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MUNICIPIO DE BARCELONETA

AUDITORIA 2003-2004

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**MUNICIPALITY OF BARCELONETA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2004
(INDEPENDENT AUDITOR'S REPORT)**

Juan Feliciano Charneco * Certified Public Accountant

**MUNICIPALITY OF BARCELONETA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2004**

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JUAN A. FELICIANO CHARNECO
Certified Public Accountant

406 Tnte. César González
Eleanor Roosevelt
Hato Rey, PR 00919

Tel. (787) 879-4433
Fax (787) 880-1402

INDEPENDENT AUDITOR'S REPORT

Mayor of the Municipality of Barceloneta
Barceloneta, Puerto Rico

I have audited the accompanying financial statements of the Governmental Activities, each major fund and the remaining fund information of the **Municipality of Barceloneta**, Puerto Rico, as of and for the year ended June 30, 2004, which collectively comprise the **Municipality of Barceloneta** basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of 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 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the remaining fund information and governmental activities of the **Municipality of Barceloneta**, Puerto Rico, as of June 30, 2004, and the respective changes in financial position thereof 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 October 29, 2004 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. The additional report is not an integral part of a governmental auditing standard audit in considering the results of the audit the separate report should be read in conjunction with the auditor's report considering the results of our audit.

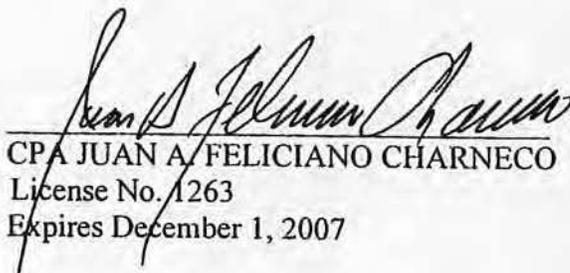
My audit was performed for the purpose of forming an opinion on the Governmental Activities financial statements of **Municipality of Barceloneta**, Puerto Rico taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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.

As described in Note 1 to the basic financial statements, the **Municipality of Barceloneta** adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - And Management's Discussion and analysis-For State and Local Governments*; as of and for the year ended June 30, 2004. This result in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis and budgetary comparison information, on pages 3 through 6 and 37 respectively, are not a required part of the basic financial statements but is supplementary information required by the Accounting Principles Generally Accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audited the information and express no opinion on it.

San Juan, Puerto Rico
October 29, 2004

The stamp number 2026670
was affixed to the
original of this report.


CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007



Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Barceloneta
Departamento de Finanzas

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipality of Barceloneta (the "Municipality"), we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2003-2004 operations sustain the Municipality's track of solvency and sound fiscal condition. The Governmental Wide financial statement also supports our statement. This condition is achieved in a time of economy constrains and low revenues growth rates.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality Government exceeded its liabilities at the close of the current fiscal year by \$12,141,481 (net assets).
- The adjusted actual of the General Fund operations resulted in a favorable variance of \$4,511,388 as compared to the revised budget.
- As June 30, 2004 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$12,929,320 and decrease of \$10,096,461 in comparison with the prior year.
- Loans principal payments were \$1,536,895 during fiscal year 2003-04. Loan proceeds from new debt issued amounted to \$10,260,794 during the same fiscal year.

New Requirements for the Financial Reporting

The new approach on the preparation of the Municipality's financial statements emphasizes on a government wide (consolidated) view of its financial operations. Nevertheless major individual funds are presented and evaluated in all of its details. Simultaneous implementation of both of these perspectives allows user to address relevant questions about municipality's performance and provides a basis for comparisons and evaluation of services quality.

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior year data. However, in future years, comparisons will be more meaningful and will provide a better understanding of the municipality's financial position and results of its operations.

Financial Statements Components

The basic financial statement consist of government wide financial statements, the major individual funds financial statement, and notes to the financial statements that provides more details.

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most privet sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of Activities is focused on both the gross and net cost of various activities, which are supported by the Municipality's property tax, municipal licenses tax and other revenues. It is intended to sunmarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including police, public works, solid waste disposal, community services, and general administration. Property tax, municipal license tax, state and federal appropriations finance most of the services.

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 Major Governmental Funds presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental funds statement provides a detailed short-term view of the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality's programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund 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 statement.

Infrastructure Assets

The Municipality implemented the major model portions of GASB statement 34 during the current fiscal year. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statement. The new statement required that this asset be valued and reported within the Governmental column of the Governmental Wide Statement. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets managements system, which periodically, by category, measures and demonstrate its maintenance system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

Government-Wide Statement

Statement of Net Assets

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$12,141,481 millions at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

Statement of Net Assets As of June 30, 2004

Current and other assets	\$ 29,638,093
Capital assets	29,269,387
Total assets	58,907,480
Current and other liabilities	17,525,614
Long-term liabilities	<u>29,173,625</u>
Total liabilities	46,699,239
Net assets:	
Invested in capital assets, net related debt	11,779,734
Restricted	13,291,067
Unrestricted	(12,929,320)
Total net assets	\$ 12,141,481

The principal increase of the net assets was due mainly to the inclusion of the capital assets of the municipality. Such amount will increase as the infrastructure assets are identified and included in the financial statements.



Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Barceloneta
Departamento de Finanzas

Statement of Activities

The following reflects the condensed Statement of Activities of the Primary Government:

For the year ended June 30, 2004

General revenue	\$ 23,555,602
Program revenue	11,040,607
Total revenue	34,596,209
Expenses	
Governmental activities	32,693,665
Change in net assets	\$ 1,902,544

Economic Factors and Next Year Budget

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 16 members.

The Municipality provides a full range of services including public works, education Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's Budget for fiscal year 2003-2004 for \$5,170,688 is over last fiscal year (2002-2003).

Contacting the Municipality's Financial Management

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance.

Noel Gutiérrez
Finance Director

MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS	<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">Governmental Activities</td> </tr> </table>	Governmental Activities
Governmental Activities		
Cash and investments	\$ 21,115,330	
Cash with fiscal agent and other	3,207,172	
Accounts receivable	1,666,359	
Accounts receivable federal government	2,232,077	
Accounts receivable government	1,301,755	
Other accounts receivable	115,400	
Capital Assets	29,269,387	
Total assets	<u>58,907,480</u>	
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	\$ 3,389,973	
Due to government entity	253,892	
Deferred revenue	10,607,915	
Noncurrent liabilities:		
Due within one year	3,273,834	
Due in more than one year	29,173,625	
Total liabilities	<u>46,699,239</u>	
NET ASSETS		
Invested in capital assets, net of related debt	11,779,734	
Restricted for:		
Reserve for debt service	3,165,048	
Special revenue fund	32,694	
Capital project fund	10,093,325	
Unrestricted	(12,929,320)	
Total Net Assets	<u><u>\$ 12,141,481</u></u>	

See notes to financial statement

MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (expense) revenue and change in Net Assets Governmental Activities	
		Charges for Services	Capital Grants and Contributions		Operating Grants and Contributions
<u>EXPENDITURES:</u>					
Current:					
General government	19,001,580	\$ (312,615)	\$ (5,455,347)	\$ (1,230,201)	\$ 12,003,417
Public work	6,818,184	(3,894,444)			2,923,740
Public safety	1,518,530				1,518,530
Health	1,142,583				1,142,583
Culture and recreation	2,187,991				2,187,991
Other expenditures	991,154				991,154
Interest on long-term debt	1,033,643	(148,000)			885,643
Total governmental activities	<u>\$ 32,693,665</u>	<u>\$ (4,355,059)</u>	<u>\$ (5,455,347)</u>	<u>\$ (1,230,201)</u>	<u>\$ 21,653,058</u>
<u>GENERAL REVENUES</u>					
Property taxes					\$ 401,613
Municipal licenses tax					10,347,944
Licenses, permits and fines					500,830
Intergovernmental revenues					1,868,164
Other Revenues					5,214,039
Other financing sources					5,223,012
Total general revenues					<u>23,555,602</u>
Changes in net assets					1,902,544
Net assets at beginning of year					10,238,937
Net assets at end of year					<u>\$ 12,141,481</u>

See notes to financial statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004

<u>ASSETS</u>	General Fund	2004 Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 9,133,309	\$ 8,632,644	\$ 39,688	\$ 137,945	\$ -	\$ 3,171,744	\$ 21,115,330
Cash with fiscal agent and other	-	-	-	-	3,207,172	-	3,207,172
Accounts receivable	1,666,359	-	-	-	-	-	1,666,359
Due from other funds	1,522,157	-	-	-	-	-	1,522,157
Accounts receivable government	951,755	350,000	-	2,232,077	-	-	3,533,832
Other receivable	115,400	-	3,416	2	-	5,326	124,144
Total assets and other debits	<u>\$ 13,388,980</u>	<u>\$ 8,982,644</u>	<u>\$ 43,104</u>	<u>\$ 2,370,024</u>	<u>\$ 3,207,172</u>	<u>\$ 3,177,070</u>	<u>\$ 31,168,994</u>
 <u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 475,821	\$ -	\$ 22,808	\$ 1,126,782	\$ -	\$ 1,764,562	\$ 3,389,973
Due to special general fund	-	-	-	1,210,732	-	311,425	1,522,157
Matured bond and interest payable	-	-	-	-	42,124	-	42,124
Due to government entity	236,380	-	17,512	-	-	-	253,892
Deferred revenue - (volume business tax)	10,564,712	-	-	-	-	-	10,564,712
Deferred revenue	43,203	-	-	-	-	-	43,203
Total liabilities	<u>11,320,116</u>	<u>-</u>	<u>40,320</u>	<u>2,337,514</u>	<u>42,124</u>	<u>2,075,987</u>	<u>15,816,061</u>
Fund balances							
Reserve for debt services	-	-	-	-	3,165,048	-	3,165,048
Encumbrances	1,122,130	-	-	-	-	-	1,122,130
General Fund	946,734	-	-	-	-	-	946,734
Special revenue fund	-	-	186	32,510	-	-	32,696
Capital Project fund	-	8,982,644	2,598	-	-	1,101,083	10,086,325
Total fund balances	<u>2,068,864</u>	<u>8,982,644</u>	<u>2,784</u>	<u>32,510</u>	<u>3,165,048</u>	<u>1,101,083</u>	<u>15,352,933</u>
Total liabilities and fund balance	<u>\$ 13,388,980</u>	<u>\$ 8,982,644</u>	<u>\$ 43,104</u>	<u>\$ 2,370,024</u>	<u>\$ 3,207,172</u>	<u>\$ 3,177,070</u>	<u>\$ 31,168,994</u>

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

\$ 29,269,387

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued compensated absence
 Health insurance debt
 Bonds payable
 Advances from CRIM

\$ 976,274
 894,641
 27,919,653
 2,690,271
\$ 32,480,839

Total long-term liabilities
 Total net assets of governmental activities

32,480,839
\$ 12,141,481

See notes to financial statement

MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	2004 Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES							
Property taxes	\$ 401,613	\$ -	\$ -	\$ -	\$ 2,283,260	\$ -	\$ 2,684,873
Municipal license tax	10,347,944	-	-	-	-	-	10,347,944
Licenses, permits and fines	525,795	-	-	-	-	-	525,795
Intergovernmental revenues	2,135,295	350,000	-	-	-	3,444,207	5,929,502
Rent of properties	72,882	-	-	-	377,357	-	450,239
Interest income	206,357	-	-	-	-	-	206,357
Other revenues	5,349,739	-	-	-	19,038	-	5,368,777
Federal financial award	-	-	1,830,224	4,143,778	-	587,799	6,561,801
Total revenues	19,039,625	350,000	1,830,224	4,143,778	2,679,655	4,032,006	32,075,288
EXPENDITURES:							
Current:							
General government	9,695,523	-	899,393	4,387,659	-	3,871,689	18,854,264
Public works	6,096,203	-	-	-	-	-	6,096,203
Public safety	1,427,557	-	-	-	-	-	1,427,557
Health	1,013,782	-	-	-	-	-	1,013,782
Capital projects	1,040,242	-	821,314	-	-	2,248,326	4,109,882
Culture and recreation	2,058,426	-	-	-	-	-	2,058,426
Other expenditures	991,154	-	-	-	-	-	991,154
Debt service:							
Principal retirement	-	-	-	-	1,536,895	-	1,536,895
Interest and fiscal charges	-	-	-	-	1,033,643	-	1,033,643
Total expenditures	22,322,887	-	1,720,707	4,387,659	2,570,538	6,120,015	37,121,806
Excess of revenues over (under) expenditures	(3,283,262)	350,000	109,517	(243,881)	109,117	(2,088,009)	(5,046,518)
Other financing source (uses):							
Net advance of property taxes	5,223,012	-	-	-	-	-	5,223,012
Net bond issued debt	-	10,260,794	-	-	-	-	10,260,794
Transfer to debt service fund	(532,934)	-	-	-	850,934	(318,000)	-
Interest expenditures	-	-	-	-	(18,992)	-	(18,992)
Transfer to other funds	(598,570)	-	-	-	-	598,570	-
Bond expenditure	-	(1,628,150)	-	-	-	-	(1,628,150)
Total other financing source (uses)	4,091,508	8,632,644	-	-	831,942	280,570	13,836,664
Excess of revenues and other sources over (under) expenditures and other uses	808,246	8,982,644	109,517	(243,881)	941,059	(1,807,439)	8,790,146
Fund balance June 30, 2003	2,428,146	-	(106,733)	276,391	128,060	3,108,613	5,834,477
Prior period adjustment	(1,167,528)	-	-	-	2,095,929	(200,091)	728,310
Fund balance June 30, 2004	\$ 2,068,864	\$ 8,982,644	\$ 2,784	\$ 32,510	\$ 3,165,048	\$ 1,101,083	\$ 15,352,933

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

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

Net change in fund balance - total governmental funds \$ 8,790,146
 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.

Expenditures for capital assets	4,109,882	
Less: current year depreciation	<u>(1,287,167)</u>	
		2,822,715

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Net bond proceeds of bond issued	(10,267,794)	
Principal payments	1,536,895	
Transfer to debt service and other funds	<u>(850,934)</u>	
		(9,581,833)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (128,484)

Change in net assets of governmental activities	<u><u>\$ 1,902,544</u></u>
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See notes to financial statement

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

GENERAL ORGANIZATION

The **Municipality of Barceloneta** was founded in 1881. 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 assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of the **Municipality of Barceloneta** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The following summarizes the **Municipality** significant accounting policies:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The **Municipality's** financial statements include the operations of all departments for which the **Municipality** is financially accountable.

The 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 entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

In evaluating the Municipality as a reporting entity, management has addressed all potential component units, which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statement. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)

Accountability for Fiscal Matters

- Budget Authority
- Surplus/Deficit
- Responsibility for Debt
- Fiscal Management
- Revenue Characteristics

Factors other than oversight, which may significantly influence the entity relationship, are:

Scope of Public Service

Special Financing Relationships

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to be Municipality of Barceloneta indicate that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, The GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34. The Municipality of Barceloneta is required to implement this standard for the fiscal year ended June 30, 2004.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basic Financial Statements-GASB Statement No. 34 (Continuation)

The government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the substantiality of **the Municipality** the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund statements into the governmental wide statements.

Basis of Presentation

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. **The Municipality** reports the following major funds on **Fund Financial Statements**:

Major Funds

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in other funds.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Presentation (Continuation)

Major Funds – MVP (Continuation)

HUD Programs Fund – This fund accounts for revenues sources for the development of viable urban communities, decent housing suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

Debt Service Fund – Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Head Start – Program Funds – This fund accounts for revenue sources to provide comprehensive health, educational, nutritional, social and other services to economically disadvantaged pre-school children so that the children will attain overall social competence.

Other Funds – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements, which are not financed by other funds.

Basis of Accounting

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Accounting (Continuation)

Measurement Focus, Basis of Accounting

Government-wide Financial Statements – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Funds Financial Statement – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or 60 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

Governmental Fund Types / Governmental Activities – Governmental funds are those through which most governmental functions of **the Municipality** are 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.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Encumbrances

Governmental funds employ encumbrances accounting. Under the encumbrance system, all purchase orders; contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and they constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and accordingly, are reported with expenditures in all budgetary basis statements.

Budgetary Data

The Municipality follows these procedures, which are in accordance with the municipal law; in establishing the budgetary date reflected in the basic financial statements.

- (1) On or prior to may 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st., the annual budget is legally enacted through passage of the annual appropriation ordinance.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances as described below.

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

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Budgetary Data (Continuation)

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

The necessary adjustments to convert the result of operations of the general and debt service funds from the modified accrual of accounting to the budgetary basis are as follows:

Deposits

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

Investments consist of short-term certificates and are stated at cost, which approximates fair value.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Inventories

The general fund purchases office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as an expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

Capital Assets

Fund Financial Statements

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

Government Wide Financial Statement

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value a time they are received by **the Municipality** and is capitalized in the Statement of net Assets. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation 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 or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of prior year.

Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, are accounted in the Statement of Net Assets.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Insurance

The Municipality has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other 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 designated agency to obtain the necessary insurance coverage for **the Municipality**.

Restricted Assets

Investments and Certificates

Certain proceeds of as well as certain resources set aside for their repayment are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account".

Cash with fiscal agent

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. **The Municipality** has the following reservations of fund balance:

- *Encumbrances* – Represent future expenditures under purchase order, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *Debt Service* – Represents net assets available to finance future debt service payments.
- *Capital Projects* – Represent net assets available to finance future capital outlays.
- *Special Revenue Fund* – Represent net assets available to finance specified outlays.
- *General Fund* – Represent net assets available not required to be accounted in another fund.

Claims and Judgment

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of asses 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 those estimates.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

2. PROPERTY TAXES

The "Centro de Recaudación de Ingresos Municipales"(CRIM) is responsible for the assessment of all real and personal property located within the **Municipality of Barceloneta** and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The tax rate per annum is 8.08% for real property and 6.08% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.5% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.3% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service, which is accounted for through the debt service fund (See note 11). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico 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. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer became the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

The 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 advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded in the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$242,202 during 2004.

The following is a summary of the property tax advances, which resulted as an account receivable, for the year ended June 30, 2004 and outstanding debt from 2004. The resulting receivable is presented as deferred revenue in the general fund for Fund Financial Statement and as revenue in the Government Wide Financial Statements. The debt has been presented in the Statement of Net Assets as a non-current liability since payment is not anticipated to be paid in near future.

Accounts Payable:

Amortization through collections of property taxes by the CRIM	
07-01-03 – 06-30-04	\$7,346,706
Advance received, 07-01-02 – 06-30-03	(6,494,951)
Due from CRIM – 2004	\$ 851,755
Due to CRIM - 2004	\$2,690,211

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

3. DEPOSITS

Deposits include investments accounts amounting to \$9,043,590. **The Municipality's** cash and investments at June 30, 2004, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. **The Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, **the Municipality** invested its funds in interest-bearing bank accounts, and short-term certificates of deposit if due date is not more than 90 days, the certificate considered as cash equivalents.

4. CONCENTRATION OF CREDIT RISK

The Municipality maintains its cash account in local commercial banks, whose accounts are warranty by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits in excess of \$100,000 are collateralized by the bank securities to property safeguard such funds. Nevertheless, Management believes that concentration of credit risks is limited because balances are deposited with high standing financial institutions.

5. MUNICIPAL LICENSE TAXES

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 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 FINANCIAL STATEMENTS
JUNE 30, 2004

6. INTERFUND TRANSACTIONS

Due From/To Other Funds (Fund Financial Statement)

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balance are as follows:

Funds	Due From	Due To
General	\$ 1,522,157	\$ -
Other Funds	-	311,425
Head Start Programs	-	1,210,732
	\$1,522,157	\$1,522,157

The inter-fund receivables and payables on Fund Financial Statement are eliminated on Statement of Net Assets (Government Wide Financial Statement).

7. INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and in lieu of tax" payments from certain "quasipublic" corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

8. CAPITAL ASSETS

Fund Financial Statements

The Municipality charged costs of capitalizable outlays as expenditures categories in the Governmental Fund Financial Statements.

	Balance 6/30/2003	Additions	Retire- ments	Balance 6/30/2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,356,315	\$ -	\$ -	\$ 1,356,315
Construction in progress	1,114,665	659,853	1,001,453	773,065
Total capital assets not being depreciated	<u>2,470,980</u>	<u>659,853</u>	<u>1,001,453</u>	<u>2,129,380</u>
Capital assets, being depreciated				
Buildings and building improvements	28,928,976	2,382,036	-	31,311,012
Infraestructure	12,464,188	2,377,232	-	14,841,420
Equipment	2,376,519	251,995	-	2,628,514
Total capital assets being depreciated	<u>43,769,683</u>	<u>5,011,263</u>	<u>-</u>	<u>48,780,946</u>
Less accumulated depreciation for:				
Buildings and building improvements	(7,899,352)	(514,547)	-	(8,413,899)
Infraestructure	(8,700,939)	(100,524)	-	(8,801,463)
Equipment	(1,284,304)	(212,947)	-	(1,497,251)
Vehicles	(2,537,798)	(390,528)	-	(2,928,326)
Total accumulated depreciation	<u>(20,422,393)</u>	<u>(1,218,546)</u>	<u>-</u>	<u>(21,640,939)</u>
Total capital assets being depreciated, net	<u>23,347,290</u>	<u>3,792,717</u>	<u>-</u>	<u>27,140,007</u>
Governmental activities capital assets, net	<u>\$ 25,818,270</u>	<u>\$ 4,452,570</u>	<u>\$ 1,001,453</u>	<u>\$ 29,269,387</u>

Depreciation expense was charged to functions-programs of the Municipality as follows:

Governmental activities:	
General government	\$ 147,316
Public safety	90,973
Public works	721,891
Culture and recreation	129,565
Health	128,801
Total depreciation expense governmental activities	<u>\$ 1,218,546</u>

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Government Wide Financial Statements

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

Vehicles, Heavy Equipment	5-25	\$300
Furniture and Fixture	5-10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	50	\$1
Infrastructure	60	\$1
Improvements	20-40	\$1

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

9. CHANGES IN GENERAL LONG-TERM DEBT

General in General Long – Term Debt

The principal long-term obligation of the Municipality is obligation bonds issue to finance permanent improvements and purchases of equipment. The Municipality's long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund.

The following is a summary of bonds of the Municipality of Barceloneta for year ended June 30, 2004.

Description	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations Bonds	\$18,838,548	\$10,520,000	\$1,366,895	\$27,991,653

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

9. CHANGES IN GENERAL LONG-TERM DEBT (continued)

General Obligation Bonds:

Description	Original Amount	Interest Rate	Balance 06-30-04	Due Date
Bonds Series 1984	\$ 263,000	5%	\$ 84,850	01-01-2009
Bonds Series 1992	\$ 520,000	6.63	\$ 165,000	07-01-2006
Bonds Series 1992	\$ 229,000	5.75%	\$ 151,000	01-01-2016
Bonds Series 1992	\$ 630,000	6.63	\$ 250,000	07-01-2007
Bonds Series 1992	\$ 257,000	5.75%	\$ 169,000	01-01-2016
Bonds Series 1992	\$ 600,000	5.75%	\$ 391,000	01-01-2016
Bonds Series 1993	\$ 277,000	5.75%	\$ 189,000	01-01-2016
Bonds Series 1998	\$1,380,000	5.00%	\$ 810,000	07-01-2007
Bonds Series 1998	\$ 485,000	5.00%	\$ 240,000	07-01-2007
Bonds Series 1999	\$1,710,000	5.00%	\$1,335,000	07-01-2013
Bonds Series 1996	\$ 400,000	5.00%	\$ 315,000	01-01-2016
Bonds Series 1998	\$ 105,000	4.5%	\$ 89,000	01-01-2023
Bonds Series 1998	\$1,380,000	5.32%	\$1,245,000	07/01/2022

Operational Loans:

** Bonds Series 1994	\$ 3,250,000	9.0%	\$2,127,000	07-01-2007
Bonds Series 1987	\$ 1,520,000	9.0%	\$ 245,000	07-07-2007
Bonds Series 1994	\$ 411,000	5.0%	\$ 295,000	01-01-2007
Bonds Series 1988	\$ 120,000	8.0%	\$ 19,500	07-07-2013
Sub-total			\$8,120,350	

Special Loans from Lottery Funds:

Bonds Series 1988	\$ 380,000	8.0%	\$ 57,000	07-01-2007
Bonds Series 1988	\$ 620,000	8.0%	\$ 100,750	07-01-2007
Bonds Series 1989	\$ 530,000	8.0%	\$ 125,553	10-01-2008
Sub-total			\$ 283,303	

Revenue Obligations Bonds:

Bonds Series 1997	\$ 5,875,000	5.320%	\$ 5,155,000	07-01-2021
Bonds Series 1995	\$ 660,000	6.70 to 7.70%	\$ 475,000	07-01-2013
Bonds Series 1993	\$ 883,000	5.25%	\$ 568,000	01-01-2016
Bonds Series	\$ 3,250,000	5.00% to 6.50%	\$ 2,870,000	07-01-2019
Bonds Series 2004	\$ 5,020,000	4.50%	\$ 5,020,000	07-01-2028
Bonds Series 2004	\$ 5,500,000	1.33%	\$ 5,500,000	08-01-2013
Sub-total			\$19,588,000	
TOTAL			\$27,991,653	

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

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

The annual requirements to amortize all bonded debt outstanding as June 30, 2004 follows:

Year Ending	Principal	Interest	Total
2005	\$ 1,877,895	\$ 1,429,319	\$ 3,307,214
2006	1,997,895	1,202,233	3,200,128
2007	2,151,895	1,093,217	3,245,112
2008	1,784,145	967,832	2,751,977
2009	1,697,974	904,256	2,602,230
Subsequent years	18,481,849	5,596,857	24,006,706
	\$27,991,653	\$11,193,714	\$39,113,367

10. DEBT SERVICE FUND

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. Interest income is for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the genera obligations bonds and notes.

The Government Development Bank pays principal and interest on these obligations for Puerto Rico from funds obtained from the Following:

Property taxes	\$2,283,260
General funds	532,934
Other fund	318,000
	\$3,134,194

Expenditures for the year 2003-2004 were as follows:

Principal	\$1,536,895
Interest	1,033,643
	\$2,570,538

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

11. RETIREMENT SYSTEM

Plan Description

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements 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 at G.P.O. Box 42004, San Juan Puerto Rico. 00940.

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

OLD PLAN

Eligibility

Pension Benefits

Age 55 and 30 years
Of service

75% of average highest compensation
during any years of credited service

Under 55 and 30 ears
Of service

65% of average highest compensation
during any 3 years of credit service

Participant in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NEW PLAN

Eligibility

Age 65 with 10 years
of service

Pension Benefits

1.5% of average compensation during
the final 5 years of credited services
multiplied by the numbers of years
credited service

For both plants, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The Municipality's total payroll for the fiscal year 2004 amounted approximately \$10,802,627 respectively. Members' contributions are 5.775% for gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

12. CLAIMS AND CONTINGENCIES

Contingencies

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 \$894,641. 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 1, 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 would be earned on the additional lottery games.

Federal Programs

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, during the year ended June 30, 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse to the grantor agency. Accordingly, the Administrations compliance with applicable grant requirements will be established at some future date. Nevertheless, **the Municipality's** management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, to be immaterial.

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 has not issued a final report related to the financial operations of the Municipality for the period of the single audit. These audit report do not cover any findings subsequently disclosed to Municipality operation by the Comptroller's Office.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

13. PRIOR PERIOD ADJUSTMENTS

General Fund

The general fund balance of prior period was adjusted by ordinance to current budget by adjustment balance from prior year of \$708,708 less accounts receivable from other funds not recorded in Municipality records.

Other Funds

Other funds accounts from prior year balance were distributed this year into capital project funds, other funds and HUD Programs.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
U.S. Of Housing and Urban Development Passed-through the office of the Commissioner of Municipal Affairs			
Community Planning and Development			
Community Development Block Grant (State Program)			
SBGP - 2003	14-228	2003-FD	\$ 442,657
SBGP - 2002	14-228	2002-FD	311,470
SBGP - 2001	14-228	2001-DC	327,352
SBGP - 2000	14-228	2000-FD	<u>15,850</u>
			1,097,329
Direct Program:			
Public and Indian Housing			
Section 8- Voucher	14-855	RQ-46-V-054-002/004	<u>623,378</u>
			623,378
U.S. Department of Health and Human Services:			
Administration for children and families			
Passed-through Governors Office for Human Development:			
Head Start	93-600	02-CH-0483	2,623,771
Early Head Start	93-600	02-CH-9892-03	1,090,055
Child Care	93-575	CHC-0421	<u>673,833</u>
			4,387,659
Administration on Aging			
Special Program for the Aging (SENDEC)	93-045	Title III	<u>26,453</u>
			4,414,112
U.S. Department of Agriculture:			
Passed-through Department of Education			
Child Care Food Program	10-558		270,100
Early Child Food Program	10-558		<u>38,542</u>
			308,642
U.S. Department of Transportation			
Passed-through Federal Transportation Admsitration			
Federal Transportation Act.	20-506	PR-18-X017	<u>196,629</u>
Total Federal Assistance			<u>\$ 6,640,090</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, 2004**

(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 modified accrual basis of accounting. The reporting entity is defined in Note 1 to the 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 91% 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>HUD Programs</u>	<u>Head Start Programs</u>	<u>Other funds</u>	<u>Total</u>
Federal Programs Expenditures	\$1,720,707	\$4,387,659	\$ 531,724	\$ 6,640,090
State & Municipal Expenditures	-	-	5,588,291	5,588,291
Total Expenditures	\$1,720,707	\$4,387,659	\$6,120,015	\$12,228,381

MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS) GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 401,613	\$ 401,613	\$ 401,613	\$ -
Municipal license tax	11,125,279	11,125,279	10,347,944	(777,335)
Intergovernmental revenues	2,087,709	2,087,709	1,868,163	(219,546)
Licenses, permits and fines	211,500	211,500	890,899	679,399
Rent of properties	40,000	40,000	72,882	32,882
Interest income	320,000	320,000	176,291	(143,709)
Other revenues	152,000	3,954,680	5,349,739	1,395,059
Other financial sources	4,810,025	4,810,025	5,223,012	412,987
Adjustment to prior year fund balance	-	708,708	-	(708,708)
Total revenues	19,148,126	23,659,514	24,330,543	671,029
EXPENDITURES:				
Current:				
General Government	7,021,145	10,034,607	9,633,277	401,330
Public safety	1,497,945	1,447,774	1,427,557	20,217
Public Work	6,004,576	6,243,580	6,096,203	147,377
Health	1,013,783	1,013,783	1,013,782	1
Culture and Recreation	2,153,606	2,136,321	2,058,426	77,895
Capital project	40,000	1,025,900	1,040,242	(14,342)
Other	785,587	626,045	623,611	2,434
Transfer out to debt service	581,484	532,934	532,934	-
Transfer out to other funds	50,000	598,570	598,700	(130)
Total expenditures	\$ 19,148,126	\$ 23,659,514	\$ 23,024,732	\$ 634,782
Excess of revenues over (under) expenditures			\$ 1,305,811	\$ 1,305,811
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 24,330,543
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				(5,223,012)
Revenues included in the statement of revenues and not in the budgeted amounts				(67,906)
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				\$ 19,039,625
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 23,024,732
Differences - budget to GAAP:				
Non budgeted expenditures				429,789
Other financial resources transferred to debt service				(532,934)
Other financial resources transferred to other funds				(598,700)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				\$ 22,322,887

See notes to budgetary comparison schedule.

JUAN A. FELICIANO CHARNECO
Certified Public Accountant

406 Tnte. César González
Eleanor Roosevelt
Hato Rey, PR 00919

Tel. (787) 879-4433
Fax (787) 880-1402

**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 financial statements of the Municipality of Barceloneta, Puerto Rico, as of and for the year ended June 30, 2004, and has issued a qualified (for its general fixed assets) report thereon dated October 29, 2004. 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

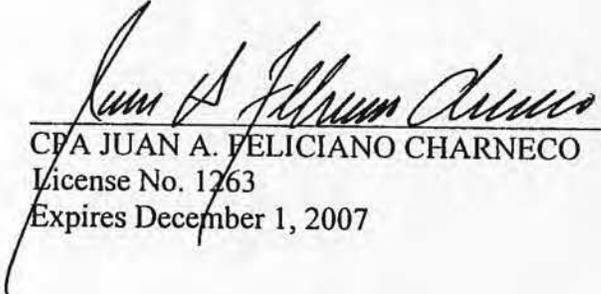
internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation 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 basic 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 29, 2004.

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 29, 2004

The stamp number 2026671
Was affixed to the
original of this report.


CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007

Juan A. Feliciano Charneco
CERTIFIED PUBLIC ACCOUNTANT

406 Tnt. César González
Eleanor Roosevelt
Hato Rey, PR 00919

Tel. (787) 879-4433
Fax (787) 880-1402

**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, 2004. 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 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, 2004. 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 2004-01 and 2004-02.

Internal Control Over Compliance

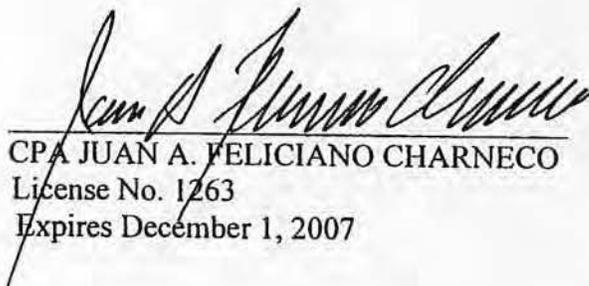
The management of the Municipality of Barceloneta, Puerto Rico, is responsible for establishing and maintaining internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality 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 29, 2004

The stamp number 2026672
was affixed to the
original of this report.


CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007

**MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

A. Summary of Audit results

Financial Statements

Type of auditor's issued:

Qualified

Internal control over financial reporting:

Material weakness (es) identified?

Yes No

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

Yes No None

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over mayor programs:

Material weakness(es) identified?

Yes No

Reportable condition(s) identified not

Considered being material weaknesses?

Yes 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

Yes No

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.855, 14,871	Section 8 – Voucher
93.600, 93-575	Head Start, Early Child Care & Early Head Start
14-228	SBGP
14-248	Section 108 – Loan Guarantees
92-575	Child Care

Dollar threshold used to distinguish
Between type A and type B Programs 300,000

Auditee qualified as low-risk audit 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
Head Start
Passed-through Office of Children and Families Administration
CFDA No. 93-600
Grant No. 02-CH-0483/03
Year ended June 30, 2004**

Ref. No. Finding / Noncompliance

2004-01 Statement of Condition and Criteria

It was noted in my test of compliance is note complying with the criteria established by Treasury Circular letter 1075. The Municipality's financial management system.

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.

MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004
(continued)

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 adequate procedures for the Administration of cash that determine properly their use needed.

Auditor's Recommendation

The Municipality establishes 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, 2004
(continued)

U.S. Department of Agriculture
Child Care Food Program
Passed-through Department of Education
CFDA No. 10-558
Grant No. None identified
Year ended June 30, 2004

Ref. No. Finding / Noncompliance

2004-02 Statement of Condition and Criteria

It was noted in my test of compliance is note complying with the criteria established by Treasury Circular letter 1075. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Education 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 adequate procedures for the Administration of cash that determine properly their use needed.

Auditor's Recommendation

The Municipality establishes 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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2004**

2004 – Finding No. 1: Early Head Start
CFDA No. 93-600
Year ended June 30, 2004

2004 – Finding No. 2: Special Program for the Aging
CFDA No. 93-045
Year ended June 30, 2004

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 was corrected.

**MUNICIPALITY OF BARCELONETA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2004**

2004 – Finding No.3: Early Head Start
CFDA No. 93-600
Year Ended June 30, 2004

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 was reported again

**MUNICIPALITY OF BARCELONETA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2004**

2004 – Finding No.4: Child Care Food Program
CFDA No. 10-558
Year Ended June 30, 2004

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 was reported again.



Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Barceloneta
Departamento de Finanzas

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2004
(CONTINUE)

Ref. No.	<u>Finding /Corrective Action Planned/Person Responsible:</u>	<u>Anticipated Completion Date</u>
2004-01	<p><u>Statement of Condition:</u> The Early Head Start Program, cash balance over \$5,000 for periods End longer than 3 days.</p> <p><u>Corrective Action Planned:</u> The Municipality to control established adequate procedures the use federal funds in effective manner.</p> <p><u>Person Responsible:</u> Noel Gutiérrez, Finance Director</p>	On or before end of 2004-05 fiscal year
2004-02	<p><u>Statement of Condition:</u> The Special Program for the Aging Cash balance over \$5,000 For periods longer than 3 days.</p> <p><u>Corrective Action Planned:</u> The Municipality to control established adequate procedures the use federal funds in effective manner.</p> <p><u>Person Responsible:</u> Noel Gutiérrez, Finance Director</p>	On or before end of 2004-05 fiscal year

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