



**COMMONWEALTH OF PUERTO RICO
CULEBRA CONSERVATION
AND DEVELOPMENT AUTHORITY
FISCAL YEAR ENDED JUNE 30, 2012**

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

TABLE OF CONTENTS

	Pages
<u>PART I – FINANCIAL:</u>	
Independent Auditors' Report.....	1-2
Required Supplementary Information (Part I): Management's Discussion and Analysis.....	3-12
<u>BASIC FINANCIAL STATEMENTS:</u>	
Governmental Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Governmental Funds Financial Statements:	
Balance Sheet.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances.....	16
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Assets	17
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	18
Notes to the Basic Financial Statements	19-35
Required Supplementary Information:	
Required Supplementary Information (Part II): Budgetary Comparison Schedule	36
Notes to Budgetary Comparison Schedule	37

Carlos R. Diaz Negrón

Certified Public Accountant

MEMBER:

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

PO BOX 408, RAFAEL LASA NO. 44, AGUAS BUENAS, PR 00703 – TEL: 787-732-8020 – FAX: 787-732-0685 - E-MAIL: crdiaznegron@carlosrdiazcpa.com

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities and each major funds of **Culebra Conservation and Development Authority**, component unit of the Commonwealth of Puerto Rico (the **Authority**), as of and for the fiscal year ended on June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express opinions on these financial statements based on my audit.

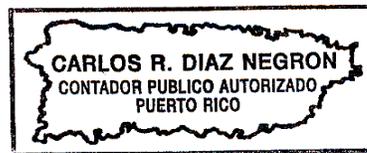
Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

Because of the inadequacy of accounting records, I were unable to form an opinion regarding the amounts at which capital assets and accumulated depreciation are recorded in the accompanying balance sheet at June 30, 2012 (stated at \$1,602,645 and \$644,632 respectively), or the amount of depreciation expenses for the year then ended (\$36,670).

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had records concerning capital assets and accumulates depreciation been adequate, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major funds of the Authority, as of June 30, 2012, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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 through 12 and 36 through 37 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.



September 27, 2012
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2013

The Stamp No. **E40851** 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, 2012

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, 2012. 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 Authority'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, 2012 by \$766,075, and at June 30, 2011 by \$881,199;
- The Authority's total net assets decrease by \$115,124 during fiscal year 2011-2012;
- As of June 30, 2012, the Authority's governmental funds reported combined ending fund balance of \$60,854, a decrease of \$70,616 from the prior year;
- At June 30, 2012, the Statement of Net Asset presented an unrestricted deficit of \$213,389;
- The Authority's capital assets inventory decrease as a result of this year's operations. Capital assets as of June 30, 2012 were \$958,013 (net of accumulated depreciation);
- The investment in capital assets for this year was \$952,703 (net of related debt);
- The accrued vacation and sick leave liability at June 30, 2012 was \$58,967.

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 (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are composed of: (1) the statement of net assets 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 ASSETS

The purpose of the statement of net assets is to attempt to report all assets owned and all liabilities owed by the Authority. The Authority reports 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 assets is presented as net assets, 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 assets, 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 assets changed during the fiscal year ended June 30, 2012, 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 assets, 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, 2012**

GOVERNMENT-WIDE FINANCIAL STATEMENTS (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, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

GOVERNMENTAL NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$766,075 as of June 30, 2012, versus \$881,199 as of June 30, 2011. Our analysis below focuses on the net assets (**Table 1**) and changes in net assets of the Authority's governmental activities.

Table 1				
Statement of Net Assets	2012	2011	Change	
Current and non-current assets	\$ 81,069	\$ 139,241	\$ (58,172)	-42%
Capital assets	<u>958,013</u>	<u>987,164</u>	<u>(29,151)</u>	-3%
Total assets	<u>1,039,082</u>	<u>1,126,405</u>	<u>(87,323)</u>	-8%
Current liabilities	70,632	40,261	30,371	75%
Long-term liabilities	<u>202,375</u>	<u>204,945</u>	<u>(2,570)</u>	-1%
Total liabilities	<u>273,007</u>	<u>245,206</u>	<u>27,801</u>	11%
Net assets				
Investment in capital assets, net of related debt	952,703	980,209	(27,506)	-3%
Restricted for other purposes	26,761	70,783	(44,022)	-62%
Unrestricted	<u>(213,389)</u>	<u>(169,793)</u>	<u>(43,596)</u>	26%
Total net assets	<u>\$ 766,075</u>	<u>\$ 881,199</u>	<u>\$ (115,124)</u>	-13%

The largest portion of the Authority's net assets 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 assets represents unrestricted resources.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENTAL ACTIVITIES

The cost of all governmental activities this year was \$661,151. **Table 2** presents the cost of each of the Authority's largest programs.

Table 2					
Statement of Activities	2012	2011	Change		
Program revenues					
State Assignment	\$ 307,757	\$ 303,243	\$ 4,514	1%	
General revenues					
Charges for services	238,270	220,781	17,489	8%	
Interest income	-	380	(380)	-100%	
Total revenues	<u>546,027</u>	<u>524,404</u>	<u>21,623</u>	4%	
Expenses					
Payroll and related costs	351,980	489,842	(137,862)	-28%	
Utilities	96,584	89,543	7,041	8%	
Purchased services	25,448	5,952	19,496	328%	
Transportation expenses	3,268	5,691	(2,423)	-43%	
Professional services	68,200	90,725	(22,525)	-25%	
Material and supplies	37,054	31,363	5,691	18%	
Purchase of equipment	-	1,481	(1,481)	-100%	
Depreciation	36,670	28,529	8,141	29%	
Other operating expenses	<u>41,947</u>	<u>43,057</u>	<u>(1,110)</u>	-3%	
Total expenses	<u>661,151</u>	<u>786,183</u>	<u>(125,032)</u>	-16%	
Change in net assets	(115,124)	(261,779)	146,655	-56%	
Net assets beginning	<u>881,199</u>	<u>1,142,978</u>	<u>(261,779)</u>	-23%	
Net assets ending	<u>\$ 766,075</u>	<u>\$ 881,199</u>	<u>\$ (115,124)</u>	-13%	

**CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Approximately fifty-six percent (56%) of the Authority's governmental activities total revenue came from Legislative appropriations, while forty-four percent (44%) 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 fifty three percent (53%) of total expenses resulted from payroll and related costs, fifteen percent (15%) resulted from utilities and fourteen percent (14%) 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2012, the Authority's governmental funds reported combined ending fund balances of \$60,854, a decrease of \$70,616 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 \$70,459 at June 30, 2012, which consist of cash in commercial banks and accounts receivables and its total liabilities amounted to \$36,366.

The Authority has an unassigned fund balance of \$31,993 in its General Fund. The remainder \$2,100 is assigned to indicate that it is not available for new spending because it has already been committed to liquidate prior year obligations.

State Assignment Fund – The State Assignment Fund total assets amounted to \$39,064. Of this amount, \$10,610 consists of cash in commercial banks. The State Assignment Fund total liabilities amounted to \$12,303.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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	2012	2011	Change	
Assets				
Cash	\$ 74,874	\$ 132,145	\$ (57,271)	-43%
Other assets	<u>34,649</u>	<u>11,078</u>	<u>23,571</u>	213%
Total assets	<u>\$ 109,523</u>	<u>\$ 143,223</u>	<u>\$ (33,700)</u>	-24%
Liabilities				
Accounts payable and accrued expenses	\$ 48,669	\$ 11,753	\$ 36,916	314%
Total liabilities	<u>48,669</u>	<u>11,753</u>	<u>36,916</u>	
Fund balance				
Restricted	26,761	63,993	(37,232)	-58%
Assigned	2,100	13,440	(11,340)	-84%
Unassigned	<u>31,993</u>	<u>54,037</u>	<u>(22,044)</u>	-41%
Total fund balance	<u>60,854</u>	<u>131,470</u>	<u>(70,616)</u>	-54%
Total liabilities and fund balance	<u>\$ 109,523</u>	<u>\$ 143,223</u>	<u>\$ (33,700)</u>	-24%

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Table 4

Changes in fund balances	2012	2011	Change	
Revenues				
Charges for services	\$ 238,270	\$ 220,781	\$ 17,489	7.9%
Interest income	-	380	(380)	-100%
Operating grant	<u>307,757</u>	<u>303,243</u>	<u>4,514</u>	1.5%
Total revenues	546,027	524,404	21,623	4.1%
Total expenditures				
Payroll and related costs	335,404	315,295	20,109	6.4%
Utilities	96,584	89,543	7,041	7.9%
Purchased services	26,667	13,333	13,334	100.0%
Transportation expenses	3,268	5,691	(2,423)	-42.6%
Professional services	68,200	90,725	(22,525)	-24.8%
Material and supplies	37,594	31,363	6,231	19.9%
Purchase of equipment	6,979	29,290	(22,311)	-76.2%
Other operating expenses	<u>41,947</u>	<u>43,057</u>	<u>(1,110)</u>	-2.6%
Total expenditures	616,643	618,297	(1,654)	
Other financing sources (uses):				
Capital lease	<u>-</u>	<u>6,955</u>	<u>(6,955)</u>	-100%
Total other financing sources (uses)	-	6,955	(6,955)	
Net changes in fund balances	(70,616)	(86,938)	16,322	-19%
Fund balance beginning	<u>131,470</u>	<u>218,408</u>	<u>(86,938)</u>	-40%
Fund balance ending	<u>\$ 60,854</u>	<u>\$ 131,470</u>	<u>\$ (70,616)</u>	-54%

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	\$ 519,000	\$ 546,027	\$ (27,027)
Total charges to appropriations	<u>519,000</u>	<u>616,643</u>	<u>(97,643)</u>
Excess or deficiency	<u>\$ -</u>	<u>\$ (70,616)</u>	<u>\$ 70,616</u>

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The total actual resources (budgetary basis) for the fiscal year ended June 30, 2012 were \$546,027, which is \$27,027 more than the budgeted resources. In addition, the total actual charges to appropriations (budgetary basis) for the fiscal year ended June 30, 2012 were \$616,643, which is \$97,643 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, 2012 amounted to \$958,013 (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, net of accumulated depreciation

<u>Capital assets</u>	<u>Amount</u>
Land	\$ 640,000
Buildings and improvements	256,339
Equipment	32,190
Motor vehicles	19,930
Furniture and fixtures	<u>9,554</u>
	<u>\$ 958,013</u>

LONG-TERM DEBT

At June 30, 2012 the Authority had a total of \$232,873 in outstanding debts, as shown in **Table 7**.

Table 7
Long term debt

<u>Long term debt</u>	<u>Amount</u>
Compensated absences	\$ 58,969
Obligation under capital lease	5,310
Voluntary termination benefits	<u>188,513</u>
	<u>\$ 252,792</u>

**CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 2012 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 ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Cash	\$ 74,874
Accounts Receivable	<u>6,195</u>
	<u>81,069</u>
Capital Assets	
Depreciable Capital Assets, net of accumulated depreciation	318,013
Non Depreciable Capital Assets	<u>640,000</u>
Total Capital Assets	<u>958,013</u>
Total Assets	<u><u>1,039,082</u></u>
 LIABILITIES	
Accounts Payable and Accrued Expenses	20,215
Long-Term Liabilities	
Due within One Year	50,417
Due in More than One Year	<u>202,375</u>
Total Liabilities	<u><u>273,007</u></u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	952,703
Restricted for Other Purposes	26,761
Unrestricted	<u>(213,389)</u>
TOTAL NET ASSETS	<u><u>\$ 766,075</u></u>

See accompanying notes to basic financial statements.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

EXPENSES - RECREATION

Payroll and Related Costs	\$	351,980
Utilities		96,584
Purchased Services		25,448
Transportation		3,268
Professional Services		68,200
Materials and Supplies		37,054
Depreciation		36,670
Other Operating Expenses		<u>41,947</u>
Total Expenses		<u>661,151</u>

PROGRAM REVENUES

State Assignments	<u>307,757</u>
Net Program Expenses	<u>(353,394)</u>

GENERAL REVENUES

Charges for Services	<u>238,270</u>
Total General Revenues	<u>238,270</u>

Net Change in Net Assets	(115,124)
Net Assets, Beginning of Year	<u>881,199</u>
NET ASSETS, END OF YEAR	<u><u>\$ 766,075</u></u>

See accompanying notes to basic financial statements.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>State Assignment Fund</u>	<u>Total Funds</u>
ASSETS			
Cash	\$ 64,264	\$ 10,610	\$ 74,874
Accounts Receivables	6,195	-	6,195
Due From Other Fund	-	28,454	28,454
Total Assets	<u>\$ 70,459</u>	<u>\$ 39,064</u>	<u>\$ 109,523</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable and Accrued Liabilities	\$ 7,912	\$ 12,303	\$ 20,215
Due to Other Fund	28,454	-	28,454
Total Liabilities	<u>36,366</u>	<u>12,303</u>	<u>48,669</u>
Fund Balances			
Restricted	-	26,761	26,761
Assigned	2,100	-	2,100
Unassigned	31,993	-	31,993
Total Fund Balances	<u>34,093</u>	<u>26,761</u>	<u>60,854</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 70,459</u>	<u>\$ 39,064</u>	<u>\$ 109,523</u>

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>State Assignment Fund</u>	<u>Total Funds</u>
REVENUES			
Charges for Services	\$ 238,270	\$ -	\$ 238,270
Operating Grant	-	307,757	307,757
Total Revenues	<u>238,270</u>	<u>307,757</u>	<u>546,027</u>
EXPENDITURES			
Payroll and Related Costs	208,058	127,346	335,404
Utilities	10,734	85,850	96,584
Purchase Services	-	26,667	26,667
Transportation	-	3,268	3,268
Professional Services	56,700	11,500	68,200
Materials and Supplies	292	37,302	37,594
Purchase of Equipment	-	6,979	6,979
Other Operating Expenditures	<u>19,082</u>	<u>22,865</u>	<u>41,947</u>
Total Expenditures	<u>294,866</u>	<u>321,777</u>	<u>616,643</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(56,596)</u>	<u>(14,020)</u>	<u>(70,616)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	30,000	-	30,000
Transfer out	-	(30,000)	(30,000)
Total Other Financing Sources and Uses	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>
Net Change in Fund Balances	<u>(26,596)</u>	<u>(44,020)</u>	<u>(70,616)</u>
Fund Balances - Beginning	<u>60,689</u>	<u>70,781</u>	<u>131,470</u>
Fund Balances - Ending	<u>\$ 34,093</u>	<u>\$ 26,761</u>	<u>\$ 60,854</u>

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 60,854

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

Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds. Those assets consist of:

Land	640,000	
Buildings and improvements	750,400	
Equipment	98,988	
Motor vehicles	80,697	
Furniture and fixtures	32,560	
Accumulated depreciation	<u>(644,632)</u>	
Total Capital Assets		958,013

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	(58,969)	
Obligation under capital lease	(5,310)	
Voluntary termination benefits	<u>(188,513)</u>	
Total Long-Term Liabilities		<u>(252,792)</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 766,075**

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, 2012**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (70,616)

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	7,519	
Depreciation expense	(36,670)	
Excess of capital outlay over depreciation expense		(29,151)

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	3,343	
Decrease in obligations under capital lease	1,219	
Increase in Volunatry Termination Benefits	(19,919)	
Total		(15,357)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (115,124)**

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, 2012

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 seven members, including the Major of the Municipality of Culebra. The administration and operations of the Authority are conducted by an Executive Director elected by the 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 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, 2012, 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, 2012, 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 (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Authority 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 Authority has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

A. FINANCIAL REPORTING ENTITY

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the 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, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2012, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when 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.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the 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, 2012, 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.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all the activities of the 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.

The focus of the Statement of Net Assets 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 Assets presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- ❖ **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ **Restricted Net Assets** – These results when constraints are placed on net assets use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Assets** – These consists of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the 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 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.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

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

D. FUND BALANCES

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 as 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 (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012, 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 (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. BUDGETARY DATA

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
Equipment	5
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.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. COMPENSATED ABSENCES (CONTINUED)

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

The GASB has issued the following accounting standards that have effective dates after June 30, 2012:

- ❖ GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*. This statement is effective for periods beginning after June 15, 2012;
- ❖ GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2011;
- ❖ GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement is effective for periods beginning after December 15, 2011;
- ❖ GASB Statement No. 65, *Items previously reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2012;
- ❖ GASB Statement No. 66, *Technical Corrections – 2012- an amendment to GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012;

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- ❖ GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment to GASB Statement No. 25*, which is effective for periods beginning after June 15, 2013;
- ❖ GASB Statement No. 68, *Accounting and Financial Reporting for Pension - an amendment to GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014;

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.

NOTE 2 – CASH

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 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 Authority 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 Authority 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 Authority does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Authority's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Authority's deposits is considered low at June 30, 2012.

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 Authority manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2012, (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, 2012, the Authority's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Authority's management has concluded that at June 30, 2012, the interest rate risk associated with the Authority's cash and cash equivalents is considered low.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 – CASH (CONTINUED)

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Authority’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 Authority 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 Authority are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held, in the Authority’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 Authority through June 30, 2012. Therefore, the Authority’s management has concluded that at June 30, 2012 the custodial credit risk associated with the Authority’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 Authority 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 Authority’s deposits is considered low at June 30, 2012.

The Authority’s bank balances in commercial banks of \$70,516 in the General Fund and \$29,486 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.

FUND DESCRIPTION	BANK BALANCE	CARRYING AMOUNT	CREDIT RISK CATEGORY		
			1	2	3
Category					
General Fund	\$ 70,516	\$ 64,264	\$ 70,516	\$ -	\$ -
State Assignment Fund	<u>29,486</u>	<u>10,610</u>	<u>29,486</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 100,002</u>	<u>\$ 74,874</u>	<u>\$ 100,002</u>	<u>\$ -</u>	<u>\$ -</u>

The following is a description of the categories of credit risk:

CATEGORY	DESCRIPTION
1	The depository are collateralized by the Federal Deposit Insurance Corporation or by the securities pledged with the Department of the Treasury of the Commonwealth of Puerto Rico in the Authority’s name.
2	The deposits are collateralized by securities held by pledging financial institution’s trust department or agent in the Authority’s name.
3	The deposits are uncollateralized.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 – INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2012 are summarized as follows:

A. Due to from/to other fund

Fund	Receivable	Payable	Total
General	\$ -	\$ (28,454)	\$ (28,454)
State Assignment	<u>28,454</u>	<u>-</u>	<u>28,454</u>
	<u>\$ 28,454</u>	<u>\$ (28,454)</u>	<u>\$ -</u>

During the year the State Assignment fund paid payroll taxes on behalf of the General Fund.

B. Transfers in (out)

During the fiscal year ended June 30, 2012, the Authority made a transfer of \$30,000 from the State Assignment Fund to the General Fund to subsidize certain expenditures.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 – CAPITAL ASSETS

Capital assets activities for the fiscal year ended on June 30, 2012 were as follows:

	<u>Balance 6/30/11</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Balance 6/30/12</u>
Capital asset, not being depreciated:				
Land	\$ 640,000	\$ -	\$ -	\$ 640,000
Total capital assets not being depreciated	<u>640,000</u>	<u>-</u>	<u>-</u>	<u>640,000</u>
Capital assets being depreciated				
Buildings and improvements	750,400	-	-	750,400
Equipment	91,469	7,519	-	98,988
Motor vehicles	80,697	-	-	80,697
Furniture and fixtures	32,560	-	-	32,560
Total capital assets being depreciated	<u>955,126</u>	<u>7,519</u>	<u>-</u>	<u>962,645</u>
Less accumulated depreciation				
Buildings and improvements	(476,431)	(17,630)	-	(494,061)
Equipment	(53,320)	(13,478)	-	(66,798)
Motor vehicles	(55,205)	(5,562)	-	(60,767)
Furniture and fixtures	(23,006)	-	-	(23,006)
Total accumulated depreciation	<u>(607,962)</u>	<u>(36,670)</u>	<u>-</u>	<u>(644,632)</u>
Total capital assets being depreciated, net	<u>347,164</u>	<u>(29,151)</u>	<u>-</u>	<u>318,013</u>
Governmental activities capital assets, net	<u>\$ 987,164</u>	<u>\$ (29,151)</u>	<u>\$ -</u>	<u>\$ 958,013</u>

NOTE 5 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2012, was as follows:

Description	Beginning		Payments or Deductions	Ending	
	Balance, July 1, 2011	Borrowings or Additions		Balance, June 30, 2012	Due Within One Year
Compensated absences	\$ 62,312	\$ -	\$ 3,343	\$ 58,969	\$ 14,328
Obligation under capital lease	6,529	-	1,219	5,310	1,285
Voluntary termination benefits	168,594	19,919	-	188,513	34,804
Total	<u>\$ 237,435</u>	<u>\$ 19,919</u>	<u>\$ 4,562</u>	<u>\$ 252,792</u>	<u>\$ 50,417</u>

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

A. COMPENSATED ABSENCES

At June 30, 2012, the government-wide statement of net assets includes approximately \$35,048, \$19,730 and \$4,191 of accrued vacation benefits, accrued sick leave benefits and payroll related benefits, respectively, representing the Authority's commitment to fund such costs from future operations.

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, 2012, the capitalized cost and the related accumulated depreciation of the leased machinery and equipment amounted to \$6,955 and \$2,318, respectively, which are accounted for as capital assets in the accompanying statement of net assets. Amortization charges applicable to capital leases and included within depreciation expense amounted to \$2,318 for the fiscal year ended June 30, 2012. This lease obligation is paid in monthly installments of \$210. The present value of the future minimum capital lease payments reported in the accompanying statement of net assets is \$5,310. Interest expense on the obligation under capital leases amounted to \$757 for the fiscal year ended June 30, 2012, which is recorded in the State Assignment Fund.

The annual requirements to amortize the obligation under capital lease outstanding as of June 30, 2012 are as follows:

Year Ending June 30,	Principal Payment	Interest payment	Total
2013	\$ 1,285	\$ 604	\$ 1,889
2014	1,459	430	1,889
2015	1,656	233	1,889
2016	<u>910</u>	<u>34</u>	<u>944</u>
	<u>\$ 5,310</u>	<u>\$ 1,301</u>	<u>\$ 6,611</u>

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 – GENERAL 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 \$188,513 in the statement of net assets as of June 30, 2012 and a charge of \$19,919 in the statement of activities for the year ended June 30, 2012. At June 30, 2012, unpaid long-term benefits granted on this program were discounted at 1.65%.

The annual requirements to amortize the obligation under the voluntary termination benefits outstanding as of June 30, 2012 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2013	\$ 34,703	\$ 2,558	\$ 37,261
2014	12,897	2,355	15,252
2015	13,104	2,148	15,252
2016	13,314	1,938	15,252
2017	13,527	1,725	15,252
2018-2022	70,963	5,297	76,260
2023-2024	<u>30,005</u>	<u>499</u>	<u>30,504</u>
	<u>\$ 188,513</u>	<u>\$ 16,520</u>	<u>\$ 205,033</u>

This obligation will be paid in monthly installments of \$1,271, of which \$950 corresponds to the monthly pension to the participant and \$321 is the Authority's contribution to the Retirement System.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 – EMPLOYEE'S RETIREMENT PLAN

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

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

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

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$6,600 of monthly salary plus 8.275% for the excess of this amount. The Authority contributes to the system 10.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amended the Act Number 447 that establishes a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan).

Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990. The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation for each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

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

- ❖ The present value of the future pension payments was computed by using a discount of 9%.
- ❖ Future pension payments reflect an assumption of a 6% salary increase.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 – EMPLOYEE’S RETIREMENT PLAN (CONTINUED)

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT’S AGE	PENSION BENEFITS
30 or more	55 or less	65% of the average of the three years of highest salary during the employee’s service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee’s service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee’s service period (employees started working after April 1, 1990).

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System’s funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Authority has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known. The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2012 was approximately \$24,572. 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, 2012. 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.

CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 – FUND BALANCES

As of June 30, 2012, fund balances are comprised of the following:

<u>Fund Balances</u>	<u>General Fund</u>	<u>State Assignment Fund</u>	<u>Total</u>
Restricted	\$ -	\$ 26,761	\$ 26,761
Assigned	2,100	-	2,100
Unassigned	<u>31,993</u>	<u>-</u>	<u>31,993</u>
	<u>\$ 34,093</u>	<u>\$ 26,761</u>	<u>\$ 60,854</u>

The amounts presented as Assigned Fund Balance represents the encumbrances outstanding at June 30, 2012.

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 can not 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 I – SUBSEQUENT EVENTS

Subsequent events were evaluated by management through September 27, 2012 which is the same date of the financial statements were available to be issued.

**CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
 BUDGETARY COMPARISON SCHEDULE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with
	<u>Original</u>	<u>Final</u>	Budgetary Basis	Final Budget
			(See Note A)	Positive
				(Negative)
RESOURCES (INFLOWS)				
Legislative appropriations	\$ 301,000	\$ 301,000	\$ 307,757	\$ (6,757)
Charges for services	<u>218,000</u>	<u>218,000</u>	<u>238,270</u>	<u>(20,270)</u>
Total resources (Inflows)	519,000	519,000	546,027	(27,027)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Payroll and related costs	314,000	314,000	335,404	(21,404)
Utilities	73,000	73,000	96,584	(23,584)
Purchased services	51,000	51,000	26,667	24,333
Transportation	5,000	5,000	3,268	1,732
Professional services	30,000	30,000	68,200	(38,200)
Material and supplies	15,000	15,000	37,594	(22,594)
Purchase of equipment	25,000	25,000	6,979	18,021
Other operating expenditures	<u>6,000</u>	<u>6,000</u>	<u>41,947</u>	<u>(35,947)</u>
Total charges to appropriations	<u>519,000</u>	<u>519,000</u>	<u>616,643</u>	<u>(97,643)</u>
EXCESS (DEFICIENCY) OF RESOURCES (INFLOWS) OVER (UNDER) CHARGES TO APPROPRIATIONS (OUTFLOWS)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (70,616)</u>	<u>\$ 70,616</u>

**NOTE A - EXPLANATION OF DIFFERENCE BETWEEN BUDGETARY INFLOWS AND OUTFLOWS
 AND GAAP REVENUES AND EXPENSES**

Explanation of differences:

Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 546,027
Differences-budget to GAAP:	
GAAP adjustments to revenue	<u>-</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 546,027</u>

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 616,643
Differences-budget to GAAP	
Prior year expenditures are not outflows of budgetary resources, but are expenditures for financial purposes	-
Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes non-budgetary expenditures	-
Adjustment to expenditures	<u>-</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 616,643</u>

**CULEBRA CONSERVATION AND DEVELOPMENT AUTHORITY
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2012.