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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE BARCELONETA
AUDITORIA 2001-02
30 DE JUNIO DE 2002

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DE ASUNTOS MUNICIPALES

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**MUNICIPALITY OF BARCELONETA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2002
(INDEPENDENT AUDITOR'S REPORT)**

**MUNICIPALITY OF BARCELONETA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2002**

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**INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE
FINANCIAL STATEMENTS**

Mayor of the Municipality of Barceloneta
Barceloneta, Puerto Rico

I have audited the general-purpose financial statements of the Municipality of Barceloneta, Puerto Rico, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality of Barceloneta, Puerto Rico Management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

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

The Municipality of Barceloneta, Puerto Rico, did not provide me sufficient competent evidence with respect to the ownership of assets, for some property building the beginning balance of fixed assets presented were not audited by me therefore, I do not express an opinion on such amounts presented in the general fixed assets account group.

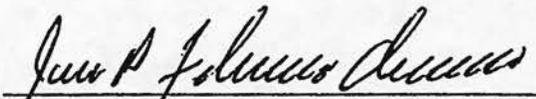
In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary as discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Barceloneta, Puerto Rico, as of June 30, 2002, and the results of its operations and the changes in fund balances for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated December 15, 2002 on my consideration of Municipality of Barceloneta, Puerto Rico internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Municipality of Barceloneta, Puerto Rico taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in my opinion, is fairly stated in all material respects, in relation the by general purpose financial statement a taken as whole.

San Juan, Puerto Rico
October 31, 2002

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CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2004



MUNICIPALITY OF BARCELONETA, PUERTO RICO
COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNTS GROUPS
JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				ACCOUNTS GROUPS		TOTALS
	General	Debt Service	Capital Projects	Special Revenues Funds	General Fixed Assets	General Long-Term Debt	(Memorandum Only Year Ended) 2002
ASSETS							
Cash and investments (Note 2)	\$ 7,869,376	\$ -	\$ 2,537,355	\$ 1,098,384	\$ -	\$ -	\$ 11,505,115
Cash with fiscal agent and other (Note 8)	-	\$ 1,893,562	-	-	-	-	1,893,562
Receivable volume business (Note 4)	196,304	-	-	-	-	-	196,304
Due to general fund and other funds	452,318	-	2,225	206,141	-	-	660,684
Accounts receivable government	97,124	-	-	573,763	-	-	670,887
Property, plant and equipment (Note 6)	-	-	-	-	30,395,556	-	30,395,556
Amount to be provided for taxes advances (Note 3)	-	-	-	-	-	2,690,271	2,690,271
Amount available in debt Service Fund	-	-	-	-	-	1,893,562	1,893,562
Amount to be provided for retirement of general long-term debt (Note 7)	-	-	-	-	-	15,086,130	15,086,130
Amount to be provided for payment of accrued compensated absences (Note 1 F)	-	-	-	-	-	1,262,752	1,262,752
Amount to be provided for estimated landfill closing cost (Note 15)	-	-	-	-	-	5,000,000	5,000,000
Total assets and other debits	\$ 8,615,122	\$ 1,893,562	\$ 2,539,580	\$ 1,878,288	\$ 30,395,556	\$ 25,932,715	\$ 71,254,823
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$ 208,030	\$ -	\$ 326,083	\$ 650,496	\$ -	\$ -	\$ 1,184,609
Due to special revenue funds and other	2,396	-	-	-	-	-	2,396
General obligations bonds payable (Note 7)	-	-	-	-	-	16,979,692	16,979,692
Due to government entity	241,312	-	-	-	-	-	241,312
Vested compensated absences (Note 1 F)	-	-	-	-	-	1,262,752	1,262,752
Deferred revenue (Note 4), (Note 10)	6,897,379	-	-	58,436	-	-	6,955,815
Estimated landfill cost (Note 15)	-	-	-	-	-	5,000,000	5,000,000
Estimated property tax advances (Note 3)	-	-	-	-	-	2,690,271	2,690,271
Total liabilities	7,349,117	-	326,083	708,932	-	25,932,715	34,316,847
Fund Equity:							
Investment in general fixed assets (Note 6)	-	-	-	-	30,395,556	-	30,395,556
Reserve for encumbrances	73,820	-	-	-	-	-	73,820
Fund balances:							
Unreserved							
Designated for debt service (Note 8)	-	1,893,562	2,213,497	1,169,356	-	-	5,276,415
Designated for future years	-	-	-	-	-	-	-
Undesignated	1,192,185	-	-	-	-	-	1,192,185
Total Fund Equity	1,266,005	1,893,562	2,213,497	1,169,356	30,395,556	-	36,937,976
Total Liabilities, Fund Equity & Other Credits	\$ 8,615,122	\$ 1,893,562	\$ 2,539,580	\$ 1,878,288	\$ 30,395,556	\$ 25,932,715	\$ 71,254,823

See notes to general purpose financial statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				TOTALS
	General	Debt Service	Capital Projects	Special Revenues Funds	(Memorandum Only Year Ended 2002
REVENUES					
Property taxes (Note 3)	\$ 401,613	\$ 1,721,251	\$ -	\$ -	\$ 2,122,864
Local taxes (Note 4)	9,291,038	-	3,164,408	2,875,299	15,330,745
Intergovernmental revenues (Note 5)	1,499,882	-	-	-	1,499,882
Rent of properties (Note 6)	49,080	-	-	-	49,080
Interest income	189,341	28,409	19,999	-	237,749
Other revenues (Note 19)	1,963,071	-	-	-	1,963,071
Federal financial award	-	-	471,822	4,185,896	4,657,718
Total revenues	13,394,025	1,749,660	3,656,229	7,061,195	25,861,109
EXPENDITURES:					
Current:					
Municipal council	172,403	-	-	6,599,708	6,772,111
Administration	6,538,338	-	997,006	-	7,535,344
Public safety	5,705,611	-	-	-	5,705,611
Health	799,944	-	-	-	799,944
Capital projects	1,226,834	-	666,012	-	1,912,846
Other expenditures	2,199,522	-	-	-	2,199,522
Debt service:	-	-	-	-	-
Principal retirement	-	1,225,895	-	-	1,225,895
Interest and fiscal charges	-	1,172,621	-	-	1,172,621
Total expenditures	16,642,652	2,398,516	1,663,018	6,599,708	27,323,894
Excess of revenues over (under) expenditures	(3,248,627)	(648,856)	1,973,211	461,487	(1,462,785)
Other financing source (uses):					
Net advance of property taxes (Note 3)	4,255,203	-	-	-	4,255,203
Transfer in (out) to debt service fund	(548,769)	548,769	-	-	-
Transfer to special revenue fund (Note 1 E)	(317,362)	-	-	317,362	-
Transfer from special revenue fund (Note 1E)	-	363,200	-	(363,200)	-
Payment to municipality	-	(1,420,106)	-	-	(1,420,106)
Total other financing source (uses)	3,389,072	(508,137)	-	(45,838)	2,835,097
Excess of revenues and other sources over (under) expenditures and other uses	140,445	(1,156,993)	1,973,211	415,649	1,372,312
Fund balance June 30, 2001	1,725,216	2,960,980	112,917	1,044,112	5,843,225
Prior period adjustment (See note 9)	(599,656)	89,575	127,369	(290,405)	(673,117)
Fund balance June 30, 2002	\$ 1,266,005	\$ 1,893,562	\$ 2,213,497	\$ 1,169,356	\$ 6,542,420

See notes to general purpose financial statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL AND DEBT SERVICE FUND
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2002

	GENERAL FUNDS			DEBT SERVICE FUND			TOTALS
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	(Memorandum Only Year Ended) 2002
Revenues:							
Property taxes	\$ 401,613	\$ 401,613	\$ -	\$ 1,513,231	\$ 1,721,251	\$ 208,020	\$ 2,122,864
Local taxes	9,555,440	9,693,153	137,713	-	-	-	9,693,153
Intergovernmental Revenues	1,544,415	1,512,145	(32,270)	-	-	-	1,512,145
Rent of properties	50,000	49,079	(921)	-	-	-	49,079
Interest income	300,000	319,207	19,207	-	28,409	28,409	347,616
Other revenues	2,218,200	2,297,218	79,018	-	-	-	2,297,218
Total Revenues	14,069,668	14,272,415	202,747	1,513,231	1,749,660	236,429	16,022,075
Expenditures:							
Current:							
Municipal Council	173,461	172,403	1,058	-	-	-	172,403
Administration	6,640,416	6,600,871	39,545	-	-	-	6,600,871
Public Safety	5,882,150	5,705,611	176,539	-	-	-	5,705,611
Health	808,861	799,944	8,917	-	-	-	799,944
Capital Project	1,226,834	1,226,834	-	-	-	-	1,226,834
Other Expenditures	1,819,775	2,199,378	(379,603)	-	-	-	2,199,378
Debt Service:							
Principal Retirement	-	-	-	1,225,000	1,225,895	(895)	1,225,895
Interest and Fiscal Charges	-	-	-	1,200,000	1,172,621	27,379	1,172,621
Total Expenditures	16,551,497	16,705,041	(153,544)	2,425,000	2,398,516	26,484	19,103,557
Excess of Revenues over (under) Expenditures	(2,481,829)	(2,432,626)	49,203	(911,769)	(648,856)	262,913	(3,081,482)
Other Financing Source (Uses):							
Net Advance of Property Taxes	4,255,203	4,255,203	-	-	-	-	4,255,203
Transfer to debt service	(548,769)	(548,769)	-	548,769	548,769	-	-
Transfer from special revenue fund	(363,000)	(317,362)	45,638	-	-	-	(317,362)
Payment to municipality	-	-	-	(1,420,106)	(1,420,106)	-	(1,420,106)
Operating transfer (out) in to debt service	-	-	-	363,000	363,200	200	363,200
Total Other Financing Sources (Uses):	3,343,434	3,389,072	45,638	(508,337)	(508,137)	200	2,880,935
Excess (deficiency) of revenues and other sources over expenditures	861,605	956,446	94,841	(1,420,106)	(1,156,993)	263,113	(200,547)
Adjustments required under generally accepted accounting principles:							
Other GAAP adjustment to revenues	-	(878,390)	(878,390)	-	-	-	(878,390)
Other GAAP adjustment to expenditures	-	62,389	62,389	-	-	-	62,389
Fund balance at beginning of year	-	1,725,216	1,725,216	2,960,980	2,960,980	-	4,686,196
Prior period adjustment (See Note 9)	-	(599,656)	(599,656)	-	89,575	89,575	(510,081)
Fund balance June 30, 2002	\$ 861,605	\$ 1,266,005	\$ 404,400	\$ 1,540,874	\$ 1,893,562	352,688	\$ 3,159,567

See notes to general purpose financial statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

1) Organization, Operations and Summary of Significant Accounting

The accounting policies of the Municipality of Barceloneta, Puerto Rico (Municipality) conform to generally accepted in the accounting principles in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

Financial Reporting Entity

The Municipality of Barceloneta (Municipality) was established in the year 1881, as a governmental unit operates under the Law No. 81 of August 30, 1991 known as "Municipal Autonomy Law" of the Commonwealth of Puerto Rico. The governmental system of the Municipality is composed of the executive and legislative bodies. The mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of fourteen councilmen also elected in the general elections of Puerto Rico for a four years period.

The Municipality provides services such as: health, public works, human services, sanitation, aid to low income and elderly citizens, education, public safety, housing and urban development, culture and recreation, and other general and administrative services. The general-purposes financial statements of the Municipality have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental Units. The Governmental Accounting Standards Board GASB), is the standard setting body for governmental accounting and financial reporting. The GASB periodically updates its a codification of the existing Governmental Accounting and financial Reporting Standards which, along with subsequent GASB Pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The general-purpose financial statements present the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the Municipality. This includes the organizational units governed by the Executive Officers and Members of the Municipal Assembly of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units, which may or may not fall within the Municipality's financial statements. The basic criterion for including a component unit within the Municipality's reporting applying the provisions made entity of statement No. 14 of the Governmental Accounting Standard Board (GASB), the oversight responsibility is by Barceloneta Municipality Assembly.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

The following fund types and accounts groups:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the Municipality re-financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The following are the Municipality's governmental fund types:

General Fund- The general fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are derived from local taxes, property taxes, intergovernmental.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs.

Capital Projects Funds - The capital project funds are used to account for the financial resources for the acquisition or construction of major improvements or equipment acquisition, except projects to be financed through the special revenue funds. Revenues and financing resources intergovernmental are derived primarily from the issuance of bonds and receipts of grants.

Special Revenue Funds - Special Revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds include all major federal and state grants.

Account Groups - Account groups are not funds and are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

General fixed assets and general long-term liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets.

Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems have been capitalized. Such assets are normally immovable and of value only to the City.

All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations. Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-term Debt Account Group.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(B) Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, which is recorded, when due, are recorded when the liability is incurred, is measurable.

- In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however especial two types of these revenues. In one, money must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other, money is virtually unrestricted as to purpose of expenditure and is usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, charges for services, fines and fogies, sale of property and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation and sick leave pay and (2) principal and interest on general long-term debt, which is recognized when due. Investment earnings (interest) are recorded as earned since they are measurable and available.

All fiduciary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

Interest income is recognized and accrued in the accounting period in which they are earned.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(C) Budgetary Data

The Municipality follows these procedures, which are in accordance with the Municipal Autonomy Law of August 30, 1991 in establishing the budgetary data reflected in the general-purpose financial statements.

- (1) Prior to May 31, the Mayor submits to the Municipal Council a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Council.
- (3) Prior to June 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) The Major is required by the Municipal Autonomous Law to present before October 15 the results of operations of the preceding year.
- (5) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- (6) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Council has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

The actual results of operations, presented in the Statement of Revenues and Expenditures Budget and Actual-General Fund, are in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The most significant difference between the budgetary and accounting bases is that encumbrances are recorded as expenditures under the accounting basis.

The budget prepared for each of the special revenue funds is based in a program period, which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary basis.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

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

The special funds of the special revenue fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Assistance Programs included in the capital projects and special revenue funds is based on a program period, which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

(D) Inventories

The general fund purchases office and printing supplies, gasoline, and oil and other items. The cost of purchases is recorded as expenditure and the inventory is not recorded in the general purpose financial statements.

(E) Interfund Transactions

The general fund provides services at cost to the special revenue funds. The amounts charged to these funds for these services are treated as a reduction of expenditures in the general fund and as current expenditures in the other federal funds.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(F) Compensated Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 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 part of the sick leave terminates all rights for compensation, except for employees with ten or more year of service who are entitled to sick leave pay up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrues a liability for compensated absences, which meet the following criteria.

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

In accordance with the above criteria and requirements as established by GASB Number 16, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resources, is included in the general long-term debt account group. The estimated total cost of compensated absences that will require the use of current expendable resources is not included as an accrued liability in the general fund. Employees' maximum allowed accumulated vacations and sick leave are accounted for in the general long-term debt account group.

Beginning Balance	Additions	Payments	Ending Balance
\$1,465,096	\$326,710	\$529,054	\$1,262,752

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(G) Insurance

The Municipality has insurance coverage for its public facilities, primarily to provided protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

(H) Total Columns on Combined Statements-overview

- Total columns on the Combined Statements-Overview are captioned memorandums only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data on comparable to a consolidation. Underfund elimination have not been made in the aggregation of this data.

(I) Encumbrances

Encumbrances accounting are employed in the governmental fund types. Under the encumbrance system all purchases orders, contracts and other commitments issued for goods and services not received at year-end are recorded in order to reserve that portion of the applicable appropriation. The Municipality will honor where the appropriations lapse at year-end these. under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and the do not constitute expenditures or liabilities since the commitments will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(2) Cash and Investment

The Municipality is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico (Department of the Treasury), and such deposits should be kept in separate bank accounts in the name of the Municipality. All cash at June 30, 2002 is maintained in institutions approved by the Department of the Treasury.

The Municipality follows the practice of pooling cash of all funds, except from extricted funds held by the Municipal Revenue Collection Center for repayment of principal and interests on general long-term obligations, and federal financial assistance. Deposits were with the contracted depository bank in interest bearing accounts, which were secured at balance sheet date by Federal Deposit Insurance Corporation (FDIC) coverage, up to maximum of \$100,000. Deposits in excess of \$100,000 are collateral by bank securities to properly safeguard such funds.

Issued by	Account Number	Amount	Interest Rate	Due Date
*Banco Popular de PR				
(Maximum Premium)	065-037367	\$7,011,613	1.76	07/28/02

* Included \$2,000,000 in the capital project fund.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(3) Property Taxes

The Collection Center of Municipal Revenues (CRIM) is responsible for the assessment of all real and personal property located within the Municipality of Barceloneta. Law number 81, approved on August 30, 1991 named Autonomous Municipalities of the Municipality of Puerto Rico Act of 1991, authorizes the municipalities of Puerto Rico to levy a tax contribution over all properties within the territorial limits of the Municipality. Nevertheless, CRIM is responsible for the administration and collection of the corresponding tax contribution, during such fiscal year.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

Law Number 83, approved on August 30, 1991, named Municipal Property Tax Law of 1991, Article 2.01, authorizes the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a basic property tax contribution of up to 4% annually, over the assessed value of all real and non - exonerated property within the municipality, in addition to other contributions imposed based on laws in force. Also, law Number 83, in Article 2.02, authorize the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a special contribution of up to 1.03% annually, over the assessed value of all real, personal and non-exonerated property within the Municipality, to be applied to the amortization of general long-term obligations. This special contribution is also in addition to other contributions imposed based on laws in force.

Based on Articles 2.01 and 2.02 of law number 83, the Municipality of Barceloneta, Puerto Rico, imposed property tax rates over the assessed value of all real personal property within the Municipality. The tax rates are detailed as follows:

	<u>Personal Property</u>	<u>Real Property</u>
Basic Contribution	4.00%	6.00%
Additional Special State Contribution	1.03	1.03
Additional Special Municipal Contribution	<u>1.25</u>	<u>1.25</u>
	6.28	8.28
Discount Granted by Central Government	(.20)	(.20)
Effective Tax Rates Applicable to Taxpayers	<u>6.08%</u>	<u>8.28%</u>

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center (CRIM) instead of the property tax payer becomes the source of payment in these cases. Complete exemption from personal property taxes up an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The Municipal Revenue Collection Center (CRIM) reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advance to the municipality during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the Municipal Revenue Collection Center (CRIM) of the basic tax from the taxpayers.

The basic tax advance by the Municipal Revenue Collection Center (CRIM) is recorded in the general fund as other financing sources. As this tax is collected and reported by the Municipal Revenue Collection Center (CRIM), it is recorded in the general fund as revenue and as expenditure in the general long-term debt account group. The property tax received from the Municipal Revenue Collection Center (CRIM), which is related to the exoneration granted by the Commonwealth of Puerto Rico, is reflected as revenue in the general fund.

The CRIM sends to the Municipality of Barceloneta, on monthly payments, 100% of the estimate, made at beginning of fiscal year, of the contribution assessed over property to be collected for the municipality. Within ninety (90) days after fiscal year end, CRIM will prepare a final analysis of funds distributed to the municipality, and the actual funds collected. If fewer funds were distributed, than the actual amount collected by CRIM, they, through the Government Development Bank of Puerto Rico (GDB), will send to the Municipality the remaining balance. If funds were distributed in excess of amounts that actually correspond to the Municipality, CRIM informs to the GDB, in order to retain from future monthly payments, the amounts send in excess.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

The following is a summary of the movement in property tax advances for the year ended June 30, 2002:

Net Advanced received	\$(2,627,695)
The Municipal Revenue Collection Center (CRIM)	5,943,312
Income from Lottery	(151,887)
Property tax Exempt	(401,613)
Other deductions	(2,354,822)
Unamortized debt to Municipality during June 30, 2002 (Not included in the financial statements)	\$ 407,295
Prior year unamortized advanced to June 30, 2002	\$ 2,690,271

(4) Volume of Business Tax

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this under the industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declarations by April 15 of each year.

The tax rates are as follow:

- 1% for financial institutions
- for all other organizations 0.5%

Taxes are payable in two equal semiannual installments on July 1 and January 1 following the levy date. If they are paid before their maturity, the taxpayer is granted certain discounts.

The Municipality recognized as account receivable the amount estimated to be collected based on the volume business tax declaration during the next year that pertaining to this year and prior years included interest receivable of \$9,318. (Net of allowance for uncollectable). The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(5) Intergovernmental Revenues

Sources of intergovernmental revenues consists primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi public corporations, such as the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements.

All of these intergovernmental revenues are accounted for through the general fund except for those directly related to capital improvement, which is accounted for through the special revenue and the capital project funds. Federal Financial assistance is recorded in the special revenue fund.

Intergovernmental revenues and federal awards received from the federal government are recorded following the applicable legal and contractual requirements. Essentially, there are two types of revenues; (1) revenues recognize based upon the expenditures recorded. This occurs when money must be expended on the specific purpose of project before any amounts will be paid to municipality. Similarly, if cost sharing or matching requirements exist, revenue recognition depends upon compliance with these requirements; and (2) resources reflected as revenues at the time of receipt or earlier. If susceptible to accrual. This applies to moneys virtually unrestricted as to purpose of expenditures and is usually revocable only for failure to comply with prescribed compliance requirements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(6) Property, Plant and Equipment

A- Property, plant and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditures and capitalized at cost in the General Fixed Assets Account Group.

A summary of changes in General Fixed Assets follows:

Description	Beginning Balance	Additions	Retirements (Adjustments)	Balance 2002
Land	\$ 1,023,240	\$1,226,834	\$ -	\$ 2,250,074
Plant & Improvements	19,329,302	332,502	-	19,661,804
Machinery & Equipment	3,964,369	348,321	-	4,312,690
Construction in Progress	1,694,920	328,157	332,502	1,690,575
Automobiles	2,204,288	276,125	-	2,480,413
	\$28,216,119	\$ 2,511,939	\$ 332,502	\$30,395,556

(7) Changes in General Long-Term Debt

The following is a summary of bonds of the Municipality of Barceloneta for year ended June 30, 2002.

Description	Payable at July 1, 2001	Additions	Reductions	Balance June 30, 2002
General Obligations Bonds	\$18,205,587	\$ -	\$1,225,895	\$16,979,692

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

General Obligation Bonds:

Description	Original Amount	Interest Rate	Balance 06-30-02	Due Date
Bonds Series 1984	263,000	5%	\$112,850	01-01-2009
Bonds Series 1992	520,000	5.56 to 6.36%	250,000	07-01-2006
Bonds Series 1992	229,000	5.75%	168,000	01-01-2016
Bonds Series 1992	630,000	5.56 to 6.14%	345,000	07-01-2007
Bonds Series 1992	257,000	5.75%	187,000	01-01-2016
Bonds Series 1992	600,000	5.75%	434,000	01-01-2016
Bonds Series 1993	277,000	5.75%	210,000	01-01-2016
Bonds Series 1997	1,030,000	6.00 to 8.0%	240,000	07-01-1022
Bonds Series 1998	1,380,000	6.00 to 8.0%	1,300,000	07-01-
Bonds Series 1998	485,000	8.0%	335,000	07-01-2007
Bonds Series 1999	190,000	6.00 to 7.50%	85,000	07-01-2003
Bonds Series 1999	1,710,000	6.00 to 7.50%	1,500,000	07-01-2013
Bonds Series 1996	400,000	8.0%	330,000	01-01-2016
Bonds Series 1998	105,000	8.0%	95,000	01-01-2023
			\$ 5,591,850	

Operational Loans:

Bonds Series 1998	3,380,000	6.37 to 7.50%	\$1,270,000	07-01-2007
Bonds Series 1987	1,520,000	9.0%	395,000	07-07-2007
Bonds Series 1994	411,000	5.0%	323,000	01-01-2007
Bonds Series 1988	120,000	8.0%	31,500	07-07-2013
Sub-total			\$2,019,500	

Special Loans from Lottery Funds:

Bonds Series 1988	380,000	8.0%	\$ 95,000	07-01-2007
Bonds Series 1988	620,000	8.0%	155,000	07-01-2007
Bonds Series 1989	530,000	8.0%	174,342	10-01-2008
Sub-total			\$434,342	

Revenue Obligations Bonds:

Bonds Series 1997	5,875,000	6.00 to 8.0%	\$ 5,405,000	07-01-2021
Bonds Series 1995	660,000	6.70 to 7.70%	530,000	07-01-2013
Bonds Series 1993	883,000	5.25%	629,000	01-01-2016
** Bonds Series 1994	3,250,000	9.0%	2,380,000	04-01-2012
Sub-total			8,944,000	
TOTAL			\$16,979,692	

**Rent of properties in the Special Revenue Fund is used for payment of interest and principal.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

Principal and interest on these obligations are paid to the Governmental Development Bank.

Property taxes (CAE)	\$ 1,891,937
Municipal general funds	548,769
Municipal Special Revenue Funds	363,200
Total	\$ 2,803,906

Payments at June 30, 2002 were as follows:

Principal	\$1,225,895
Interest	1,172,621
Total	\$ 2,398,516

(9) Prior Period Adjustments

The general fund balance has been restated in order to report adjustment to prior accounts receivable balance previously reported.

(10) Deferred Income

The deferred income corresponds to income receipt this year from the next fiscal year from special revenue fund.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(11) Employees, Retirement Plan

a. Plan description

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employees' Retirement System, of the Government of Puerto Rico and its Instrumentality's (ERS). ERS cover all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

b. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the plan by the plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary. The Municipality's actual contribution for the year ended June 30, 2002 was \$438,976, which is equal to the required contribution.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

All employees 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 or more 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	55 or more	75% of the average of the three years of highest salary during the employee's service period.

(12) Health Insurance

According to Law 29 as of July 1, 1998 The Municipality contributes to the Administration of Insurance of Health (ASES), the amount of \$756,498 during the year. A monthly contribution of \$63,041 was deducted from the amount received from the Municipal Collection Center. This contribution represented 6% of the prior year budget.

(13) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from above estimates.

(14) Contingencies

A. Litigation

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

B. Federal Financial Assistance

The Municipality receives financial assistance from the Federal Government in the form of grants or entitlements. All grants are subject to financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, which are disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The Municipality's administration believes that such disallowances, if any, will not have a material adverse effect on the financial position of the Municipality.

Comptroller's Office Audits

The Municipality of Barceloneta, Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office issued a final report related to the financial operations of the Municipality dated November 2, 2001. The report covers municipal operations from July 1, 1997 through June 30, 2000. Such report includes findings regarding to certain alleged irregularities in the operations and administration of the Municipality of Barceloneta, Puerto Rico, during the stated period. The Comptroller's opinion in the report stated that the operations of the Municipality were conducted substantially in accordance with laws and regulations, except for some findings disclosed in specific municipal operations.

(15) Municipal Solid Waste Landfill Closure and Post-closure cost:

The Municipality of Barceloneta discontinues the landfill operation on December 31, 1998 according to United States Environmental Protection Agency (EPA) by the Consent Decree (CERLA -00304). The order demands a remedial feasibility study at the site to determine the estimated cost to closure and post-closure cost the landfill. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance function at the landfill for 30 years after closure. The Environmental Protection Agency (EPA) determines that the Municipality of Barceloneta with ten pharmaceuticals companies was responsible for the existence of contamination on the landfill. The Municipality and the other responsible parties signed to under take the obligations established in the consent decree with an estimated total cost of \$16,000,000

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

The total estimated cost for maintenance and monitoring functions for the Municipality was estimated in \$5,000,000. The estimated total cost is accounted for in the general long-term debt account group.

Beginning Balance 2001	Payment	Ending Balance
\$5,000,000	\$ 0	\$5,000,000

Actually the Municipality uses the landfill of Arcibo.

(16) Stewardship, Compliance and Accountability:

As of June 30, 2002 the actual income was less to the income budget, the excess occurred primary due to income budget from Central Government that were less than budget. Other expenditures were expense in excess of the amount budget due to expense from prior years. The excess of expenditures of interest paid disclose in the debt service fund disclosed excess of expenditures over revenues due to transfer from special revenue fund excess is compensated by used of prior debt service balance.

(17) Claims and Contingencies

Contingency

As per Act No. 72 of September 7, 1993, "Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. As of June 30, 2002 the amount billed by HIA to the Municipality amounted to \$ 1,283,283. The Municipality alleged that the HIA never discussed the amount to be contributed by the Municipality and is determined unilaterally. The Municipality's management decided not to record the liability on the financial statements.

On July 7, 1997, there was an amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 will be earned on the additional lottery games.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(18) GASB - 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 (Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments). GASB-34 will significantly change the way in which the Municipality reports its finances.

GASB-34 established two bases for reporting financial information: government-wide financial statements and fund presentation. The government-wide financial statement method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business-type activities. The basis for preparing fund financial statements is similar to conventional governmental financial statements except the focus for presentation is on major’s funds rather than fund types. Capital assets and depreciation charges are reported on the entity-wide perspective financial statements. The management’s discussion and analysis information precedes the basic financial statements but is considered required supplementary information. Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information.

GASB-34 will begin to take effect for the Municipality in fiscal year beginning after June 15, 2003.

Under the new reporting model, general-purpose governments must present the following basic financial statements and required supplementary information (RSI) to be in accordance with generally accepted accounting principles:

- a. Management’s discussion and analysis.
- b. Government-wide financial statements.
- c. Fund financial statements.
- d. Notes to the financial statements
- e. RSI, including budgetary comparison schedules, infrastructure condition data, and other required by previous GASB pronouncements, if applicable.

(19) Other revenues:

Represent payment received from the Collection Center of Municipal revenues and payment from industries.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development.</u>			
Community Planning and Development			
Passed-through the office of the Commissioner of Municipal Affairs			
Community Development Block Grant (State Program)			
SBGP - 2001	14-228	2001-FD	\$ 90,000
SBGP - 2000	14-228	2000-FD	233,840
SBGP - 1999	14-228	1999-FD	<u>101,223</u>
			425,063
Direct Program:			
Public and Indian Housing			
Section 8- Existing	14-857	RQ-46-CE-054-002/01	21,612
Section 8- Voucher	14-855	RQ-46-V-054-002/004	<u>376,765</u>
			398,377
<u>U.S. Department of Health and Human Services:</u>			
Administration for children and families			
Passed-through Governors Office for Human Development:			
Head Start	93-600	02-CH-0483	2,692,516
Child Care	93-575	CHC-0421	221,335
Early Head Start	93-600	02-CH-9892-01	592,478
Administration on Aging			
Special Program for the Aging (SENDEC)	93-045	Title III	<u>23,799</u>
			3,530,128
<u>U.S. Department of Justice:</u>			
Office of Community Oriented Policing Service			
Troops to C.O.P.S	16-711	2001-LB-MB-01	<u>60,413</u>
Total Federal Assistance			<u>\$4,413,981</u>

See notes to the schedule of expenditures of federal awards.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2002

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Barceloneta, Puerto Rico and is presented on the accrual basis of accounting. The reporting entity is define in Note 1 to the general purpose financial statements of the Municipality. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) MAJOR FEDERAL AWARDS

The Community Development Block grants, Housing Assistance Payments Programs, Health and Human Services Programs and Federal Emergency Management Agency represents the major federal financial awards of the Municipality. Major federal awards represent 89% of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Barceloneta, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follow:

<u>Description</u>	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Total</u>
Federal Programs Expenditures	\$ 3,988,918	\$ 425,063	\$ 4,413,981
State & Municipal Expenditures	2,610,790	1,257,955	3,868,745
Total Expenditures	\$ 6,599,708	\$1,683,018	\$ 8,282,726

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CERTIFIED PUBLIC ACCOUNTANT

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

To the Mayor and Municipal Council
Municipality of Barceloneta, Puerto Rico

I have audited the general purpose financial statements of the Municipality of Barceloneta, Puerto Rico, as of and for the year ended June 30, 2002, and has issued a qualified (for its general fixed assets) report thereon dated October 31, 2002. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtain reasonable assurance about whether the Municipality of Barceloneta financial statements are free of material misstatement, I performed tests of its compliance with certain provision of law, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Municipality of Barceloneta, Puerto Rico, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purposes financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I consider being material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Municipality of Barceloneta, in a separate dated October 31, 2002.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico
October 31, 2002

The stamp number 1855765
Was affixed to the
original of this report.



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2004

Juan A. Feliciano Charneco
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAYOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor of the Municipality of Barceloneta
Barceloneta, Puerto Rico

Compliance

I have audited the compliance of the Municipality of Barceloneta, Puerto Rico, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. The Municipality of Barceloneta major federal programs is identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Barceloneta Management. My responsibility is to express an opinion on Municipality of Barceloneta compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States and Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Barceloneta, compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Barceloneta compliance with those requirements.

In my opinion, Municipality of Barceloneta, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2002-01, 2002-02, 2002-03.

Internal Control Over Compliance

The management of the Municipality of Barceloneta, Puerto Rico, is responsible for establishing and maintaining internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality of Barceloneta internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider being material weaknesses.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico
October 31, 2002

The stamp number 1855766
was affixed to the
original of this report.

Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2004



MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002

A. Summary of Audit results

Financial Statements

Type of auditor's issued:

Qualified

Internal control over financial reporting:

Material weakness (es) identified?

___ Yes ___ X ___ No

Reportable condition(s) identified not considered
to be material weaknesses?

___ Yes ___ X ___ No None reported

Noncompliance material to financial statements noted?

___ Yes ___ X ___ No

Federal Awards

Internal control over mayor programs:

Material weakness(es) identified?

___ Yes ___ X ___ No

Reportable condition(s) identified not

Considered being material weaknesses?

___ Yes ___ X ___ No

Type of auditor's report issued on compliance considered
For mayor programs

Unqualified

Any audit findings disclosed that are required to be
Reported in accordance with Circular A-133,
Section .510(a) are reported on part C, of this schedule

___ X ___ Yes ___ No

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.855, 14,857	Section 8 – Existing & Voucher
93.600, 93-575	Head Start & Child Care & Early Head Start
14-228	SBGP

Dollar threshold used to distinguish
Between type A and type B Programs

300,000

Auditee qualified as low-risk auditee

Yes No

B - Financial Statements Findings

No matters were reported regarding reportable conditions, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of Governmental Auditing Standards.

C - Federal Award Findings and Questioned Cost

Federal Program Information

U.S. Department of Health and Human Services
Early Head Start
Pass-through Office of Children and Families Administration
CFDA No.
Grant No. 02-CH-9892/02
Year ended June 30, 2002

Ref. No.	Finding / Noncompliance	Questioned Cost
-----		-----
2002-01	<u>Statement of Condition and Criteria</u> It was noted in my test of compliance that is the Municipality is not Complying with the criteria established by Treasury Circular letter 1075. The Municipality 's financial management system.	-0-

To established procedures to minimize the time elapsing between the Transfer of funds from the Office of Administration for Children and Families and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods Longer than 3 days.

Cause

The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.

Effect

The Municipality does not maintained and adequate procedures for The administration of cash that determine properly their needs.

Auditor's Recommendation

The Municipality established adequate procedures in order to control In a more effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluates .The actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002
(continued)

Department of Health and Human Services
Administration for Children and Families
Passed-through Governors Office for Human
Development Special Programs for the Aging
CFDA No. 93-044
Grant – Title III, Part B and C
Year Ended June 30, 2002

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2002-02	<p><u>Statement of Condition and Criteria</u> It was noted in my test of compliance is not complying with the criteria established by Treasury Circular letter 1075. The Municipality's financial management system.</p> <p>To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Administration for Children and Families and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.</p> <p><u>Cause</u> The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.</p> <p><u>Effect</u> The Municipality does not maintained an adequate procedures for the Administration of cash that determine properly their use needed.</p> <p><u>Auditors Recommendation</u> The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.</p> <p><u>Municipality Response:</u> We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish procedure to minimize the time between the funds received and the disbursements.</p>	<p>-0-</p>

MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002
(continued)

Department of Health and Human Services
Early Head Start
Passed-through Office of Children and Families Administration
CFDA No.
Grant No. 02-CH-9892/02
Year ended June 30, 2002

Ref. No. Finding / Noncompliance

2002-03 Statement of Condition and Criteria

During our review of the participant files, we found the following situations:

- *Two files did not have evidence of the physical report by a doctor
 - *Two files did not have evidence of dental report by a doctor
- Sub-part B of the Code of Federal Regulations Number 45 CFR 1304.20 (a) Establishes that a grantee must develop procedures to obtain or arrange Further diagnostic testing, examination and treatment by an appropriate Licensed professional for each child in coordination with the parents.

Cause

The Municipality does not comply with the Code of Federal Regulations Number 45.1304.20(a)

Effect

The Municipality cans not determined special conditions for adequate procedures, for the administration proper services available for their students' needs.

Auditors Recommendation

The Municipality establishes adequate procedures in order to control in a More effective manner the needs of their students.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluates The Actual administrative procedures followed to establish a procedure to minimize and control in a more effective manner students needs for special conditions.

**MUNICIPALITY OF BARCELONETA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2002**

2002 – Finding No. 1: Early Head Start
CFDA No.
Year ended June 30, 2002

2002 – Finding No. 2: Special Program for the Aging
CFDA No. 93-045
Year ended June 30, 2002

Condition

It was noted in my test of compliance that is the Municipality does Treasury Circular letter 1075 establish not complying with the criteria. The Municipalities financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the office of Administration for Children and Families and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

Current Status

The mayor gave instructions to establish adequate procedures to comply with the requirement.

Findings reported again.