/A
9 7	.036		<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	DISASTER GRANTS - PUBLIC ASSISTANCE	10,545.00	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> N		O	N/A
<b>TOTAL FEDERAL AWARDS EXPENDED</b>						<b>1,487,160.00</b>					

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 American Recovery and Reinvestment Act of 2009 (ARRA).  
 4 If major program is marked "Yes," enter only a n e 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.  
 5 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  
 6 N/A for NONE

**PART I Item 5 Continuation Sheet**

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

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

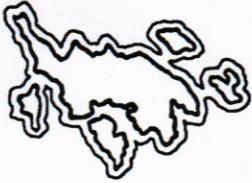
f. List the multiple DUNS covered in the report.

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

**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	
<p><b>c. Secondary Auditor contact</b> Name</p> <p>Secondary Auditor contact telephone</p> <p>Secondary Auditor contact FAX</p> <p>Secondary Auditor contact E-mail</p>		<p><b>c. Secondary Auditor contact</b> Name</p> <p>Secondary Auditor contact telephone</p> <p>Secondary Auditor contact FAX</p> <p>Secondary Auditor contact E-mail</p>		<p><b>c. Secondary Auditor contact</b> Name</p> <p>Secondary Auditor contact telephone</p> <p>Secondary Auditor contact FAX</p> <p>Secondary Auditor contact E-mail</p>	
<p><b>4. a. Secondary Auditor name</b></p> <p>Secondary Auditor address (Number and street)</p> <p>City</p> <p>State ZIP + 4 Code</p> <p>Secondary Auditor contact</p> <p>Secondary Auditor contact telephone</p> <p>Secondary Auditor contact FAX</p> <p>Secondary Auditor contact E-mail</p>		<p><b>5. a. Secondary Auditor name</b></p> <p>Secondary Auditor address (Number and street)</p> <p>City</p> <p>State ZIP + 4 Code</p> <p>Secondary Auditor contact</p> <p>Secondary Auditor contact telephone</p> <p>Secondary Auditor contact FAX</p> <p>Secondary Auditor contact E-mail</p>		<p><b>6. a. Secondary Auditor name</b></p> <p>Secondary Auditor address (Number and street)</p> <p>City</p> <p>State ZIP + 4 Code</p> <p>Secondary Auditor contact</p> <p>Secondary Auditor contact telephone</p> <p>Secondary Auditor contact FAX</p> <p>Secondary Auditor contact E-mail</p>	



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



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

JUNE 30, 2011  
 FEDERAL PROGRAM

Prepared by: The Mayor's Office and the Auditor Department

The following represents the corrective action plan to correct findings and conditions noted and included on the single audit report for the fiscal year ended June 30, 2011, and the schedule of prior audits findings and questioned costs accompanying this report.

**Finding Number 11-11-1 Page Number 52**

SIGNIFICANT DEFICIENCIES OVER PROPERTY, PLANT AND EQUIPMENT

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.

**Corrective Action Plan:**

The Municipality does not maintain adequate capital assets records. We understand that it is important to comply with this issue. During the year we will work develop a work plan to correct this finding.

DIVISION REGULAMENTACION E INTERVENCION  
 APR 30 PM 1:30  
 JOAN

**Finding Number 11-11-2 Page Number 53**

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**Corrective Action Plan:**

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

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

Responsible individual: Finance Director and Federal Programs Director

Anticipate completion date: June 30, 2013

Person in charge of follow up the corrective action: Internal Auditor

Cordially,

Riccardo López-Cepero Aparicio  
Mayor