

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
AUDITED FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED
SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2014**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	Pages
<u>PART I – FINANCIAL:</u>	
Independent Auditors' Report	1-3
Required Supplementary Information (Part I): Management's Discussion and Analysis.....	4-10
<u>BASIC FINANCIAL STATEMENTS:</u>	
Governmental Wide Financial Statements:	
Statement of Net Position.....	11
Statement of Activities	12
Governmental Funds Financial Statements:	
Balance Sheet	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Position.....	15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	16
Notes to the Basic Financial Statements.....	17-52
Required Supplementary Information:	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule – General Fund	53
Notes to Budgetary Comparison Schedule – General Fund	54

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	Pages
<u>PART 11- SINGLE AUDIT SECTION</u>	
Schedule of Expenditures of federal Awards	55
Notes to Schedule of Expenditures of Federal Awards	56
Independent Auditor's Report on compliance and on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Governmental auditing standards.	57-58
Independent Auditor's Report on compliance with each major program and on internal control over compliance required by OMB circular A-133	59-61
Schedule of Findings and Questioned Costs	62-66
Schedule of Prior Years Audit Findings and Questioned Costs	66-70
Financial statements Findings	71-72

Gil Alberto Ortiz Cabrera

Certified Public Accountants & Professional Consultants

*Members of: The American Institute of Certified Public
Accountants (AICPA)
Puerto Rico Board of Certified Public
Accountants*

INDEPENDENT AUDITOR'S REPORT

To the Honorable Major,
William I Solis Bermudez
Members of the Municipal Legislature
and People of the Municipality of Culebra

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Municipality of Culebra of The Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Municipality of Culebra's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

Significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for an Adverse Opinion on Governmental Activities

As described in Note 4 to the financial statements, the Municipality did not record additions to capital assets nor has recorded the corresponding depreciation over such additions. Accounting principles generally accepted in the United States of America requires that capital assets additions be capitalized and depreciated over their estimated useful lives, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position 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 requirements established by Statement No.18, Accounting for Municipal Solid Waste Landfill Closure and Post-Closures Care Costs, issued by Governmental Accounting Standards Boards and the regulations set forth by the US Environmental Protection Agency. At June 30, 2014, the accompanying statement of net position does not include the liability for closures and post-closures care costs of the Municipality's solid waste landfill. In addition, the expenses and results 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, 2014.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the " *Basis for Adverse Opinion on Governmental Activities* " paragraphs, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Municipality of Culebra as of June 30, 2014, or the changes in financial position thereof for the year then ended.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Culebra, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with the accounting principles generally accepted in the United states of America.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we also issued our report dated February 9, 2015 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing over financial reporting and compliance, and the result 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 *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information presented on pages 4-10 and 53-54, 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 it 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 inquiries 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 of Culebra's basic financial statements. The Schedule of Expenditures of Federal Awards (Page 39) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Schedule of Federal Awards is responsibility of management and were derived from and related directly the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the audit procedures, in the general purpose financial statements, and in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole



Gil Alberto Ortiz Cabrera
Guaynabo, Puerto Rico
February 9, 2015
License 1332, in force
Stamp # 02708134 was affixed
to the original report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014. 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.

This MD&A is prepared in order to comply with the dispositions established in the Governmental Accounting Standards Board Statement No. 34 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, 2014 by \$8,656,277, and at June 30, 2013 by \$8,428,609;
- ❖ The Municipality's total net position increased by \$227,668 during fiscal year 2013-2014;
- ❖ As of June 30, 2014, the Municipality's governmental funds reported combined ending fund balances of \$5,303,259, an increase of \$245,065 from the prior year;
- ❖ At June 30, 2014, the fund balance of the General Fund was \$1,351,779;
- ❖ 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 \$55,000 and \$50,000 in 2014 and 2013, 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The Statement of Net Position presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

GOVERNMENTAL NET POSITION

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$8,656,277 as of June 30, 2014 versus \$8,428,609, as of June 30, 2013. Our analysis below focuses on the net position (Table 1) and changes in net position of the Municipality's governmental activities.

	2014	2013
Current and non-current assets	\$	\$
	6,430,976	6,051,647
Capital assets	8,412,866	8,412,866
Total Assets	14,843,842	14,464,513
Current liabilities	734,891	662,856
Long-term liabilities	5,059,848	5,132,531
Total Liabilities	5,794,739	5,795,387
Deferred Inflow of Revenues	392,826	240,517
Net position:		
Investment in capital assets, net of related debt	6,152,866	6,097,866
Restricted	3,951,480	4,467,198
Deficit	(1,488,069)	(2,136,455)
Total Net Position	\$ 8,656,277	\$ 8,428,609

The largest portion of the Municipality's net position 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 position represents resources that are subject to external restrictions on how they may be used.

GOVERNMENTAL ACTIVITIES

Governmental activities increased the Municipality's net position. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$5,142,482. 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 \$227,668.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The cost of all governmental activities this year was \$6,756,492. Table 2 presents the cost of each of the Municipality's largest programs.

<u>Table 2</u> <u>Statement of Activities</u>	<u>2014</u>	<u>2013</u>
Revenues		
Grants and contributions	\$ 1,614,010	\$ 1,265,324
General revenues:		
Property taxes	701,045	576,704
Volume of business taxes	170,203	157,136
Sales taxes	1,281,007	1,390,070
Intergovernmental	2,875,914	2,898,220
Rent	14,305	15,375
Licenses and permits	119,167	209,970
Miscellaneous	208,509	266,672
Total revenues	<u>6,984,160</u>	<u>6,779,471</u>
Expenses		
General government	2,738,095	3,106,042
Public safety	233,209	159,369
Public works	1,096,132	1,236,742
Culture and recreation	179,314	204,354
Human services and welfare	340,079	441,645
Urban development	1,917,515	1,536,980
Education	200,822	217,093
Interest on long-term debts	51,326	54,575
Total expenses	<u>6,756,492</u>	<u>6,956,800</u>
Changes in net position	227,668	(177,329)
Net position - beginning	8,428,609	8,605,938
Net position - ending	<u>\$ 8,656,277</u>	<u>\$ 8,428,609</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENT FUND FINANCIAL ANALYSIS

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

Table 3		
Balance Sheet		
	2014	2013
Assets:		
Total assets - Major Funds	\$ 8,538,358	\$ 8,131,952
Total assets - Other Funds	641,495	672,467
Combined total assets	<u>9,179,853</u>	<u>8,804,419</u>
Liabilities:		
Total liabilities - Major Funds	3,211,060	3,080,656
Total liabilities - Other Funds	272,708	334,972
Combined total liabilities	<u>3,483,768</u>	<u>3,415,628</u>
Deferred Inflows of Resources:		
Total - Major Fund	145,027	90,080
Total - Other Funds	247,799	240,517
Combined total deferred inflows of resources	<u>392,826</u>	<u>330,597</u>
Fund Balances:		
Restricted - Major Funds	3,830,492	4,370,220
Restricted - Other Funds	120,988	96,978
Assigned - Major Funds	1,710,371	2,146,097
Unrestricted - Major Funds	(358,592)	(1,555,101)
Combined total fund balances	<u>5,303,259</u>	<u>5,058,194</u>
Total liabilities, deferred inflows of resources and fund balances	\$ 9,179,853	\$ 8,804,419

Table 4		
Changes in Fund Balances		
	2014	2013
Revenues:		
Total revenues - Major Funds	\$ 6,670,108	\$ 6,156,468
Total revenues - Other Funds	404,132	546,904
Combined total revenues	<u>7,074,240</u>	<u>6,703,372</u>
Expenditures:		
Total expenditures - Major Funds	6,491,184	6,472,771
Total expenditures - Other Funds	337,991	535,179
Combined total expenditures	<u>6,829,175</u>	<u>7,007,950</u>
Other financing sources (uses):		
Transfer - In	1,116,384	19,702
Transfer - Out	(1,116,384)	(19,702)
Combined other financing sources (uses), net	<u>-</u>	<u>-</u>
Net changes in fund balance	<u>245,065</u>	<u>(304,578)</u>
Fund Balance - beginning	5,058,194	5,362,772
Fund Balance - ending	\$ 5,303,259	\$ 5,058,194

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, unassigned 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, 2014, the Municipality's governmental funds reported combined ending fund balances of \$5,303,259, an increase of \$245,065 from the prior year.

The Municipality has an unassigned fund deficit of \$358,592 in its General Fund. The remainder balance of \$1,710,371 and \$3,951,480 is assigned and restricted, respectively.

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 2014 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, 2014 amounted to \$8,412,866 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads and bridges. Table 5 present the major classes of capital assets.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

LONG-TERM DEBT

At June 30, 2014 the Municipality had a total of \$5,059,848 in general obligations and other outstanding debts, as shown in Table 6. Of this amount, \$2,260,000 comprises debt backed by the full faith and credit of the government and \$2,799,848 is other obligations.

Long Term Debts	Amount
General obligations	\$ 2,260,000
Others	<u>2,799,848</u>
Total Long Term Debts	<u>\$ 5,059,848</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

All of these factors were considered in preparing the Municipality's budget for the 2014 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 742-3510.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS:	
Cash	\$ 4,541,837
Cash with Fiscal Agent	1,456,817
Receivables (net):	
Property Tax	2,623
Sales Tax	208,757
Federal Grants	46,941
Intergovernmental	174,001
	<u>6,430,976</u>
Capital Assets:	
Property, Plant and Equipment	11,951,490
Accumulated Depreciation	(3,538,624)
Total Capital Assets	<u>8,412,866</u>
TOTAL ASSETS	<u>14,843,842</u>
 LIABILITIES:	
Accounts Payable and Accrued Expense	405,357
Bonds Payable	55,000
Accrued Interest	25,547
Due to Governmental Units	106,973
Unearned Revenue	142,014
Long-Term Liabilities:	
Due within One Year	150,774
Due in More than One Year	4,909,074
TOTAL LIABILITIES	<u>5,794,739</u>
DEFERRED INFLOWS OF RESOURCES	<u>392,826</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	6,152,866
Restricted for:	
Debt Service	1,141,889
Other Purposes	2,809,591
Unrestricted (Deficit)	(1,448,069)
TOTAL NET POSITION	<u>\$ 8,656,277</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Program Revenues					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and changes in net position
Mayor and Municipal Legislature	\$ (476,855)	\$ -	\$ -	\$ -	\$ (476,855)
General Government	(2,261,240)	8,800	-	-	(2,252,440)
Public Safety	(233,209)	-	-	-	(233,209)
Public Works	(498,624)	-	17,000	-	(481,624)
Culture and Recreation	(179,314)	-	-	-	(179,314)
Sanitation	(597,508)	-	-	-	(597,508)
Human Services and Welfare	(340,079)	-	213,644	-	(126,435)
Urban Development	(1,917,515)	-	-	1,233,978	(683,537)
Education	(200,822)	-	140,588	-	(60,234)
Interest on Long-Term Debt	(51,326)	-	-	-	(51,326)
Total Governmental Activities	\$ (6,756,492)	\$ 8,800	\$ 371,232	\$ 1,233,978	(5,142,482)

Property Taxes, levied for General Purposes	470,084
Property Taxes, levied for Debt Services	230,961
Volume of Business Taxes	170,203
Construction Excise Taxes	119,167
Sales Taxes, levied for Other Purposes	1,012,388
Sales Taxes, levied for Debt Services	268,619
Intergovernmental	2,875,914
Rent	14,305
Miscellaneous	208,509
Total General Revenues	5,370,150
CHANGE IN NET POSITION	227,668
Net Position - Beginning of Year	8,428,609
NET POSITION - END OF YEAR	\$ 8,656,277

See accompanying notes to the Basic Financial Statements.

MUNICIPALITY OF CULEBRA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	State Assignment Fund	Debt Service Fund	CDBG Fund	Other Governmental Funds	Total Funds
ASSETS						
Cash	\$ 3,897,380	\$ 478,884	\$ -	\$ 12,652	\$ 152,921	\$ 4,541,837
Cash with Fiscal Agent	-	45,652	1,159,730	-	251,435	1,456,817
Receivables:						
Property Tax	-	-	2,623	-	-	2,623
Sales Tax	148,674	-	60,083	-	-	208,757
Federal Grants	-	-	-	-	46,941	46,941
Intergovernmental	51,850	4,618	-	-	117,533	174,001
Due from Other Funds	277,962	2,201,354	-	196,896	72,665	2,748,877
TOTAL ASSETS	\$ 4,375,866	\$ 2,730,508	\$ 1,222,436	\$ 209,548	\$ 641,495	\$ 9,179,853
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities						
Accounts Payable and Accrued Liabilities	\$ 404,525	\$ -	\$ -	\$ -	\$ 832	\$ 405,357
Bonds and Notes Payable	-	-	55,000	-	-	55,000
Accrued Interest	-	-	25,547	-	-	25,547
Due to Governmental Units	106,973	-	-	-	-	106,973
Due to Other Funds	2,370,575	41,905	-	64,521	271,876	2,748,877
Unearned Revenues:						
Volume of Business Tax	142,014	-	-	-	-	142,014
Total Liabilities	3,024,087	41,905	80,547	64,521	272,708	3,483,768
Deferred Inflows of Resources						
Unavailable Revenues:						
Federal Grants	-	-	-	145,027	247,799	392,826
Total Deferred Inflows of Resources	-	-	-	145,027	247,799	392,826
Fund Balances						
Restricted	-	2,688,603	1,141,889	-	120,988	3,951,480
Assigned	1,710,371	-	-	-	-	1,710,371
Unassigned	(358,592)	-	-	-	-	(358,592)
Total Fund Balances	1,351,779	2,688,603	1,141,889	-	120,988	5,303,259
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 4,375,866	\$ 2,730,508	\$ 1,222,436	\$ 209,548	\$ 641,495	\$ 9,179,853

See accompanying notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	State		Debt	Other		Total Funds
	General Fund	Assignment Fund	Service Fund	CDBG Fund	Governmental Funds	
REVENUES						
Property Taxes	\$ 470,084	\$ -	\$ 230,961	\$ -	\$ -	\$ 701,045
Volume of Business Taxes	170,203	-	-	-	-	170,203
Sales Taxes	1,012,388	-	268,619	-	-	1,281,007
Federal Assurances	-	-	-	1,067,141	212,314	1,279,455
Intergovernmental	2,875,914	100,000	-	-	178,672	3,154,586
Construction Excise Taxes	119,167	-	-	-	-	119,167
Rent	14,305	-	-	-	8,800	23,105
Miscellaneous	298,589	42,737	-	-	4,346	345,672
	<u>4,980,650</u>	<u>142,737</u>	<u>499,580</u>	<u>1,067,141</u>	<u>404,132</u>	<u>7,074,240</u>
EXPENDITURES						
Current:						
Mayor and Municipal Legislature	476,855	-	-	-	-	476,855
General Government	2,277,833	1,040	-	-	50	2,278,923
Public Safety	233,209	-	-	-	-	233,209
Public Works	498,624	-	-	-	-	498,624
Culture and Recreation	177,724	-	-	-	1,590	179,314
Sanitation	597,508	-	-	-	-	597,508
Human Services and Welfare	172,912	-	-	-	167,167	340,079
Urban Development	823,681	426	-	1,067,141	26,267	1,917,515
Education	57,905	-	-	-	142,917	200,822
Pinolpal	-	-	55,000	-	-	55,000
Interest and Other Charges	-	-	51,326	-	-	51,326
Total Expenditures	<u>5,316,251</u>	<u>1,466</u>	<u>106,326</u>	<u>1,067,141</u>	<u>337,991</u>	<u>6,829,175</u>
Excess (deficiency) of revenues over (under)	(355,601)	141,271	393,254	-	86,141	245,065
OTHER FINANCING SOURCES (USES)						
Transfer-In	1,116,384	-	-	-	-	1,116,384
Transfer-Out	-	-	(1,074,253)	-	(42,131)	(1,116,384)
Total Other Financing Sources and Uses	<u>1,116,384</u>	<u>-</u>	<u>(1,074,253)</u>	<u>-</u>	<u>(42,131)</u>	<u>-</u>
Net Change In Fund Balances	760,783	141,271	(680,999)	-	24,010	245,065
Fund Balance - Beginning	590,996	2,547,332	1,822,888	-	96,978	5,058,194
FUND BALANCES - ENDING	\$ 1,351,779	\$ 2,688,603	\$ 1,141,889	\$ -	\$ 120,988	\$ 5,303,259

See accompanying notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

RECONCILIATION OF BALANCE SHEET- GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION

Total Fund Balances – Governmental Funds \$ 5,303,259

Amounts reported for Governmental Activities in the Statement of Net Position 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	(3,538,624)	
 Total Capital Assets.....		 8,412,866

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

General Bonds and Notes Payable	(2,260,000)	
Compensated Absences.....	(375,224)	
MRCC Law 42	(2,077,274)	
MRCC Law 146	(6,171)	
MRCC 2013-2014 Final Revision	(28,288)	
Health Insurance Administration.....	(312,891)	
Total Long-Term Liabilities.....		(5,059,848)

Total Net Position of Governmental Activities..... \$ 8,656,277

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances – Total Governmental Funds	\$	245,065
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Revenues in the governmental funds that correspond to prior year resources are not recorded as revenue in the Statement of Activities.....		(90,080)
Repayment of debt proceeds principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year the repayments were.		55,000
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	(14,642)	
Decrease in Law 42	61,562	
Increase in Health Insurance Administration	(1,292)	
Increase in MRCC 2013-2014 Final Revision.....	(28,288)	
Decrease in Law 146.....	<u>343</u>	
Net Change in Expenditures.....		<u>17,683</u>
Change in Net Position of Governmental Activities.....		<u>\$ 227,668</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 five Legislators also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban and economic development, and many other general and administrative Services. The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

The accompanying basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established new financial reporting requirements for state and local governments. On July 1, 2002, the Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2014, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

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

The required supplementary information, which consists of a management discussion and analysis (MD&A), is information presented along with, but separate from, the Municipality's basic financial statements. The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2014, 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, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

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, 2014, 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 Positions and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements

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

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

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

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

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- ❖ Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2014, has been reported only in the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation

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

Government-Wide Financial Statements

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

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

The Statement of Net Position presents the reporting entities' assets and liabilities, with the difference reported as net position. Net position 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 Position** – These results when constraints are placed on net position use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Position** – These consists of net position which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position 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 accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position or liabilities changed during the fiscal year ended June 30, 2014, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, volume of business taxes, sales taxes, construction, excise taxes, etc.)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) mayor and municipal legislature, (2) general government, (3) public safety, (4) public works, (5) culture and recreation, (6) health and sanitation, (7) human services and welfare and, (8) urban development. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

C. Financial Statement Presentation (Continued)

Mayor and municipal legislature:

Municipal legislature
Mayor's office

General government:

Department of finance
Department of human resources
Department of municipal secretary
Department of internal audit

Public safety:

Department of emergency management - civil defense
Department of municipal police

Public works:

Department of public works

Culture and recreation:

Department of sports and recreation
Department of art, culture and tourism

Sanitation:

Department of recycling services

Human service and welfare:

Department of health
Department of citizen affairs

Urban development:

Department of planning and development
Federal programs office

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and, (3) special items.

Program revenues - These revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

- **Charges for services** - These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** - These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes - to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues - These revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes, construction excise taxes and sales and use taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

Special items - These items consist of revenues arising from significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Extraordinary items consist of revenues arising from significant transactions or other events that are both unusual in nature and infrequent in occurrence.

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the FFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities. The Municipality classifies the most significant portion of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the FFS.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net positions for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

The Municipality has operations and activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Governmental Fund Financial Statements

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

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Financial Statements

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

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.

CDBG Grant Funds – is used to account for revenues derived from the Department of Housing and Urban Development grants, related to Community Development Block Grant.

D. Financial Reporting Presentation

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

The Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Fund types are as follows:

General Fund – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Special Revenue Fund – is a governmental fund used to account for and report the proceeds of specific revenue sources that are legally restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Debt Service Fund – is a governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Reporting Presentation

Capital Projects Fund – is a governmental fund used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

E. Fund Balances

According to the provisions of GASB Statement No. 54, the fund balances are reported in five categories:

- ❖ **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.
- ❖ **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.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts is restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balances

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely.

However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2014.

When an expenditure is incurred for purposes for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

At June 30, 2014, the accompanying fund financial statements reported fund balances as restricted and unassigned.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Data

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

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

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;
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;

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Budgetary Data (Continued)

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.

Budgetary Data (Continued)

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Cash, Cash Equivalent and Investment

The Finance Director of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. At June 30, 2014, the Municipality does not have any type of investment.

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.

H. Receivables

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

I. Inventories

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

J. Capital Assets

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

Depreciation on all assets is 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

K. Long-Term Obligations

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

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

L. Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences (Continued)

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

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2014.

<u>BALANCE</u> <u>JULY 1, 2013</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2014</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 360,582	\$ 14,642	\$ -	\$ 375,224	\$ 25,000	\$ 350,224

N. 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.

O. Interfund Transactions

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

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Interfund Transactions

- ❖ **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.

P. 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.

Q. 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.

R. 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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. 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, 2014 amounted to \$94,050. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$112,647 for workers compensation insurance covering all municipal employees.

T. Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2014:

- ❖ **GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27***. This statement is effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.
- ❖ **GASB Statement No. 69 *Government Combinations and Disposals of Government Operations***. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions and transfers of operations.
- ❖ **GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees***. This statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.
- ❖ **GASB Statement No. 71 *Pension Transition for Contributions made Subsequent to the Measurement Date— an amendment of GASB 68***. This statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

The impact of these Statements on the Municipality's basic financial statements has not yet been determined by the Municipality's management.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 – CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2014.

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, 2014, (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, 2014, 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, 2014, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. Therefore, the Municipality's management has concluded that at June 30, 2014 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, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

The Municipality's bank balances in commercial banks of \$3,897,380 in the General Fund, \$478,884 in the State Assignment Fund and \$12,652 in the CDBG Fund were fully collateralized at June 30, 2014. Also, in the Other Governmental Funds there were deposits with commercial banks of \$152,921 that were fully collateralized.

The deposits at GDB of \$45,652 in the State Assignment Fund, \$1,159,730 in the Debt Service Fund and \$251,435 in the Other Governmental Fund, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 - RECEIVABLES

A. Federal Grants Receivable

Federal grants receivable amounting \$46,941 in Other Governmental Funds represent expenditures incurred not yet reimbursed by the Child Care Development Block Grant program.

B. State Government Receivables

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

<u>Governmental Entity</u>	<u>Amount</u>
Office of the Commissioner of Municipal Affairs	\$ 51,850
State Port Authority	4,618
State Department of Labor - Law 52	<u>117,533</u>
Total	<u>\$ 174,001</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 - RECEIVABLES (CONTINUED)

C. Due From Other Funds

Interfund receivables and payables at June 30, 2014 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	\$ 174,793
General Fund	State Assignment Fund	Payroll and related accruals paid and not reimbursed	41,905
General Fund	CDBG Fund	Payroll and related accruals paid and not reimbursed	61,264
State Assignment Fund	General Fund	Loans between funds	2,101,014
State Assignment Fund	Other Governmental Funds	Loans between funds	97,083
State Assignment Fund	CDBG Fund	Loans between funds	3,257
CDBG Fund	General Fund	Loan between funds	196,896
Other Governmental Funds	General Fund	Cash pool in the same bank account	<u>72,665</u>
Total			<u>\$ 2,748,877</u>

D. Interfund Transfers

Interfund transfers during the fiscal year ended at June 30, 2014, are summarized as follows:

Transfer Out	Transfer In	Purpose	Amount
Debt Service Fund	General Fund	To cover operating expenditures	\$1,074,253
Other Governmental Funds	General Fund	To cover operating expenditures	<u>42,131</u>
Total			<u>\$1,116,384</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 – CAPITAL ASSETS

Capital assets, those with an estimated useful lives 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 2014, 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, 2013	Additions	Retirements / Reclassifications	Balance June 1, 2014
Capital asset, not being depreciated:				
Land	\$ 3,366,886	\$ -	\$ -	\$ 3,366,886
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>3,366,886</u>	<u>-</u>	<u>-</u>	<u>3,366,886</u>
Capital assets, being depreciated:				
Buildings	6,285,605	-	-	6,285,605
Infrastructure	-	-	-	-
Machinery and equipment	672,604	-	-	672,604
Motor vehicles	1,626,395	-	-	1,626,395
Total capital assets being depreciated	<u>8,584,604</u>	<u>-</u>	<u>-</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)
Total accumulated depreciation	<u>(3,538,624)</u>	<u>-</u>	<u>-</u>	<u>(3,538,624)</u>
Total capital assets being depreciated, net	<u>5,045,980</u>	<u>-</u>	<u>-</u>	<u>5,045,980</u>
Governmental activities capital assets, net	<u>\$ 8,412,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,412,866</u>

Depreciation expenses were not charged to the governmental functions/programs:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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.

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 2013-2014, and not paid by the Municipality at June 30, 2014. Following is a detail of these accounts payable and accrued liabilities:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 349,308	\$ 55,217	\$ 404,525
Other Governmental Fund	<u>832</u>	<u>-</u>	<u>832</u>
Total	<u>\$ 350,140</u>	<u>\$ 55,217</u>	<u>\$ 405,357</u>

NOTE 6 - DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2014, balance due to other governmental units consists of the following:

Governmental Agency	Amount
General Service Administration	\$ 3,887
Aqueduct and Sewer Authority	2,861
State Department of Labor	15,285
State Department of Treasury	<u>78,401</u>
Total	<u>\$ 106,973</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 – DEFERRED INFLOWS OF RESOURCES

A. **Federal Grants** – the deferred inflows of resources presented in the Balance Sheet represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred inflows of resources from the federal government are as follows:

Program Description	Amount
Child Care Food Program	\$ 54,706
Public Assistance Grants	169,601
Title III	23,492
Community Development Block Grant	<u>145,027</u>
Total	<u>\$ 392,826</u>

NOTE 8 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2014, was as follows:

Description	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 2,315,000	\$ -	\$ 55,000	\$ 2,260,000	\$ 60,000
Property Tax Debt - Law 42	2,138,836	-	61,562	2,077,274	65,431
Compensated absences	360,582	14,642	-	375,224	25,000
Property Tax Debt - Law 146	6,514	-	343	6,171	343
Health Insurance Administration	311,599	1,292	-	312,891	-
Property Tax 13-14 Final Revision	-	28,288	-	28,288	-
Total	<u>\$ 5,132,531</u>	<u>\$ 44,222</u>	<u>\$ 116,905</u>	<u>\$ 5,059,848</u>	<u>\$ 150,774</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$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	\$ 1,900,000
\$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>360,000</u>
Total General Obligations - Bonds	<u>\$ 2,260,000</u>

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, 2014 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2015	\$ 60,000	\$ 169,500	\$ 229,500
2016	60,000	165,000	225,000
2017	70,000	160,500	230,500
2018	75,000	155,251	230,251
2019	80,000	149,626	229,626
2020-2024	490,000	649,505	1,139,505
2025-2029	715,000	376,578	1,091,878
2030-2034	<u>710,000</u>	<u>131,627</u>	<u>841,627</u>
Total	<u>\$ 2,260,000</u>	<u>\$ 1,957,887</u>	<u>\$ 4,217,887</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014 amounted to \$2,077,274.

D. COMPENSATED ABSENCES

The government-wide statement of net position includes \$375,224 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

E. 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, 2014 amounted to \$6,171.

F. HEALTH INSURANCE ADMINISTRATION

Liabilities of \$312,891 reported in the statement of net position represent the balance owed for services provided by the State Insurance Health Administration to the Municipality and not paid at June 30, 2014.

G. CRIM 2013-2014 Final Revision

For the fiscal year ended, June 30, 2014 the MRCC notify to the Municipality that the final settlement of property tax advances versus actual collections through fiscal year 2014 result in an overpayment to the Municipality of \$28,288.

H. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATION

The Municipality owns a municipal solid waste landfill. However, the Municipality has not adopted the required provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs*, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. According to these standard and regulations, the Municipality is required to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 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 position date. The accompanying statement of net position does not included 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, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014 was 6.83% (of which taxpayers pay 5.80% 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, 2014 was 8.83% (of which 7.77% 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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 10 - PROPERTY TAXES (CONTINUED)

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, 2014, 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.

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 unearned revenues in the GWFS and the GFFS. At June 30, 2014 the Municipality collected in advance, \$142,014 of volume of business tax.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 overall 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 10th 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, 2014

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 Puerto Rico Law 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, its instrumentalities, and municipalities and components units not covered by their own retirement systems.

Participation is mandatory for governmental and municipal employees, 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. Temporary and transitory employees are excluded from participation in the System. 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, and their hiring date. 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.

Law Number 305 of September 24, 1999, amended Puerto Rico Law Number 447, establishing a savings program called "Retirement System 2000". All employees active in the system as of December 31, 1999 may have elected to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may have contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will 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 have elected 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.

Puerto Rico Law Number 3 of April 4, 2013 created a new hybrid system incorporating elements of defined benefit and defined contribution plans. As of July 1, 2013, every employee who is a participant of the ERS who had not retired as of June 30, 2013, and any new participant who joins after that date, shall become part of the Defined Contribution Hybrid Program. As per Puerto Rico Law Number 3 of 2013, new provisions shall apply to employees who participate in the System that (1) began to work before January 1, 2000, (2) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of Law Number 3, and (3) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of Law Number 3, or having met such requirements did not elect to retire before July 1, 2013. The savings accounts under the Retirement System 2000 of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Additionally, those who could retire on or before June 30, 2013 because they are 60 years old, may retire on any later date, and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program which are transferred to the Defined Contribution Hybrid Program.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 14 – EMPLOYEE'S RETIREMENT PLAN

Under the plans, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law:

- Up to June 30, 2013, covered employees were 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.
- After June 30, 2013, every participant of the Hybrid Program shall compulsorily have to contribute 10% of his/her salary while he/she is an employee. The participants of the Hybrid may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. Employees who contribute to the retirement system in a special plan with the ERS in coordination with their contributions to Social Security, as defined by the ERS administrator, will be required to contribute 7% of their monthly salaries up to \$550 for FY 2014, to be increased to 8.5% for FY 2015, and finally 10% for FY 2016 and all future periods.
- The Municipality contributed to the system 9.275% of the participating employee's salaries for the fiscal year ended in June 30, 2013 and prior years. Puerto Rico Law 116 of July 6, 2011 increased the employer contribution rate required from the Municipality. The contribution rate increased from 9.275% to 20.775%, to be implemented in incremental 1% to 1.25% annual increases between those years. The same law provided that for fiscal years 2012, 2013, and 2014, the Puerto Rico Office of Management and Budget would contribute these increases for all Municipalities. Starting in fiscal year 2014-2015, the Municipality is required to contribute 12.275% of the participating employee's salaries for that period, and the rate will increase to 13.275% in FY 2016, 14.525% in FY 2017, 15.775% in FY 2018, 17.025% in FY 2019, 18.275% in FY 2020, and finally to 19.525% in FY 2021 and all future periods.

Before July 1, 2013, all employees that did not elect to transfer for the System 2000 Savings program and who at the time of employment were 55 years old or less were eligible to participate in the defined contribution system, with pension benefits for participants 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 (employees hired before April 1, 1990).
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees hired after April 1, 1990).
Less than 30, more than 10	N/A	1.5% of their average compensation for each year of credit service for the remaining years.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

After July 1, 2013, both the defined contribution and System 2000 Savings systems will be converted to the new Hybrid Defined Contribution System. The following the changes implemented by Puerto Rico Law 3 of 2013, all employees that elect to retire, regardless of the previous retirement system they participated in, will be entitled to retire and receive their benefits under the following conditions:

NOTE 14 - EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

<u>PREVIOUS RETIREMENT PROGRAM</u>	<u>YEARS OF SERVICE</u>	<u>PARTICIPANT'S AGE, AS OF JUNE 30, 2013</u>	<u>ELIGIBLE AGE TO RETIRE</u>
Savings System ("System 2000")	N/A	60 years or more	May retire at any time in the future after June 30, 2013.
Savings System ("System 2000")	N/A	55 to 59 years	May retire once participant meets the predetermined age of 61 to 65 years of age, respectively.
Savings System ("System 2000")	N/A	55	May retire at any time in the future after June 30, 2013, but only for public officers in high-risk positions.
Defined Benefit Program (employed before April 1, 1990).	25 or 10 years or more, respectively	54 or 57 years or less, respectively	May retire once participant meets the predetermined age of 59 to 61 years of age and 10 years of service.
Defined Benefit Program (hired after April 1, 1990 but before January 1, 2000).	10 years	64 years or less	May retire once participant meets the predetermined age of 65 years of age.
All other employees not covered above.	10 years	65 years or more	May retire at any time in the future after June 30, 2013.

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of 55 and 30 years of service. Retirement shall be mandatory on the date the participant reaches both 30 years of service and the age of 58. Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of 55 years and have completed at least 25 years of creditable service; and for members of the System who having reached the age of 58 years, and have completed at least 10 years of creditable service. The members of the Police shall also have the option of a retirement annuity on and after the date on which they have attained the age of 50 years and have completed at least 25 years of creditable service. Any participant whose separation from the service occurs prior to having attained the age of 58 years, who shall have completed at least 10 years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of 58 years or after attaining the age of 50 years in the case of policemen or firemen, and 55 years in the case of the other participants, if they have completed at least 25 years of service in one case or the other.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

For employees who were hired before April 1, 1990, the amount of the annuity shall be one and 1.50% of the average compensation multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of 20 years up to June 30, 2014. For employees hired after April 1, 1990, the amount of the annuity shall be 1.5% of the average compensation multiplied by the years of accredited services up to June 30, 2014. From July 1, 2013 onwards, participants in the retirement system will not accumulate new years of service nor receive accreditation for previously unrecognized service years, transfer contributions, or return contributions for periods ending on or before June 30, 2014.

NOTE 14 - EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

However, a minimum pension of \$500 per month, effective July 1, 2013, is hereby fixed for those participants who retired in from the retirement systems. Every pensioner who receives pension of less than \$500 per month shall receive, effective July 1, 2013, the increase require for his/her pension to be \$500.

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.

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.

Contributions in 2013 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 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.

In the event of the death of any participant who had contributions accrued in the new hybrid system, contributions would be reimbursed to heirs or other designated persons as determined by the participant, equal to the original contributions plus undistributed income up to the date of the participant's death. In the case of total and permanent disability or due to terminal illness, the participant will be entitled to his or hers contributions in a lump sum or an annuity at the option of the participant. The Puerto Rico Employee Retirement System also established a disability benefits program, which may provide temporary annuities by means of disability insurance in the event of total and permanent disabilities, and is funded by a maximum of 0.25% of participant's salary.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Additional benefits are annually awarded for participants of the defined contribution and hybrid retirement systems, but not the Retirement 2000 System, now replaced by the hybrid system. These benefits include a medicine bonus of \$100 provided by July 15th, a Christmas bonus of \$200 provided by December 20th, and contribution of \$100 by the Systems to employees' medical insurance plans. These additional benefits are funded by a special contribution by the Municipality to the systems beginning from fiscal year 2013-2014 onwards in the order of \$2,000 for every pensioner in the Systems who began to work before December 31, 1999.

NOTE 14- EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2014 was approximately \$126,419. 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, 2014. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

NOTE 15 - CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal claims and proceedings 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 State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 15 - CONTINGENCIES

C. CONSTRUCTION

The Municipality had commitments at June 30, 2014 of approximately \$200,000 for the construction, improvements, or renovation of several capital facilities and the capital assets.

D. OTHER COMMITMENTS

At June 30, 2014 the General Fund had commitments of approximately \$50,427 for executory purchase orders or contracts that will be honored during the subsequent year.

NOTE 16 - FUND BALANCE (DEFICIT)

As of June 30, 2014, the fund balance (deficit) classifications are as follows:

Fund Balance (Deficit)	General Fund	State Assignment Fund	Debt Service Fund	Other Governmental Fund	Total
Restricted for:					
Human Services and Welfare	\$ -	\$ -	\$ -	\$ 70	\$ 70
Urban Development	-	2,688,603	-	69,719	2,758,322
Education	-	-	-	51,199	51,199
Debt Service	-	-	1,141,889	-	1,141,889
Total restricted	<u>-</u>	<u>2,688,603</u>	<u>1,141,889</u>	<u>120,988</u>	<u>3,951,480</u>
Assigned for:					
Urban Development	1,710,371	-	-	-	1,710,371
Unassigned	<u>(358,592)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(358,592)</u>
Total Fund Balance (Deficit)	<u>\$ 1,351,779</u>	<u>\$ 2,688,603</u>	<u>\$ 1,141,889</u>	<u>\$ 120,988</u>	<u>\$ 5,303,259</u>

The assigned fund balance in the amount of \$1,710,371, represent resources collected through the sales tax, during the fiscal year 2013-2014. These amounts were assigned by the Municipality's management, for construction improvements, healthcare, recycling and maintenance of the landfill.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 19 - ACCOUNTING CHANGES AND RESTATEMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the Governmental Fund financial statements, which are reported as an adjustment to the beginning fund balance of the General Fund:

Description	General Fund
Fund balance, beginning	\$ 272,560
Intergovernmental receivable adjustment	396,837
Due to Governmental Units adjustment	<u>(78,401)</u>
Fund balance, beginning as restated	<u>\$ 590,996</u>

NOTE 19 - ACCOUNTING CHANGES AND RESTATEMENTS (CONTINUED)

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 position:

Description	Total
Net Position, beginning	\$ 8,110,173
Intergovernmental receivable adjustment	396,837
Due to Governmental Units adjustment	<u>(78,401)</u>
Net Position, beginning as restated	<u>\$ 8,428,609</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 20 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 9, 2015, 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, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis) (See Note A)	(Negative)
REVENUES:				
Property taxes	\$ 470,084	\$ 470,084	\$ 470,084	\$ -
Volume of Business Taxes	123,102	123,102	170,203	47,101
Sales Taxes	954,360	954,360	1,012,388	58,028
Intergovernmental Revenues	2,779,556	2,779,556	2,875,914	96,358
Construction Excise Taxes	211,000	211,000	119,167	(91,833)
Rent of Property	24,000	24,000	14,305	(9,695)
Miscellaneous			<u>201,345</u>	<u>58,845</u>
	<u>142,500</u>	<u>142,500</u>		
Total revenues	<u>4,704,602</u>	<u>4,704,602</u>	<u>4,863,406</u>	<u>158,804</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
Mayor and Municipal Legislature	621,507	593,675	497,497	96,178
General government	2,153,409	2,236,841	2,182,749	54,092
Public safety	231,296	200,196	188,990	11,206
Public works	618,940	588,440	499,312	89,128
Culture and Recreation	194,057	206,057	180,693	25,364
Sanitation	608,923	608,923	368,918	240,005
Human Service and Welfare	195,218	195,218	173,638	21,580
Education	<u>81,252</u>	<u>75,252</u>	<u>57,905</u>	<u>17,347</u>
Total expenditures, encumbrances and other financing uses	<u>4,704,602</u>	<u>4,704,602</u>	<u>4,149,702</u>	<u>554,900</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 713,704</u>	<u>\$ 713,704</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA

NOTE TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**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 \$ 4,863,406

Differences-budget to GAAP:

GAAP adjustments to revenues

97,244

Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances

\$ 4,960,650

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule \$ 4,149,702

Differences-budget to GAAP:

Prior Year expenditure are not outflows of budgetary resources but are expenditure for financial purposes

40,844

Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes

(50,427)

GAAP adjustment to expenditures

1,176,132

Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances

\$ 5,316,251

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	2013-2014 Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 22,856
Total U.S. Department of Agriculture			<u>22,856</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Indirect Programs:			
Municipal Affairs:			
Community Development Block Grants – State’s Program	14.228	Various	1,067,141
Total U.S. Department of Housing and Urban Development			<u>1,067,141</u>
U.S. DEPARTMENT OF ENERGY			
Indirect Programs:			
Pass-Through State - Office of Energy Affairs Administration			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	Not Available	24,100
Total U.S. Department of Housing and Urban Development			<u>24,100</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through State - Office of Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B	93.045	Not Available	47,573
Pass-Through State - Administration of Children and Families:			
Child Care and Development Block Grant	93.575	Not Available	117,732
Total U.S. Department of Health and Human Service:			<u>165,305</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,279,402</u>

The accompanying notes are an integral part of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
NOTES TO SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the amount expended of all Federal Financial Assistance Programs of the Municipality of Culebra, Puerto Rico as of June 30, 2014. The reporting entity is defined in Note 1 to the general-purpose financial statements.

NOTE 2. RELATIONSHIP TO FEDERAL REPORTS

Federal Financial Assistance Revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and Capital Project Fund.

NOTE 3. FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Gil Alberto Ortiz Cabrera

Certified Public Accountants & Professional Consultants

Members of: *The American Institute of Certified Public
Accountants (AICPA)
Puerto Rico Board of Certified Public
Accountants*

INDEPENDENT AUDITOR'S 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 Major,
William Solís Bermudez
Members of the Municipal Assembly
and People of the Municipality of Culebra

We have audited, in accordance with the 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 the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Culebra, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Municipality of Culebra's basic financial statements, and have issued our report thereon dated February 9, 2014. We did not express an opinion on the governmental wide financial statements because we were unable to obtain sufficient and competent evidential matter related to capital assets and estimated landfill closure and post-closure cost liability.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality of Culebra's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Culebra's internal control. Accordingly, we do not express an opinion on the effectiveness of the municipality of Culebra's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses, we consider the deficiencies described in the schedule of findings and questioned costs (14-1, 14-2 and 14-3) to be material weaknesses.

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.

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. The result of our tests did not disclose any significant deficiency that are required to be reported under Government Auditing Standards.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Culebra's financial statements are free from 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 did not disclose any instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Municipality's Response to Findings

Municipality's response to finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CPA Gil Alberto Ortiz Cabrera

Guaynabo, Puerto Rico

License 1332

Stamp # 02714624 was affixed

to the original report.

San Juan, Puerto Rico

February 9, 2015

Gil Alberto Ortiz Cabrera

Certified Public Accountants & Professional Consultants

*Members of:
The American Institute of Certified Public
Accountants (AICPA)
Puerto Rico Board of Certified Public
Accountants*

INDEPENDENTS AUDITOR'S REPORT ON COMPLIANCE WITH EACH MAJOR PROGRAM AND ON INTERNALCONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor,
William I Solis Bermudez
Members of the Municipal Legislature
and to the People of the Municipality of Culebra

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Culebra's compliance with the type of compliance requirements describe in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Municipality of Culebra's major federal programs for the year ended June 30, 2014. The Municipality of Culebra's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

Compliance.

Basis for Qualified Opinion on CDBG Program

As described in the accompanying Schedule of Finding and Questioned Costs, the Municipality of Culebra did not comply with requirements regarding CFDA 14.228 CDGG as described in findings number 14-1 for Cash Management, 14-2 for Equipment and Real Property Management and 14.3 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Municipality of Culebra to comply with the requirements applicable to that program

Qualified Opinion on CDBG Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Municipality of Culebra complied, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on CDBG major program for the year ended June 30, 2014.

Municipality of Culebra's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality of Culebra's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal control over compliance

Management of Municipality of Culebra is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality of Culebra's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 findings and questioned costs as Items 14-1, 14-2 and 14-3 to be material weaknesses.

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. However we did not detect significant deficiencies in internal control over compliance.

The purpose of this report on Internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

By Alberto Ortiz Cabrera

CPA gil Alberto Ortiz Cabrera
Guaynabo, Puerto Rico
February 9, 2015
Stamp # 02714625 was affixed
to the original report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:
On Governmental Activities

Adverse

On Major Funds and aggregate fund information

Unqualified

Internal Control over financial reporting:

- Material weakness (es) identified?
- Reportable condition(s) identified that are not considered to be material weakness?

Yes No

Yes No

Material noncompliance to financial statements noted?

Yes No

Federal Awards

Internal Control over major programs:

- Material weakness (es) identified?
- Reportable condition(s) identified that are not considered to be material weakness?

Yes No

Yes No

Type of auditor's report issued on compliance with major programs: Qualified.

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

Yes No

Identification of major programs:.....

CFDA Numbers

Name of Federal Program of Cluster

14.228

CDBG

Dollar threshold used to distinguished between type A and the type B programs: \$300,000

Auditee qualified as low risk auditee?

Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING	14-1
CATEGORY	CDBG (CFDA NO. 14.228)
COMPLIANCE REQUIREMENT	CASH MANAGEMENT
CONDITION	The program does not maintain proper procedures to minimize time elapsing between funds received and disbursed. As per contract agreement, the program can not maintain the cash in bank for more than three (3) business days. This finding has been detected in prior years audits.
CRITERIA	The Cash Management requirement of Circular OMB-102 requires that fund recipients shall establish procedures to minimize the time elapsing between the date funds are received and disbursed to three working days.
CAUSE	The program officials does not give follow up to these funds when received.
EFFECT	The Municipality is no in Compliance with the Cash Management requirement of Circular OMB-102
RECOMENDATON	The Municipality shall improve cash management procedures in order to comply with this requirement.
QUESTIONED COSTS	NONE
RESPONSE	Instructions will be given to the Department of Finance Director and the Federal Program Director to give follow up to these funds when received, in order to pay them at least three day from the date received.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING	14-2
CATEGORY	CDBG (CFDA NO. 14.228)
COMPLIANCE REQUIREMENT	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CONDITION	The program does not maintain proper and complete record of equipment and property acquired. Also accounting records are not reconciled with the record the program keep.
CRITERIA	The Equipment and Real Property requirement of Circular OMB-102 requires the program to have a proper inventory records of equipment and real property acquired.
CAUSE	The program officials does not record in the inventory all equipment and real property acquired.
EFFECT	The Municipality is not in Compliance with the Equipment and Real Property Requirement of Circular OMB-102 Depreciation expese, Capital Assets and Accumulated Depreciation as of June 30, 2014 and for the year then ended will be understated and no evidence will be available to to account for disposals.
RECOMENDATON	The Municipality shall review all purcases made since the GASB 34 was implemented in order prepare a proper and appropriate inventory record of all Equipment and Real Property aquired.
QUESTIONED COSTS	NONE
RESPONSE	Instructions will be given to the Department of Finance to assign this responsibility to an employee who shall be incharge of taking a physical inventory. This employee shall prepare record that will include the following information: <ul style="list-style-type: none">• Date acquired• Property description• Identification number

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

**SECTION II - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
RESPONSE (CONT.)**

- The source of property and percentage of Federal Participation
- Location
- Use and condition
- Date of disposal
- Selling price of property
- Useful life
- Depreciation rate
- Depreciation expense by years
- Accumulated Depreciation by years

FINDING	14-3
CATEGORY	CDBG (CFDA NO. 14.228)
COMPLIANCE REQUIREMENT	REPORTING
CONDITION	Our test of Reporting reveals that all the quarterly reports were filed late.
CRITERIA	102 Circular Letter Reporting Requirement, require that the recipient shall file the Quarterly Reports 30 days after each quarter starting with September 30 quarter. OMB 2506-0085 requires that all Performance and Evaluation Reports shall be filed with HUD 90 days from the close of the program year in a format provided by HUD.
CAUSE	Lack of supervision.
EFFECT	the late submission may cause an improper handling of the amounts been expensed and obligated.
RECOMMENDATION	The Program director shall supervise better the employees.
QUESTIONED COSTS	NONE
RESPONSE	The Program Director will be instructed to give a close supervision to the employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING	13- III- 1
CATEGORY	CDBG (CFDA NO. 14.228
COMPLIANCE REQUIREMENT	CASH MANAGEMENT
CONDITION	The program does not maintain proper procedures to minimize time elapsing between funds received and disbursed. As per contract agreement, the program can not maintain the cash in bank for mora than three (3) business days. This finding has been detected in prior years audits.
CRITERIA	The Cash Management requirement of Circular OMB-102 requires that fund recipients shall establish procedures to minimize the time elapsing between the date funds are received and disbursed to three working days.
CAUSE	The program officials does not give follow up to these funds when received.
EFFECT	The Municipality is no in Compliance with the Cash Management requirement of Circular OMB-102
RECOMENDATON	The Municipality shall improve cash management procedures in order to comply with this requirement.
QUESTIONED COSTS	NONE
RESPONSE	Instructions will be given to the Department of Finance Director and the Federal Program Director to give follow up to these funds when recived, in orther to pay them at least three day from the date received.
STATUS	The condition persist

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING	13-2
CATEGORY	CDBG (CFDA NO. 14.228)
COMPLIANCE REQUIREMENT	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CONDITION	The program does not maintain proper and complete record of equipment and property acquired. Also accounting records are not reconciled with the record the program keep.
CRITERIA	The Equipment and Real Property requirement of Circular OMB-102 requires the program to have a proper inventory records of equipment and real property acquired.
CAUSE	The program officials does not record in the inventory all equipment and real property acquired.
EFFECT	The Municipality is not in Compliance with the Equipment and Real Property Requirement of Circular OMB-102 Depreciation expese, Capital Assets and Accumulated Depreciation as of June 30, 2014 and for the year then ended will be understated and no evidence will be available to to account for disposals.
RECOMENDATON	The Municipality shall review all purchases made since the GASB 34 was implemented in order prepare a proper and appropriate inventory record of all Equipment and Real Property aquired.
QUESTIONED COSTS	NONE
RESPONSE	Instructions will be given to the Department of Finance to assign this responsibility to an employee who shall be incharge of taking a physical inventory. This employee shall prepare record that will include the following information: <ul style="list-style-type: none">• Date acquired• Property description• Identification number

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 13 - 2 (CONT.)

**COMPLIANCE
REQUIREMENT**

EQUIPMENT AND REAL PROPERTY MANAGEMENT (CONT.)

RESPONSE (CONT.)

- The source of property and percentage of Federal Participation
- Location
- Use and condition
- Date of disposal
- Selling price of property
- Useful life
- Depreciation rate
- Depreciation expense by years
- Accumulated Depreciation by years

STATUS

The condition persist

FINDING

13-3

CATEGORY

CDBG (CFDA NO. 14.228

**COMPLIANCE
REQUIREMENT**

PERIOD OF AVAILABILITY OF FEDERAL FUNDS

CONDITION

During our test of Availability of Federal Funds we noted than funds pertaining to years 2009 and 2010 and amounting to \$690,379 and \$858,891, respectively, were not obligated within within 24 months period required.

CRITERIA

The OMB circular A-133, establishes that federal awards msy rpecify s time period during which the non-federal antity may use federal funds. Where a funding period specified, a non-federal entity may charge to the award only costs resulting from oblibations incurred during the funding period and any pre-ward costs authorized by the federal agency. The period to obligate the award is 24 months and the period to expense is 4years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 13-4

CATEGORY	CDBG (CFDA NO. 14228)
COMPLIANCE REQUIREMENT	Suspension and Debarment
CONDITION	The Municipality does not have procedures in place to verify status of an entity as to suspensions and debarments when contracting services or procuring goods with federal funds.
CRITERIA	Circular A-102 Common rule (.36) illustrate the procurement requirements that should be followed to obtain competitive contract price for service and/ or materials to be acquired.
CAUSE	The Municipality has no policies and procedures to have access to the list of parties excluded from federal procurement programs, to assure that they do not award assistance to listed parties.
EFFECT	As a result of this deficiency, the Municipality could have procured goods or services from organizations and individuals that are suspended or debarred, which could result in cost disallowances by the federal awarding agency.
STATUS	Condition was resolved.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

SECTION II - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 13 - 5

CATEGORY CDBG (CFDA NO. 14.2280)

CAUSE The Municipality officials are not monitoring the funding period to ascertain that program funds are obligated and expensed within the 24 months and 4 years period, respectively.

EFFECT The assigned funds are not used completely within the time frame requirement and therefore, could be lost.

RECOMMENDATION The use of funds shall be planned on time to avoid the loss of funds.

QUESTIONED COSTS NONE

STATUS The condition was resolved.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION III – FINANCIAL STATEMENTS FINDINGS

14-1 – Equipment and Real Property management

The Municipality has not maintained an adequate and complete record in order to obtain sufficient, competent evidential matter with respect to capital assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expense of the governmental activities is not determinable.

Corrective Action

The Finance Department Director assigned an employee with the responsibility to take a physical inventory of the assets and to prepare a record including the following information:
(See compliance section)

14-2 Accounting System

The Municipality Accounting system and manuals used to account and register the financial transactions that arise during the year, does not provide for the summarization of transactions that permit the preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America.

Corrective Action

The Municipality acquired a new software that will provide records that will help in the preparation of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CULEBRA
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION III - FINANCIAL STATEMENTS FINDINGS

14-3 Municipal solid Waste Landfill

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

Corrective Action

The Municipality will request a confirmation from the State Solid Waste Authority of the available space, if any, of the municipal solid waste landfill. Once we obtain the information we will hire an external professional to determine the actual closure and post closure care cost of the landfill. With that information we will proceed to calculate the required liability to be reported in the financial statements of the Municipality.

