

COMMONWEALTH OF PUERTO RICO



**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY**

FISCAL YEAR ENDED JUNE 30, 2014

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

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2014**

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CARLOS R. DIAZ, CPA, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Culebra Conservation and
Development Authority
Culebra, Puerto Rico**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of **Culebra Conservation and Development Authority** (the Authority), Puerto Rico as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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. 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.



MEMBER:

**American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants**

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Qualified

Basis for Qualified Opinion

Because of the accuracy of accounting records we were unable to obtain sufficient appropriate audit evidence regarding the amount at which capital assets and accumulated depreciation are recorded in the accompany statement of net position at June 30, 2014 (stated at \$1,605,155 and \$716,144, respectively), or the amount of depreciation expense for the year then ended (stated at \$35,864).

Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis of Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the **Culebra Conservation and Development Authority, Puerto Rico** as of June 30, 2014, and the respective changes in financial position, the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 on pages 3 to 12 and 35, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers 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.



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2015

September 12, 2014
Aguas Buenas, Puerto Rico

The Stamp No. **E107074** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The management of the **Culebra Conservation and Development Authority (the Authority)** offers this narrative overview and analysis of the financial activities of the Authority 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.

The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2003-2004. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

- a broader basis in focusing important issues;
- acknowledgement of an overview of the Authority'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 '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 Authority's assets exceeded its liabilities at June 30, 2014 by \$718,971, and at June 30, 2013 by \$709,488;
- The Authority's total net position increase by \$9,482 during fiscal year 2013-2014;
- As of June 30, 2014, the Authority's governmental funds reported combined ending fund balance of \$31,673, an increase of \$18,260 from the prior year;
- At June 30, 2014, the statement of net position presented an unrestricted deficit of \$187,632;
- The Authority's capital assets inventory decrease as a result of this year's operations. Capital assets (net of accumulated depreciation) and net position invested in capital assets (net of related debt) as of June 30, 2014 were \$889,011;
- The accrued vacation and sick leave liability and voluntary termination benefits amounted to \$61,917 and \$137,229 at respectively, at June 30, 2014.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements focused on both the Authority as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Authority's accountability.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's financial statements. The Authority'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.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements can be found immediately following this MD&A, and are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

STATEMENT OF NET POSITION

The purpose of the statement of net position is to attempt to report all assets owned and all liabilities owed by the Authority. The Authority reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Authority reports buildings and improvements as assets, even though they are not available to pay the obligations incurred by the Authority. On the other hand, the Authority reports compensated absences even though this liability might not be paid until several fiscal years into the future.

The difference between the Authority's total assets and total liabilities reported in the statement of net position is presented as net position, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Authority is not to accumulate net position, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Authority is either improving or deteriorating, respectively.

STATEMENT OF ACTIVITIES

The statement of activities presents information showing how the Authority's net position changed during the fiscal year ended June 30, 2014, by presenting all of the Authority's revenues and expenses. As previously discussed, the items reported in the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Authority. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although the statement of activities looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Authority reports an amount described as net change in net position, which is essentially the same concept.

The focus of the statement of activities is on the net cost of various activities provided by the Authority. The statement begins with a column that identifies the cost of each of the Authority's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Authority draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Authority.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

STATEMENT OF ACTIVITIES (CONTINUED)

Both of the government-wide financial statements of the Authority are principally supported by charges for services and Legislative appropriations. The governmental activities of the Authority include; payroll and related costs, facilities and payment for public services, purchased services, transportation expenses, professional services, materials and supplies, purchase of equipment, depreciation and other operating expenses.

FUND FINANCIAL STATEMENTS

The Authority's fund financial statements consist of: (1) the balance sheet and (2) the statement of revenues, expenditures and changes in fund balances. These financial statements report the financial position and the results of operations of the Authority's governmental funds, with an emphasis on the Authority's major governmental funds.

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 Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

GOVERNMENTAL FUNDS

The Authority'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 Authority 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.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

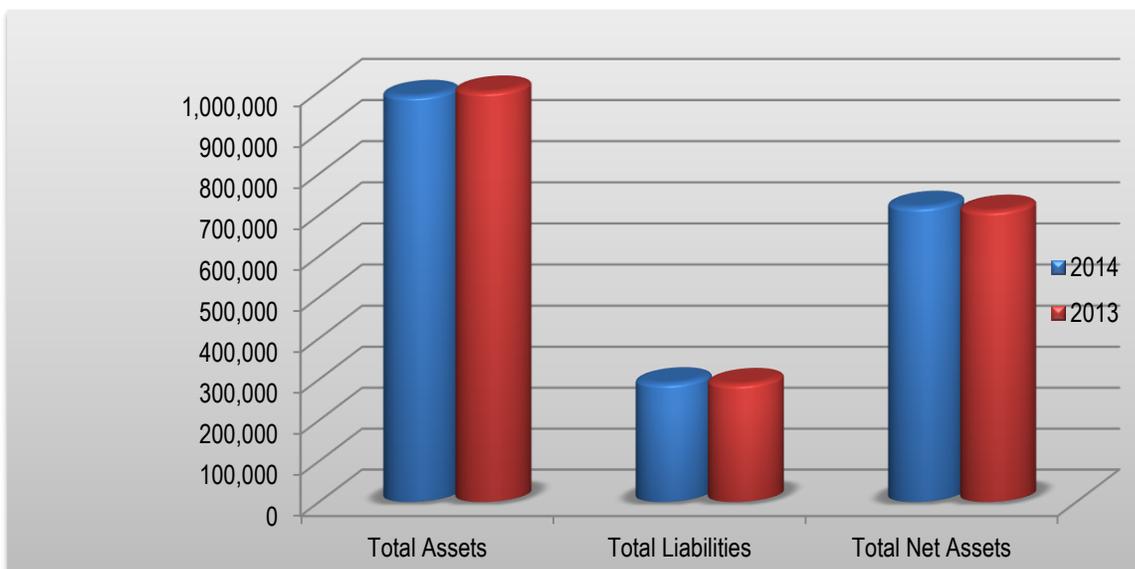
GOVERNMENTAL NET POSITION

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$718,971 as of June 30, 2014, versus \$709,488 as of June 30, 2013. Our analysis below focuses on the net position (**Table 1**) and changes in net positions of the Authority's governmental activities.

Table 1

Statement of Net Position

	<u>2014</u>	<u>2013</u>
Current and non-current assets	\$ 99,784	\$ 75,239
Capital assets	<u>889,011</u>	<u>924,011</u>
Total Assets	<u>988,795</u>	<u>999,250</u>
Current liabilities	143,947	60,128
Long-term liabilities	<u>125,877</u>	<u>227,934</u>
Total Liabilities	<u>269,824</u>	<u>288,062</u>
Deferred inflows of resources	<u> </u>	<u>1,700</u>
Net positions:		
Investment in capital assets, net of related debt	889,011	924,011
Restricted for Other Purposes	17,592	6,125
Unrestricted	<u>(187,632)</u>	<u>(220,648)</u>
Total Net Position	<u>\$ 718,971</u>	<u>\$ 709,488</u>



**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The largest portion of the Authority's net position reflects its investment in capital assets, such land, buildings and equipment. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. The additional portion of the Authority's net position represents unrestricted resources.

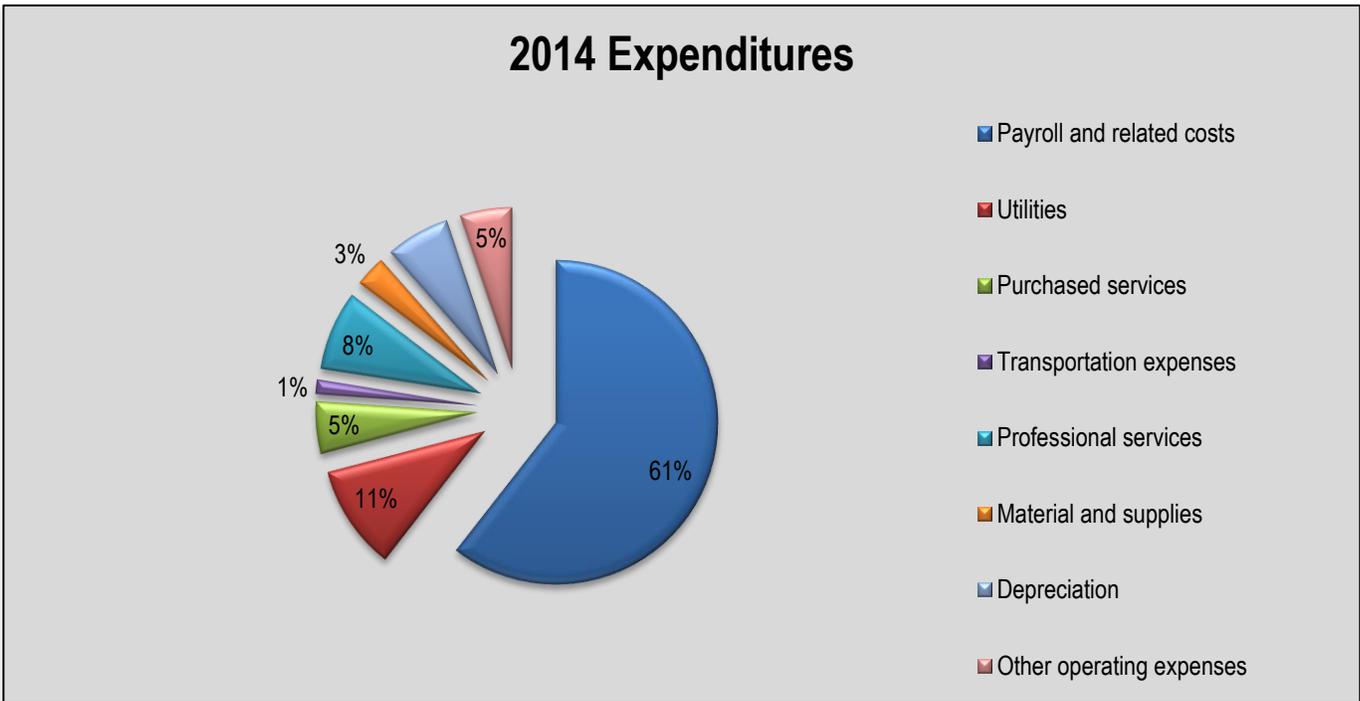
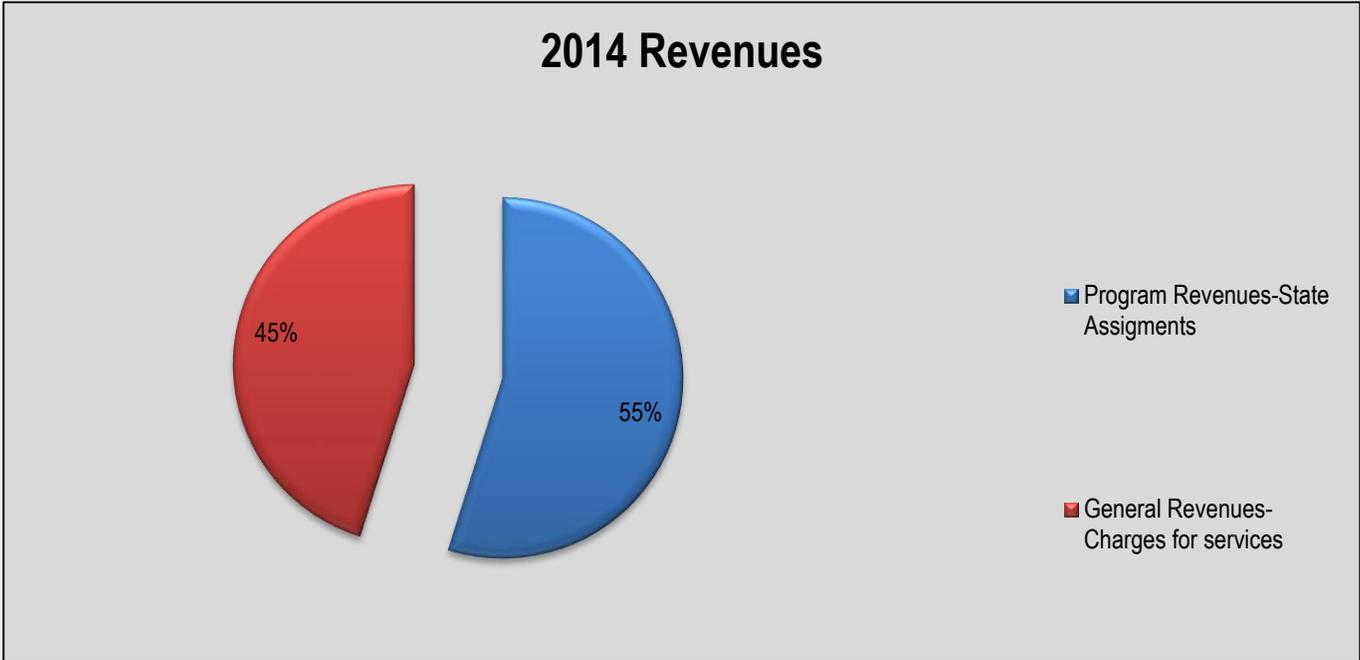
GOVERNMENTAL ACTIVITIES

The cost of all governmental activities this year was \$561,188. **Table 2** presents the revenue and cost of the Authority's programs.

<u>Table 2</u> <u>Statement of Activities</u>	<u>2014</u>	<u>2013</u>
Program revenues		
State Assignments	\$313,000	\$349,485
General revenues:		
Charges for services	<u>257,670</u>	<u>258,550</u>
Total revenues	<u>570,670</u>	<u>608,035</u>
Expenses		
Payroll and related costs	339,622	352,172
Utilities	58,429	100,810
Purchased services	28,818	42,057
Transportation expenses	7,644	1,953
Professional services	44,617	72,625
Material and supplies	17,574	28,036
Depreciation	35,864	35,648
Other operating expenses	<u>28,620</u>	<u>31,320</u>
Total expenses	<u>561,188</u>	<u>664,621</u>
Changes in net position	9,482	(56,586)
Net position – beginning	<u>709,489</u>	<u>766,075</u>
Net position – ending	<u>\$718,971</u>	<u>\$709,489</u>

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)



**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Approximately fifty-five percent (55%) of the Authority's governmental activities total revenue came from Legislative appropriations, while forty-five percent (45%) resulted from charges for services. The Authority's governmental activities expenses included items such as payroll and related costs, facilities and payment for public services, purchased services, transportation, professional services, materials, supplies and purchase of equipment.

Approximately sixty-one percent (61%) of total expenses resulted from payroll and related costs, eleven percent (11%) resulted from utilities and eight percent (8%) resulted from professional services.

GOVERNMENTAL FUNDS

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority'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 Authority's governmental funds reported combined ending fund balances of \$31,613, an increase of \$18,260 from the prior year.

GOVERNMENT FUND FINANCIAL ANALYSIS

The following is a detailed financial analysis of the Authority's governmental funds:

General Fund – The general fund is the principal operating fund of the Authority. Its total assets amounted to \$75,945 at June 30, 2014, which consist of cash in commercial banks and accounts receivables and its total liabilities amounted to \$61,864.

The Authority has an unassigned fund balance of \$14,081 in its general fund.

State Assignment Fund – The state assignment fund total assets amounted to \$75,496. Of this amount, \$51,657 consists of due from the general fund. The state assignment fund total liabilities amounted to \$57,904.

The Authority has a restricted fund balance of \$17,592 in its governmental fund.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENT FUND FINANCIAL ANALYSIS (CONTINUED)

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

Table 3

Balance Sheet

	2014	2013
Assets:		
Cash	\$ 99,199	\$ 73,459
Accounts receivable	585	1,780
Due from other fund	51,657	51,657
Total assets	\$ 151,441	\$ 126,896
Liabilities:		
Accounts payable and accrued expenses	\$ 68,111	\$ 60,128
Due to other fund	51,657	51,657
Total liabilities	119,768	111,785
Deferred inflows of resources		1,700
Fund Balances:		
Restricted	17,592	650
Assigned		5,475
Unassigned	14,081	7,286
Total fund balances	31,673	13,411
Total liabilities and fund balances	\$ 151,441	\$ 126,896

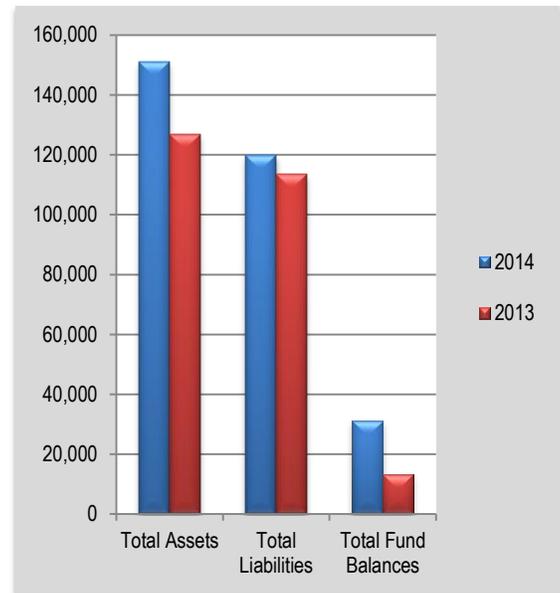
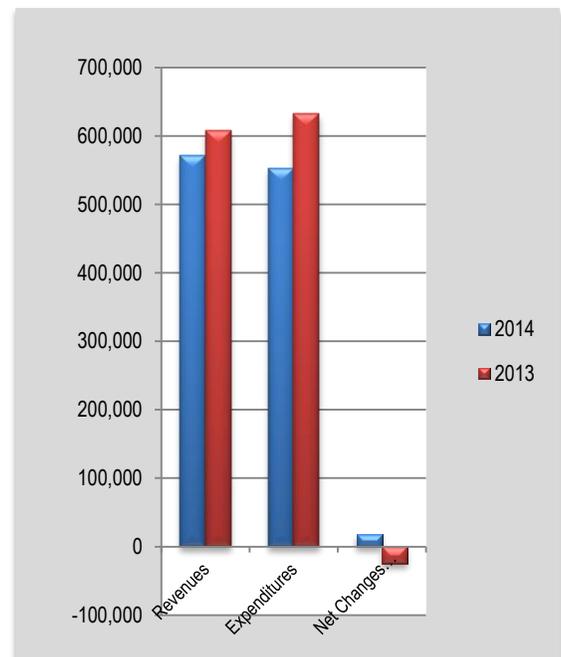


Table 4

Changes in Fund Balances

	2014	2013
Revenues:		
Charges for services	\$ 257,670	\$ 258,550
Operating grant	313,000	349,485
Total revenues	570,670	608,035
Expenditures:		
Payroll and related costs	364,386	352,704
Utilities	58,429	100,810
Purchased services	28,818	43,946
Transportation expenses	7,644	1,953
Professional services	44,617	72,625
Material and supplies	19,463	27,850
Purchase of equipment	864	1,832
Other operating expenses	28,189	30,718
Total expenditures	552,410	632,438
Net changes in fund balance	18,260	(24,403)
Fund Balance – beginning	13,413	37,814
Fund Balance – ending	\$ 31,673	\$ 13,411



**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund and the State Assignment Fund. The Budgetary Comparison Schedule shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results. **Table 5** summarizes the results of the Budgetary Comparison Schedule:

Table 5	Final Budget	Actual Amounts	Variance
Total resources	\$531,000	\$570,670	\$39,670
Total charges to appropriations	<u>531,000</u>	<u>552,410</u>	<u>21,410</u>
Excess or deficiency	<u>\$</u>	<u>\$ 18,260</u>	<u>\$18,260</u>

The total actual resources (budgetary basis) for the fiscal year ended June 30, 2014 were \$570,670, which is \$39,670 more than the budgeted resources. In addition, the total actual charges to appropriations (budgetary basis) for the fiscal year ended June 30, 2014 were \$552,410, which is \$21,410 more than the budgeted charges to appropriations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Authority's investment in capital assets for its governmental type activities as of June 30, 2014 amounted to \$889,011 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, furniture and fixtures, and motor vehicles. **Table 6** present the major classes of capital assets.

Table 6 Capital Assets	Amount
Land	\$640,000
Buildings and improvements	221,079
Equipment	16,084
Motor vehicles	8,806
Furniture and fixtures	<u>3,042</u>
Total Assets	<u>\$889,011</u>

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

LONG-TERM DEBT

At June 30, 2014 the Authority had a total of \$201,712 in outstanding debts, as shown in **Table 7**.

Table 7	
Long Term Debts	Amount
Compensated absences	\$ 61,917
Obligation under capital lease	2,566
Voluntary termination benefits	<u>137,229</u>
Total Long Term Debts	<u>\$201,712</u>

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

Local, national and international economic factors influence the Authority’s revenues. Positive economic growth is correlated with increased revenues charges for services, as well as state 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 Authority's budget for the 2014 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority’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 Authority’s Finance Department at (787) 742-3880.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Primary Government Governmental Activities
Assets:	
Cash	\$ 99,199
Accounts receivables	<u>585</u>
	99,784
Capital assets, net of accumulated depreciation	<u>889,011</u>
Total assets	<u>\$ 988,795</u>
Liabilities:	
Accounts payable and accrued expense	\$ 68,112
Long-Term liabilities:	
Due within one year	75,835
Due in more than one year	<u>125,877</u>
Total Liabilities	<u>269,824</u>
Net position:	
Invested in capital assets, net of related debt	889,011
Restricted for other purposes	17,592
Unrestricted	<u>(187,632)</u>
Total net position	<u>\$ 718,971</u>

See accompanying notes to basic financial statements.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Primary Government Governmental Activities
Expenses – Recreation	
Payroll and related costs	\$(339,622)
Utilities	(58,429)
Purchased services	(28,818)
Transportation	(7,644)
Professional services	(44,617)
Materials and supplies	(17,574)
Depreciation	(35,864)
Other operating expenses	(28,190)
Interests	<u>(430)</u>
Total expenses	(561,188)
Program revenues	
State assignments	<u>313,000</u>
Net program expenses	(248,188)
General revenues	
Charges for services	<u>257,670</u>
Net change	9,482
Net position, beginning of year	<u>709,489</u>
Net position, end of year	<u>\$ 718,971</u>

See accompanying notes to basic financial statements.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
BALANCE SHEET – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Major Programs		
	General Fund	State Assignment Fund	Total Fund
Assets:			
Cash	\$75,360	\$23,839	\$ 99,199
Accounts receivables	585		585
Due from other fund	<u> </u>	<u>51,657</u>	<u>51,657</u>
Total assets	<u>\$75,945</u>	<u>\$75,496</u>	<u>\$151,441</u>
Liabilities, deferred inflows of resources and fund balance:			
Liabilities:			
Accounts payable and accrued liabilities	\$10,207	\$57,904	\$ 68,111
Due to other fund	<u>51,657</u>	<u> </u>	<u>51,657</u>
Total liabilities	<u>61,864</u>	<u>57,904</u>	<u>119,768</u>
Deferred inflows of resources:			
Total deferred inflows of resources			
Fund balance:			
Restricted		17,592	17,592
Assigned			
Unassigned	<u>14,081</u>	<u> </u>	<u>14,081</u>
Total fund balance	<u>14,081</u>	<u>17,592</u>	<u>31,673</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$75,945</u>	<u>\$75,496</u>	<u>\$151,441</u>

See accompanying notes to basic financial statements.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 31,673

Amounts reported for governmental activities in the statement of net positions are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds..... 889,011

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

Compensated absences	(61,917)
Obligation under capital lease	(2,566)
Voluntary termination benefits	<u>(137,229)</u>

TOTAL NET POSITIONS OF GOVERNMENTAL ACTIVITIES \$ 718,972

See accompanying notes to basic financial statements.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Major Funds		
	General Fund	State Assignment Fund	Total Fund
Revenues:			
Charges for services	\$257,670		\$257,670
Operating grant	<u> </u>	<u>\$313,000</u>	<u>313,000</u>
Total revenues	<u>257,670</u>	<u>313,000</u>	<u>570,670</u>
Expenditures			
Payroll and related costs	196,406	167,980	364,386
Utilities	13,073	45,356	58,429
Purchase services		28,818	28,818
Transportation		7,644	7,644
Professional services	34,042	10,575	44,617
Materials and supplies	641	18,822	19,463
Purchase of equipment		864	864
Other operating expenditures	<u>6,713</u>	<u>21,476</u>	<u>28,189</u>
Total expenditures	<u>250,875</u>	<u>301,535</u>	<u>552,410</u>
Net change in fund balances	6,795	11,465	18,260
Fund balance - beginning	<u>7,286</u>	<u>6,127</u>	<u>13,413</u>
Fund balance - ending	<u>\$ 14,081</u>	<u>\$ 17,592</u>	<u>\$ 31,673</u>

See accompanying notes to basic financial statements.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
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 \$ 18,260

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital Outlays.....	864
Depreciation Expense.....	<u>(35,864)</u>
Excess of Depreciation Expense over Capital Outlay	<u>(35,000)</u>

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 the governmental funds.

These activities consist of:

Decrease in compensated absences.....	14,934
Decrease in obligation under capital lease.....	1,458
Decrease in voluntary termination benefits.....	<u>9,830</u>
Total additional expenditures	<u>26,222</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES..... \$ 9,482

See accompanying notes to basic financial statements.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Culebra Conservation and Development Authority, a component unit of the Commonwealth of Puerto Rico, (the Authority) was created by Law No. 66 of June 22, 1975, as amended, to formulate, adopt and administer the program and plan for the conservation, use and development of natural resources of the Municipality of Culebra. The Authority is administered through a board of directors composed of five members, including the mayor of the Municipality of Culebra. The administration and operations of the Authority are conducted by an executive director designated by the Authority's board of directors. Law No. 66 of June 22, 1975 was amended by Law No. 76 of June 6, 2002 to ascribe the Authority to the Municipality of Culebra.

The accompanying basic financial statements of the Authority 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, 2003, the Authority 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 Authority 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 new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Authority 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 Authority'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 Authority's financial activities for the year ended June 30, 2014, based on the Authority'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 Authority's operations.

As previously mentioned, on July 1, 2003, 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 Nonexchange 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*.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. FINANCIAL REPORTING ENTITY

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Authority. In evaluating the Authority 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 Authority'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 Authority 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 Authority.

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 Authority indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Authority as the reporting entity.

These financial statements present the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2014, and the respective changes in financial position, where applicable 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 Position 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.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUND FINANCIAL STATEMENTS (CONTINUED)

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

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

There are essentially two types of revenue. For some grants, funds must be expended by the Authority 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.

C. FINANCIAL STATEMENT PRESENTATION

The basic financial statements include both government-wide (based on the Authority 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 Authority 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 Authority. 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.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The focus of the statement of net position is designed to be similar to bottom line results for the Authority 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 positions 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 positions 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 positions 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 positions 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 Authority's policy to use restricted resources first, then the unrestricted resources as they are needed.

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The fund financial statements (the balance sheet and the statement of revenues, expenditures, and changes in fund balance) 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 Authority's actual experience conforms to the budgeted fiscal plan.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUND FINANCIAL STATEMENTS (CONTINUED)

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 Authority reports its financial position (balance sheet) and results of operations (statement of revenues, expenditures and changes in fund balance) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

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

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

State Assignment Fund – This is the fund used to account for the transactions of the State Legislative appropriations.

GASBS No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the governmental column in the government-wide statement of net position.

D. FUND BALANCES

In the fiscal year 2010-2011, the Authority adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of resources reported in governmental funds.

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as nonspendable, restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FUND BALANCES (CONTINUED)

- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity’s highest level of decision making authority (governing body through resolutions) and can only be changed by similar resolutions, no later than the end of the fiscal year.
- ❖ **Assigned** – Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by an official or body to which the governing body delegates authority in conformity with the by-laws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ❖ **Unassigned** – Represent the residual classification for the entity’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

E. BUDGETARY DATA

The budget consists of General Fund appropriations for recurrent and ordinary functions of the Authority and for special purpose program or activities. The procedures followed in approving the annual budget are as follows:

Between November and December of each year, the Authority submits to the Office of Management and Budget of the Commonwealth of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1st.

At the beginning of the ordinary session of the legislative assembly of the Commonwealth of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the entire operation of the Commonwealth. This proposed budget includes estimated expenditures and the means of financing them.

The annual budget is legally enacted through the approval of the joint resolution of the general budget. Subsequently to the enactment, the Office of Management and Budget of the Commonwealth of Puerto Rico has authority to make the necessary adjustments to the budget.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. BUDGETARY DATA (CONTINUED)

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. Certain accrued liabilities and other debts are not included in the budgetary basis.
3. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

F. CAPITAL ASSETS

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Authority's capitalization levels are \$500 on personal property with expected useful life of five or more years. Other costs incurred for repairs and maintenance is expected as incurred.

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

Capital Assets	Years
Buildings and improvements	10 to 50
Motor vehicles	5
Furniture and fixtures	5 to 10

G. COMPENSATED ABSENCES

The Authority accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Authority'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 Authority accrued a liability for compensated absences, which meet the following criteria:

1. The Authority's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. COMPENSATED ABSENCES (CONTINUED)

2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the Authority has accrued a liability for compensated absences, which has been earned but not taken by Authority'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.

H. INSURANCE

The Authority is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, environmental and other losses. Commercial insurance coverage is obtained for claims arising from such matters. The commercial insurance coverage is negotiated by the Treasury Department of the Commonwealth of Puerto Rico, and the cost is paid by the Authority.

I. 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.

J. 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.

K. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

- ❖ GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- and Amendment of GASB Statement No. 27*. This statement is effective for periods beginning after June 15, 2014;
- ❖ GASB Statement No. 69, *Government Combination and Disposal of Government Operations*. This statement is effective for periods beginning after December 15, 2013.

The Authority's management has concluded that the future adoption of these GASB Statements will not have a significant impact on the Authority's basic financial statements.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 2 – CASH AND CASH EQUIVALENTS

The Authority is authorized to deposit only in institutions approved by the Treasury Department of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the Authority.

The Authority's bank balances in commercial banks of \$81,504 in the General Fund and \$28,266 in the state assignment fund, were entirely covered by the Federal Deposit Insurance or by collateral held by the Puerto Rico Treasury Department in the Authority's name.

NOTE 5 – CAPITAL ASSETS

Capital assets activities for the fiscal year ended on June 30, 2014 were as follows;

Governmental Activities	Balance July 1, 2013	Additions	Retirements / Reclassifications	Balance June 30, 2014
Capital asset, not being depreciated:				
Land	<u>\$ 640,000</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 640,000</u>
Total capital assets not being depreciated				
Capital assets, being depreciated:				
Buildings and improvements	750,400			750,400
Equipment	100,634	\$ 864		101,498
Motor vehicles	80,697			80,697
Furniture and fixtures	<u>32,560</u>	<u>_____</u>	<u>_____</u>	<u>32,560</u>
Total capital assets being depreciated	<u>964,291</u>	<u>864</u>	<u>_____</u>	<u>965,155</u>
Less accumulated depreciation for:				
Buildings and improvements	(511,691)	(17,630)		(529,321)
Equipment	(75,998)	(9,416)		(85,414)
Motor vehicles	(66,329)	(5,562)		(71,891)
Furniture and fixtures	<u>(26,262)</u>	<u>(3,256)</u>	<u>_____</u>	<u>(29,518)</u>
Total accumulated depreciation	<u>(680,280)</u>	<u>(35,864)</u>	<u>_____</u>	<u>(716,144)</u>
Total capital assets being depreciated, net	<u>284,011</u>	<u>(35,000)</u>	<u>_____</u>	<u>249,011</u>
Governmental activities capital assets, net	<u>\$ 924,011</u>	<u>\$(35,000)</u>	<u>\$ _____</u>	<u>\$ 889,011</u>

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 6 – LONG-TERM DEBTS

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

Description	Beginning Balance, July 1, 2013	Borrowings or Additions	Payments or Deductions	Ending Balance, June 30 2014	Due Within One Year
Compensated absences	\$ 76,851		\$(14,934)	\$ 61,917	\$61,917
Obligation under capital lease	4,024		(1,458)	2,566	1,656
Voluntary termination benefits	<u>147,059</u>		<u>(9,830)</u>	<u>137,229</u>	<u>12,262</u>
Total	<u>\$227,934</u>		<u>\$(26,222)</u>	<u>\$201,712</u>	<u>\$75,835</u>

A. COMPENSATED ABSENCES

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations 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 or more of service who are entitled to sick leave pay up to the maximum allowed.

Employees' maximum allowed vacations and vested sick benefits are accounted for in the statement of net position.

B. LEASE OBLIGATION

The Authority is obligated under a capital lease with a third party that expires through 2016 for the acquisition of machinery and equipment. At June 30, 2014, the capitalized cost and the related accumulated depreciation of the leased machinery and equipment amounted to \$6,955 and \$4,869, respectively, which are accounted for as capital assets in the accompanying statement of net position. Amortization charges applicable to capital leases and included within depreciation expense amounted to \$1,391 for the fiscal year ended June 30, 2014. This lease obligation is paid in monthly installments of \$157. The present value of the future minimum capital lease payments reported in the accompanying statement of net position is \$2,566. Interest expense on the obligation under capital leases amounted to \$430 for the fiscal year ended June 30, 2014, which is recorded in the State Assignment Fund.

The annual requirements to amortize the obligation under capital lease outstanding as of June 30, 2014 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2015	\$1,656	\$233	\$1,889
2016	<u>910</u>	<u>34</u>	<u>944</u>
Total	<u>\$2,566</u>	<u>\$267</u>	<u>\$2,833</u>

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 6 – LONG-TERM DEBTS (CONTINUED)

C. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of \$137,229 in the statement of net position as of June 30, 2014. At June 30, 2014, unpaid long-term benefits granted on this program were discounted at 2.55%. In addition, the Authority maintain an account payable in the amount of \$41,299 in the balance sheet for the amount that is due at June 30, 2014 related to this voluntary termination benefits.

The annual requirements to amortize the obligation under the voluntary termination benefits outstanding as of June 30, 2014 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2015	\$ 12,262	\$ 3,225	\$15,487
2016	12,566	2,921	15,487
2017	12,877	2,610	15,487
2018	13,196	2,291	15,487
2019	13,523	1,964	15,487
2020-2024	<u>72,805</u>	<u>5,138</u>	77,943
Total	<u>\$137,229</u>	<u>\$18,149</u>	<u>\$155,378</u>

This obligation will be paid in monthly installments of \$1,290, of which \$950 correspond to the monthly pension to the participant and \$340 is the Authority's contribution to the Retirement System.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN

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

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

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately \$22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken. Future employer contributions have been pledged for the payment of debt service, consequently further depletion of ERS's assets could result in the inability to pay benefits.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in \$120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. And appropriation for such additional contribution of approximately \$120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately \$90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to \$28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

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

To address these issues, the ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the ERS investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1 2013 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
2. Increased the minimum pension for current retirees from \$400 to \$500 per month.
3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
4. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.
5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
6. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
8. The employee contribution rate was increased from 8.275% to 10%.
9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.
11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
12. Survivor benefits were modified.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 7 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The employees and employer contribution to the above mentioned plans during the year ended June 30, 2013 amounted to \$24,155 and \$29,149, respectively. This amounts represented the required contribution for the corresponding year.

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 8 – CONTINGENCIES

The Authority is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Authority's activities. The legal counsel of the Authority has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Authority 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 claims. However, it has been the Authority's experience that such actions are settled for amounts substantially less than the claim amounts and, in the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect in the accompanying financial statements and, accordingly, no provision for losses has been recorded.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 12, 2014, 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.

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget</u>
			<u>(See Note A)</u>	<u>Positive</u>
				<u>(Negative)</u>
RESOURCES:				
Legislative appropriations	\$313,000	\$313,000	\$313,000	
Charges for services	<u>218,000</u>	<u>218,000</u>	<u>257,670</u>	<u>\$ 39,670</u>
Total resources (Inflows)	<u>531,000</u>	<u>531,000</u>	<u>570,670</u>	<u>39,670</u>
CHARGES TO APPROPRIATIONS:				
Payroll and related costs	314,000	314,000	364,386	(50,386)
Utilities	85,000	85,000	58,429	26,571
Purchased services	51,000	51,000	28,818	22,182
Transportation expenditures	5,000	5,000	7,644	(2,644)
Professional services	30,000	30,000	44,617	(14,617)
Material and supplies	15,000	15,000	19,463	(4,463)
Purchase of equipment	16,000	16,000	864	15,136
Other operating expenditures	<u>15,000</u>	<u>15,000</u>	<u>28,189</u>	<u>(13,189)</u>
Total charges to appropriations	<u>531,000</u>	<u>531,000</u>	<u>552,410</u>	<u>21,410</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$</u>	<u>\$</u>	<u>\$ 18,260</u>	<u>\$ 18,260</u>

**CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

The Authority's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP.

The Authority prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2014.