

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**  
**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**  
**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE BARCELONETA**  
**AUDITORIA 2005-2006**  
**30 DE JUNIO DE 2006**

OFICINA DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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**MUNICIPALITY OF BARCELONETA, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2006  
(INDEPENDENT AUDITOR'S REPORT)**

Juan Feliciano Charneco \* Certified Public Accountant

**MUNICIPALITY OF BARCELONETA, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2006**

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## **MUNICIPALITY OF BARCELONETA MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Municipality of Barceloneta, 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, 2006. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2005-2006 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 \$26,631,958 (net assets).
- The adjusted actual of the General Fund operations resulted in unfavorable variance of \$2,067,211 as compared to the revised budget.
- As June 30, 2006 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$2,054,182 and a decrease of \$28,284 in comparison with the prior year.
- Loans principal payments were \$2,012,895 during fiscal year 2005-06.
- The Municipality invested approximately \$5,500,000 converting old facilities of the Municipality in the new "Centro de Excelencia de Tecnología Avanzada" (CETA). These facilities will be administered by "Universidad del Este" and will be provide advanced technical training to individuals based on the needs of the industries in the Municipality.

### **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.

# **MUNICIPALITY OF BARCELONETA MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **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 private 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 summarize 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.

**MUNICIPALITY OF BARCELONETA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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 management 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 \$26,631,289 at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

**Statements of Net Assets  
As of June 30, 2006 and 2005**

|   | <b>2006</b>         | <b>2005</b>         |
|---|---------------------|---------------------|
| Current and other assets                        | \$30,252,002        | \$26,233,979        |
| Capital assets                                  | 54,505,706          | 45,694,180          |
| <b>Total assets</b>                             | <b>84,757,708</b>   | <b>\$71,928,159</b> |
| Current and other liabilities                   | 19,339,527          | 18,406,293          |
| Long-term liabilities                           | 38,786,223          | 26,411,821          |
| <b>Total liabilities</b>                        | <b>58,125,750</b>   | <b>44,818,114</b>   |
| Net assets:                                     |                     |                     |
| Invested in capital assets, net of related debt | 26,483,831          | 19,354,410          |
| Restricted                                      | 11,903,509          | 8,229,017           |
| Unrestricted (deficit)                          | (11,755,382)        | (473,382)           |
| <b>Total net assets</b>                         | <b>\$26,631,958</b> | <b>\$27,110,045</b> |

The principal increase of the net assets was due mainly to the inclusion of the capital assets of the municipality. The Capital Assets' amount will increase as the construction in progress assets are identified and included in the financial statements.

**MUNICIPALITY OF BARCELONETA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Activities**

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

**For the year ended June 30, 2006 and 2005**

|                         | <b>2006</b>         | <b>2005</b>        |
|-------------------------|---------------------|--------------------|
| General revenue         | \$ 31,185,799       | \$ 25,956,907      |
| Program revenue         | 11,974,170          | 13,000,552         |
| Total revenue           | <b>43,159,969</b>   | <b>38,957,459</b>  |
| Expenses                |                     |                    |
| Governmental activities | (43,638,056)        | (39,035,494)       |
| Change in net assets    | <b>\$ (478,087)</b> | <b>\$ (78,035)</b> |

*The following reflects the condensed Balance Sheet of the Governmental Funds:*

**Governmental Funds  
Balance Sheets  
June 30, 2006 and 2005**

|   | <b>2006</b>          | <b>2005</b>          |
|---|----------------------|----------------------|
| <b>Assets:</b>                              |                      |                      |
| Cash  | \$ 13,273,202        | \$ 15,475,895        |
| Restricted Cash                             | 11,049,297           | 3,986,214            |
| Accounts Receivable                         | 7,242,115            | 8,595,727            |
| <b>Total Assets</b>                         | <b>\$ 31,564,614</b> | <b>\$ 28,057,836</b> |
| <b>Liabilities and Fund Balance</b>         |                      |                      |
| <b>Liabilities:</b>                         |                      |                      |
| Accounts payable and due to                 | \$ 4,617,971         | \$ 6,396,837         |
| Deferred Revenue and Volume of Business Tax | 12,988,952           | 11,436,084           |
| <b>Total Liabilities</b>                    | <b>17,606,923</b>    | <b>17,832,921</b>    |
| Fund Balances                               | 13,957,691           | 10,224,915           |
| <b>Total liabilities and Fund Balances</b>  | <b>\$ 31,564,614</b> | <b>\$ 28,057,836</b> |

The most significant changes in this statement were as follows:

- Noticeably, the fund balances are mostly in cash and cash restricted.
- The increase in liabilities is due mainly to the accounts payable of special and capital projects funds.

**MUNICIPALITY OF BARCELONETA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2006 and 2005**

|  | 2006                 | 2005                 |
|--|----------------------|----------------------|
| <b>Revenues:</b>                       |                      |                      |
| Property taxes                         | \$9,839,418          | \$ 8,673,165         |
| Volume of business tax                 | 12,834,949           | 11,236,062           |
| Intergovernmental revenue              | 7,064,607            | 5,128,411            |
| Federal grants                         | 6,935,882            | 9,026,773            |
| Other                                  | 4,799,880            | 3,262,304            |
| <b>Total Revenues</b>                  | <b>\$ 41,474,736</b> | <b>\$ 37,326,715</b> |
|  |                      |                      |
| Liabilities and Fund Balance           |                      |                      |
| <b>Expenditures:</b>                   |                      |                      |
| General Government                     | \$16,620,093         | \$ 12,522,655        |
| Public works                           | 8,044,014            | 7,238,286            |
| Public safety                          | 1,760,033            | 1,588,237            |
| Health                                 | 1,148,888            | 1,148,888            |
| Capital projects                       | 7,664,261            | 11,140,188           |
| Culture and recreation                 | 2,827,585            | 2,580,509            |
| Bonds, notes and interests             | 3,535,165            | 2,929,601            |
| Education and training                 | 4,164,931            | 5,990,471            |
| Other expenditures                     | 485,618              | 1,541,052            |
| <b>Total Expenditures</b>              | <b>\$ 46,250,588</b> | <b>\$ 46,679,887</b> |
|  |                      |                      |
| Excess of revenues (expenditures)      |                      |                      |
| Over expenditures (revenues)           | \$ (4,775,852)       | \$ (9,353,172)       |
| Other financing sources, debt issuance | 2,841,643            | 39,594               |
| Special items – sale of land           | 4,536,973            | 4,185,560            |
| Fund balance, beginning                | 10,224,915           | 15,352,933           |
| Prior period adjustment                | 1,130,012            | -                    |
| <b>Fund Balance, ending</b>            | <b>\$ 13,957,691</b> | <b>\$ 10,224,915</b> |

The most significant changes of this statement were as follows:

- The larger increase in revenues is related to property tax, volume business tax, intergovernmental revenue and other revenue for the range of \$1.2 to \$2 millions.
- The most significant changes in the expenditures were an increase in general government for professional services approximately \$4.1 millions related with capital outlays.



**Estado Libre Asociado de Puerto Rico**  
**Municipio de Barceloneta**  
**Departamento de Finanzas**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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 governmental 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 2005-2006 is \$6,485,834 over last fiscal year (2004-2005).

**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

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**INDEPENDENT AUDITOR'S REPORT**

To the Mayor and Municipal Council 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, 2006, 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 Comptroller 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 the governmental activities, each major fund and the aggregate remaining fund information of the **Municipality of Barceloneta**, Puerto Rico, as of June 30, 2006, 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 24, 2006 on my consideration of the **Municipality of Barceloneta**, Puerto Rico internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of and audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

My audit was performed for the purpose of forming an opinion on the Governmental Activities financial statements of the **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, on July 1, 2004, **the Municipality** implemented a new financial reporting model required by GASB Statement No. 34, (GASB No. 34), *Basic Financial Statements – And Management’s Discussion and analysis-for State and Local Governments*. In conjunction with the adoption of GASB No. 34, the Municipality has also adopted the following pronouncements: (1) GASB Statement No. 37-*Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments: Omnibus*, (2) GASB Statement No.38-*Certain Financial Statement Note Disclosures*, and (3) GASB Interpretation No. 6-*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The Management’s Discussion and Analysis and budgetary comparison information on pages 1 through 6 and page 14, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

**San Juan, Puerto Rico**  
**October 24, 2006**

The stamp number  
was affixed to the  
original of this report

**2202568**

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


**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

| <b><u>ASSETS</u></b>                            | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| Cash and investments                            | \$ 13,273,202                      |
| Cash with fiscal agent                          | 11,049,297                         |
| Accounts receivable                             | 304,196                            |
| Accounts receivable government                  | 665,903                            |
| Accounts receivable federal government          | 1,594,762                          |
| Accounts receivable other                       | 3,364,642                          |
| Capital Assets                                  | 54,505,706                         |
| <b>Total assets</b>                             | <b>\$ 84,757,708</b>               |
| <b><u>LIABILITIES AND NET ASSETS</u></b>        |                                    |
| Liabilities:                                    |                                    |
| Accounts payable and accrued liabilities        | \$ 2,683,683                       |
| Due to government entity                        | 574,692                            |
| Deferred revenue                                | 13,036,656                         |
| Non-current liabilities:                        |                                    |
| Due within one year                             | 3,044,496                          |
| Due in more than one year                       | 38,786,223                         |
| <b>Total liabilities</b>                        | <b>58,125,750</b>                  |
| <b><u>NET ASSETS</u></b>                        |                                    |
| Invested in capital assets, net of related debt | 26,483,831                         |
| Restricted for:                                 |                                    |
| Reserve for debt service                        | 4,148,723                          |
| Special revenue fund                            | 68,166                             |
| Capital project fund                            | 7,686,620                          |
| Unrestricted (deficit)                          | (11,755,382)                       |
| <b>Total Net Assets</b>                         | <b>26,631,958</b>                  |
| <b>Total Liabilities and Net Assets</b>         | <b>\$ 84,757,708</b>               |

See notes to financial statement

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| Functions/Programs                  | Expenses             | Program Revenues     |                                  | Net (expense) revenue and change in Net Assets in Net Assets Governmental Activities |                                    |
|-------------------------------------|----------------------|----------------------|----------------------------------|--|------------------------------------|
|                                     |                      | Charges for Services | Capital Grants and Contributions |  | Operating Grants and Contributions |
| <b><u>EXPENDITURES:</u></b>         |                      |                      |                                  |  |                                    |
| General government                  | \$ 16,759,428        | \$ (26,700)          | \$ (691,743)                     | \$ -   | \$ 16,040,985                      |
| Public work                         | 8,763,097            | -                    | -                                | (1,215,211)  | 7,547,886                          |
| Public safety                       | 1,851,008            | -                    | -                                | -  | 1,851,008                          |
| Capital project                     | 5,875,585            | -                    | (863,997)                        | (5,011,588)  | -                                  |
| Health                              | 1,272,394            | -                    | -                                | -  | 1,272,394                          |
| Culture and recreation              | 2,851,132            | -                    | -                                | -  | 2,851,132                          |
| Education and training              | 4,258,193            | -                    | -                                | (4,164,931)  | 93,262                             |
| Other expenditures                  | 484,949              | -                    | -                                | -  | 484,949                            |
| Interest on long-term debt          | 1,522,270            | -                    | -                                | -  | 1,522,270                          |
| Total governmental activities       | <u>\$ 43,638,056</u> | <u>\$ (26,700)</u>   | <u>\$ (1,555,740)</u>            | <u>\$ (10,391,730)</u>   | <u>\$ 31,663,886</u>               |
| <b><u>GENERAL REVENUES:</u></b>     |                      |                      |                                  |  |                                    |
| Property taxes                      |                      |                      |                                  |  | \$ 9,839,418                       |
| Municipal licenses tax              |                      |                      |                                  |  | 12,834,949                         |
| Licenses, permits and fines         |                      |                      |                                  |  | 357,962                            |
| Intergovernmental revenues          |                      |                      |                                  |  | 2,053,019                          |
| Rent of properties                  |                      |                      |                                  |  | 432,982                            |
| Interests income                    |                      |                      |                                  |  | 649,567                            |
| Other Revenues                      |                      |                      |                                  |  | 2,830,929                          |
| Special item - Gain on sale of land |                      |                      |                                  |  | 2,186,973                          |
| Total general revenues              |                      |                      |                                  |  | <u>31,185,799</u>                  |
| Change in net assets                |                      |                      |                                  |  | (478,087)                          |
| Net assets at beginning of year     |                      |                      |                                  |  | 27,110,045                         |
| Net assets at end of year           |                      |                      |                                  |  | <u>\$ 26,631,958</u>               |

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

| <u>ASSETS</u>                               | General Fund         | Bond Issue Fund     | HUD Programs      | Head Start Programs | Debt Service Fund   | Other Funds         | Total Governmental Funds |
|---|----------------------|---------------------|-------------------|---------------------|---------------------|---------------------|--------------------------|
| Cash and investments                        | \$ 10,689,056        | \$ -                | \$ 90,326         | \$ 151,488          | \$ -                | \$ 2,342,332        | \$ 13,273,202            |
| Cash with fiscal agent and other            | -                    | 6,900,574           | -                 | -                   | 4,148,723           | -                   | 11,049,297               |
| Accounts receivable                         | 304,916              | -                   | -                 | -                   | -                   | -                   | 304,916                  |
| Due from other funds                        | 1,359,596            | -                   | -                 | -                   | -                   | -                   | 1,359,596                |
| Accounts receivable government              | 618,199              | -                   | -                 | -                   | -                   | -                   | 618,199                  |
| Accounts receivable Federal government      | -                    | -                   | 185,514           | 1,317,694           | -                   | 91,554              | 1,594,762                |
| Other receivable                            | 3,343,679            | -                   | 1,007             | -                   | -                   | 19,956              | 3,364,642                |
| Total assets and other debits               | <u>\$ 16,315,446</u> | <u>\$ 6,900,574</u> | <u>\$ 276,847</u> | <u>\$ 1,469,182</u> | <u>\$ 4,148,723</u> | <u>\$ 2,453,842</u> | <u>\$ 31,564,614</u>     |
| <br><u>LIABILITIES AND FUND BALANCES</u>    |                      |                     |                   |                     |                     |                     |                          |
| Liabilities:                                |                      |                     |                   |                     |                     |                     |                          |
| Accounts payable and accrued liabilities    | \$ 697,620           | \$ -                | \$ 189,013        | \$ 631,405          | \$ -                | \$ 1,165,645        | \$ 2,683,683             |
| Due to special general fund and other funds | -                    | -                   | -                 | 837,777             | -                   | 521,819             | 1,359,596                |
| Due to government entity                    | 574,692              | -                   | -                 | -                   | -                   | -                   | 574,692                  |
| Deferred revenue - (volume business tax)    | 12,988,952           | -                   | -                 | -                   | -                   | -                   | 12,988,952               |
| Total liabilities                           | <u>14,261,264</u>    | <u>-</u>            | <u>189,013</u>    | <u>1,469,182</u>    | <u>-</u>            | <u>1,687,464</u>    | <u>17,606,923</u>        |
| Fund balances                               |                      |                     |                   |                     |                     |                     |                          |
| Reserve for debt services                   | -                    | -                   | -                 | -                   | 4,148,723           | -                   | 4,148,723                |
| Encumbrances                                | 67,280               | -                   | -                 | -                   | -                   | -                   | 67,280                   |
| General Fund                                | 1,986,902            | -                   | -                 | -                   | -                   | -                   | 1,986,902                |
| Special revenue fund                        | -                    | -                   | -                 | -                   | -                   | 68,166              | 68,166                   |
| Capital Project fund                        | -                    | 6,900,574           | 87,834            | -                   | -                   | 698,212             | 7,686,620                |
| Total fund balances                         | <u>2,054,182</u>     | <u>6,900,574</u>    | <u>87,834</u>     | <u>-</u>            | <u>4,148,723</u>    | <u>766,378</u>      | <u>13,957,691</u>        |
| Total liabilities and fund balance          | <u>\$ 16,315,446</u> | <u>\$ 6,900,574</u> | <u>\$ 276,847</u> | <u>\$ 1,469,182</u> | <u>\$ 4,148,723</u> | <u>\$ 2,453,842</u> | <u>\$ 31,564,614</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                     | \$ 54,505,706               |
| 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  | \$ 1,773,923                |
| Health insurance debt  | 894,641                     |
| Bonds payable  | 38,961,875                  |
| Legal claims   | 201,000                     |
|  | <u>\$ 41,831,439</u>        |
| Total long-term liabilities  | (41,831,439)                |
| <b>Total net assets of governmental activities</b>   | <u><b>\$ 26,631,958</b></u> |

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

|   | General Fund        | 2005 Bond Issue Fund | HUD Programs     | Head Start Programs | Debt Service Fund   | Other Funds       | Total Governmental Funds |
|---|---------------------|----------------------|------------------|---------------------|---------------------|-------------------|--------------------------|
| <b>REVENUES:</b>  |                     |                      |                  |                     |                     |                   |                          |
| Property taxes  | \$ 7,558,960        | \$ -                 | \$ -             | \$ -                | \$ 2,280,458        | \$ -              | \$ 9,839,418             |
| Municipal license tax   | 12,834,949          | -                    | -                | -                   | -                   | -                 | 12,834,949               |
| Licenses, permits and fines   | 384,662             | -                    | -                | -                   | -                   | -                 | 384,662                  |
| Intergovernmental revenues  | 2,049,019           | -                    | -                | -                   | -                   | 5,015,588         | 7,064,607                |
| Rent of properties  | 68,832              | -                    | -                | -                   | -                   | 364,150           | 432,982                  |
| Interest income   | 664,407             | -                    | -                | -                   | 114,895             | -                 | 779,302                  |
| Other revenues  | 3,202,934           | -                    | -                | -                   | -                   | -                 | 3,202,934                |
| Federal financial award   | -                   | -                    | 1,555,740        | 4,164,931           | -                   | 1,215,211         | 6,935,882                |
| <b>Total revenues</b>   | <b>26,763,763</b>   | <b>-</b>             | <b>1,555,740</b> | <b>4,164,931</b>    | <b>2,395,353</b>    | <b>6,594,949</b>  | <b>\$ 41,474,736</b>     |
| <b>EXPENDITURES:</b>  |                     |                      |                  |                     |                     |                   |                          |
| <b>Current:</b>   |                     |                      |                  |                     |                     |                   |                          |
| General government  | 14,184,802          | -                    | 951,431          | -                   | -                   | 1,483,860         | 16,620,093               |
| Public works  | 8,044,014           | -                    | -                | -                   | -                   | -                 | 8,044,014                |
| Public safety   | 1,760,033           | -                    | -                | -                   | -                   | -                 | 1,760,033                |
| Health  | 1,148,888           | -                    | -                | -                   | -                   | -                 | 1,148,888                |
| Capital projects  | -                   | -                    | 863,997          | -                   | -                   | 6,800,264         | 7,664,261                |
| Culture and recreation  | 2,827,585           | -                    | -                | -                   | -                   | -                 | 2,827,585                |
| Education and training  | -                   | -                    | -                | 4,164,931           | -                   | -                 | 4,164,931                |
| Other expenditures  | 485,618             | -                    | -                | -                   | -                   | -                 | 485,618                  |
| <b>Debt service:</b>  | <b>-</b>            | <b>-</b>             | <b>-</b>         | <b>-</b>            | <b>2,012,895</b>    | <b>-</b>          | <b>2,012,895</b>         |
| Principal retirement  | -                   | -                    | -                | -                   | 2,012,895           | -                 | 2,012,895                |
| Interest and fiscal charges   | -                   | -                    | -                | -                   | 1,522,270           | -                 | 1,522,270                |
| <b>Total expenditures</b>   | <b>28,450,940</b>   | <b>-</b>             | <b>1,815,428</b> | <b>4,164,931</b>    | <b>3,535,165</b>    | <b>8,284,124</b>  | <b>46,250,588</b>        |
| Excess of revenues over (under) expenditures                                  | (1,687,177)         | -                    | (259,688)        | -                   | (1,139,812)         | (1,689,175)       | (4,775,852)              |
| <b>Other financing source (uses):</b>   |                     |                      |                  |                     |                     |                   |                          |
| Transfer to debt service fund   | (872,624)           | -                    | (812,762)        | -                   | 2,022,201           | (336,815)         | -                        |
| Interest expenditures   | -                   | -                    | -                | -                   | (129,735)           | -                 | (129,735)                |
| Net bond issue debt   | -                   | 14,558,000           | -                | -                   | -                   | -                 | 14,558,000               |
| Bond expenditure  | -                   | (2,420,324)          | -                | -                   | -                   | -                 | (2,420,324)              |
| Bond expenditure  | -                   | (9,166,298)          | -                | -                   | -                   | -                 | (9,166,298)              |
| Transfer to other funds   | (1,948,888)         | -                    | -                | -                   | -                   | 1,948,888         | -                        |
| <b>Total other financing source (uses)</b>                                    | <b>(2,821,512)</b>  | <b>2,971,378</b>     | <b>(812,762)</b> | <b>-</b>            | <b>1,892,466</b>    | <b>1,612,073</b>  | <b>2,841,643</b>         |
| Excess of revenues and other sources over (under) expenditures and other uses | (4,508,689)         | 2,971,378            | (1,072,450)      | -                   | 752,654             | (77,102)          | (1,934,209)              |
| <b>SPECIAL ITEMS:</b>   |                     |                      |                  |                     |                     |                   |                          |
| Proceeds from Sales of lands  | 4,536,973           | -                    | -                | -                   | -                   | -                 | 4,536,973                |
| Net change in fund balances   | 28,284              | 2,971,378            | (1,072,450)      | -                   | 752,654             | (77,102)          | 2,602,764                |
| Fund balance June 30, 2005  | 2,025,898           | 3,929,196            | 14,539           | 218,271             | 3,886,214           | 150,797           | 10,224,915               |
| Prior period adjustments  | -                   | -                    | 1,145,745        | (218,271)           | (490,145)           | 692,683           | 1,130,012                |
| <b>Fund balance June 30, 2006</b>   | <b>\$ 2,054,182</b> | <b>\$ 6,900,574</b>  | <b>\$ 87,834</b> | <b>\$ -</b>         | <b>\$ 4,148,723</b> | <b>\$ 766,378</b> | <b>13,957,691</b>        |

See notes to financial statements.

*Juan A. Feliciano Charneco*  
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Juan A. Feliciano Charneco \* Certified Public Accountant

**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, 2006**

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

Net change in fund balance - total governmental funds \$ 2,602,764

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 | 1,788,679          |         |
| Less: current year depreciation | <u>(1,189,708)</u> | 598,971 |

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 issue | (14,558,000)     |             |
| Principal payments              | 2,012,895        |             |
| Bond expenditures               | 11,586,622       |             |
| Transfer to debt service        | (2,022,201)      |             |
| Transfer to other funds         | <u>1,948,888</u> | (1,031,796) |

The gains on the sales of the land is reported, whereas in the governmental funds, the proceeds from the sales increase financial resources. Thus, the change in net assets differs from change in fund balance by the cost of the land sold. (2,350,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (298,026)

**Change in net assets of governmental activities \$ (478,087)**

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**BUDGET AND ACTUAL (BUDGET BASIS) GENERAL FUND AND DEBT SERVICE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

|  | Budget Amounts       |                      | Adjusted Actual<br>Note 1 | Variance<br>Favorable<br>(Unfavorable) |
|--|----------------------|----------------------|---------------------------|--|
|  | Original             | Final                |                           |  |
| <b>REVENUES:</b>   |                      |                      |                           |  |
| Property taxes   | \$ 401,613           | \$ 401,613           | \$ 401,613                | \$ -                                   |
| Municipal license tax  | 15,019,416           | 18,468,024           | 12,827,273                | (5,640,751)                            |
| Intergovernmental revenues   | 2,124,124            | 2,049,019            | 2,049,019                 | -                                      |
| Licenses, permits and fines  | 567,500              | 384,571              | 384,662                   | 91                                     |
| Rent of properties   | 60,000               | 67,166               | 68,832                    | 1,666                                  |
| Interest income  | 140,000              | 585,230              | 648,908                   | 63,678                                 |
| Other revenues   | 530,000              | 2,544,890            | 2,548,485                 | 3,595                                  |
| Other financial sources  | 7,157,347            | 7,157,347            | 7,157,347                 | -                                      |
| Property tax (debt service)  | 2,478,340            | 2,478,340            | 2,395,353                 | (82,987)                               |
| Sale of land   | -                    | -                    | 4,536,973                 | 4,536,973                              |
| <b>Total revenues</b>  | <b>\$ 28,478,340</b> | <b>\$ 34,136,200</b> | <b>\$ 33,018,465</b>      | <b>\$ (1,117,735)</b>                  |
| <b>EXPENDITURES:</b>   |                      |                      |                           |  |
| Current:   |                      |                      |                           |  |
| General Government   | 7,086,724            | 14,096,363           | 14,029,805                | 66,558                                 |
| Public safety  | 2,209,306            | 1,768,843            | 1,760,033                 | 8,810                                  |
| Public Work  | 7,663,226            | 8,280,274            | 8,269,083                 | 11,191                                 |
| Health   | 1,341,653            | 1,148,888            | 1,148,888                 | -                                      |
| Culture and Recreation   | 3,190,568            | 2,844,872            | 2,827,585                 | 17,287                                 |
| Capital project  | 481,574              | -                    | -                         | -                                      |
| Other  | 1,196,797            | 697,246              | 693,890                   | 3,356                                  |
| Transfer out to debt service   | 881,654              | 872,876              | 872,624                   | 252                                    |
| Transfer out to other funds  | 1,948,498            | 1,948,498            | 1,948,498                 | -                                      |
| Principal and interest   | 2,478,340            | 2,478,340            | 3,535,270                 | (1,056,930)                            |
| <b>Total expenditures</b>  | <b>\$ 28,478,340</b> | <b>\$ 34,136,200</b> | <b>\$ 35,085,676</b>      | <b>\$ (949,476)</b>                    |
| <b>Excess of revenues over (under) expenditures</b>  |                      |                      | <b>\$ (2,067,211)</b>     | <b>\$ (2,067,211)</b>                  |
| Explanation of differences:  |                      |                      |                           |  |
| Sources/inflows of resources:  |                      |                      |                           |  |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule                |                      |                      |                           | \$ 33,018,465                          |
| Differences - budget to GAAP:  |                      |                      |                           |  |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes. |                      |                      |                           | 615,156                                |
| Revenues included in the statement of revenues and not in the budgeted amounts                                       |                      |                      |                           | (309,532)                              |
| <b>Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances</b>             |                      |                      |                           | <b>\$ 33,324,089</b>                   |
| Uses/outflow of resources  |                      |                      |                           |  |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule            |                      |                      |                           | \$ 35,085,676                          |
| Differences - budget to GAAP:  |                      |                      |                           |  |
| Non budgeted expenditures  |                      |                      |                           | 251,860                                |
| Expenditures budgeted this year from prior year  |                      |                      |                           | (529,919)                              |
| <b>Total expenditures as reported on the statement of revenue, expenditures and change in fund balances</b>          |                      |                      |                           | <b>\$ 34,807,617</b>                   |

See notes to budgetary comparison schedule.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**GENERAL ORGANIZATION**

The **Municipality of Barceloneta (The Municipality)** 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** 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 GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) constitute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

**The Municipality's** financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

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 was required to implement this Standard for the fiscal year ended June 30, 2003.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**b. Financial Reporting Entity**

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of the **Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 14, - *The Financial Reporting Entity (GASB No. 14.)*

**The Municipality's** management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of **the Municipality** as of June 30, 2006 nor for the year then ended.

**c. Basic Financial Statements-GASB Statement No. 34**

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

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.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

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.

**d. 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 another fund.

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.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

*Head Start – Program Funds* – The special revenue fund of Head Start is a major fund used by **the Municipality** to account for revenues derived from the grant that is legally restricted by outside parties for use on specific purpose. The uses and limitations of this revenue fund are specified by municipal ordinances of federal and state statutes.

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality's** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

*Other Funds (not major 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.

**e. 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.

*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.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**e. Basis of Accounting (Continuation)**

*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.

**f. 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.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**g. 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.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

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.

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. During the fiscal year, the Municipality readjusted its original budget of the General Fund Balance by \$5,657,860 from current year resources increase.

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.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**g. Budgetary Data (Continuation)**

The Municipality has not legally adopted a budget for the Head Start special revenue and capital projects funds. Accordingly, it has not presented an annual comparison of budget and actual for these major funds.

**h. 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.

**i. Inventories**

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

**j. 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.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**k. 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 for in the Statement of Net Assets.

**l. 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**.

**m. 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 (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**n. 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.
- *For other Purposes* – Represent mainly resources set aside for use in federal and state grant programs accounted for in the special revenue funds, and resources available in the general fund for the payment of certain accounts payable and commitments approved by GDB.

**o. 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.

**p. 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 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 those estimates.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**q. Totals Column (Memorandum Only) Governmental Funds Statement**

The total data under this column is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have been made.

**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 4.25% 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 1.25% 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 2). **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, 2006**

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 \$364,041 during 2006.

The following is a summary of the property tax advances, that resulted in an Accounts Receivable, for the year ended June 30, 2006. The resulting receivable is not presented as a deferred revenue in the general fund for in the Government Wide Financial Statements.

Accounts Receivable:

|  |                 |
|--|-----------------|
| Amortization through collections of property taxes by the CRIM |                 |
| 07-01-05 – 06-30-06  | \$ (10,353,275) |
| Advance received, 07-01-04 – 06-30-05                          | 10,305,571      |
| Due from CRIM – 2006   | \$ (47,704)     |

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**3. DEPOSITS**

Deposits include investments accounts amounting to \$10,198,700. **The Municipality's** cash and investments at June 30, 2006, 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 insured 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 risk 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 an annual return of business volume by April 15 of each year.

The tax rates are as follow:

1% for financial institutions  
for all other organizations 0.5%

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**5. MUNICIPAL LICENSE TAXES (continuation)**

The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the maximum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as deferred revenues.

**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             | \$1,359,596        | \$ -               |
| Head Start Programs | -                  | 837,777            |
| Other Funds         | -                  | 521,819            |
|                     | <b>\$1,359,596</b> | <b>\$1,359,596</b> |

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

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**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.

**8. DUE FROM (DUE TO) GOVERNMENTAL ENTITIES**

As of June 30, 2006 balances due to governmental entities of the general fund consists of the following:

| <b>Name</b>                           | <b>Due to</b>    |
|---------------------------------------|------------------|
| Electric Puerto Rico Power Authority  | \$253,690        |
| Puerto Rico Water and Sewer Authority | 16,165           |
| Puerto Rico Retirement System         | 139,090          |
| Puerto Rico Telephone Co.             | 15,847           |
| General Administration Services       | 85,620           |
| Puerto Rico Department of Treasury    | 47,546           |
| Puerto Rico Employees Association     | 16,734           |
|                                       | <b>\$574,692</b> |

Part of the balances of due from governmental agencies were recorded as deferred revenues- others as of June 30, 2006.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**9. CAPITAL ASSETS**

**Fund Financial Statements**

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

|   | Balance<br>6/30/2005 | Additions            | Retirements<br>and transfers<br>dispositions | Balance<br>6/30/2006 |
|---|----------------------|----------------------|--|----------------------|
| <b>Governmental activities:</b>             |                      |                      |  |                      |
| Capital assets, not being depreciated:      |                      |                      |  |                      |
| Land  | \$ 1,356,315         | \$ 3,773,650         |  | \$ 5,129,965         |
| Construction in progress                    | 11,965,347           | 4,434,674            | 7,331,209                                    | 9,068,812            |
| Total capital assets not being depreciated  | <u>13,321,662</u>    | <u>8,208,324</u>     | <u>7,331,209</u>                             | <u>\$ 14,198,777</u> |
| Capital assets, being depreciated           |                      |                      |  |                      |
| Buildings and building improvements         | 32,029,112           | 7,331,209            | 308,000                                      | 39,052,321           |
| Infrastructure                              | 14,841,420           | -                    | -  | 14,841,420           |
| Equipment                                   | 8,313,672            | 2,111,275            | 10,365                                       | 10,414,582           |
| Total capital assets being depreciated      | <u>55,184,204</u>    | <u>9,442,484</u>     | <u>318,365</u>                               | <u>64,308,323</u>    |
| Less accumulated depreciation for:          |                      |                      |  |                      |
| Buildings and building improvements         | 8,939,851            | -                    | 534,770                                      | 9,474,621            |
| Infrastructure                              | 8,898,705            | -                    | 97,242                                       | 8,995,947            |
| Equipment                                   | 1,677,975            | -                    | 178,151                                      | 1,856,126            |
| Vehicles                                    | 3,295,155            | -                    | 379,545                                      | 3,674,700            |
| Total accumulated depreciation              | <u>22,811,686</u>    | <u>-</u>             | <u>1,189,708</u>                             | <u>24,001,394</u>    |
| Total capital assets being depreciated, net | <u>32,372,518</u>    | <u>9,442,484</u>     | <u>1,508,073</u>                             | <u>40,306,929</u>    |
| Governmental activities capital assets, net | <u>\$ 45,694,180</u> | <u>\$ 17,650,808</u> | <u>\$ 8,839,282</u>                          | <u>\$ 54,505,706</u> |

*Depreciation expense was charged to function programs of the Municipality as follows:*

|  |                    |
|--|--------------------|
| Governmental activities:                           |                    |
| General government                                 | \$139,335          |
| Public safety                                      | 90,975             |
| Public works                                       | 719,083            |
| Culture and recreation                             | 23,547             |
| Health   | 123,506            |
| Educational and training                           | 93,262             |
| Total depreciation expense governmental activities | <u>\$1,189,708</u> |

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**9. CAPITAL ASSETS (continued)**

**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.

**10. CHANGES IN GENERAL LONG-TERM DEBT**

**General in General Long – Term Debt**

The principal long-term obligation of the Municipality is obligation bonds issued 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, 2006.

| <b>Description</b>        | <b>Beginning Balance</b> | <b>Additions</b> | <b>Reductions</b> | <b>Ending Balance</b> |
|---------------------------|--------------------------|------------------|-------------------|-----------------------|
| General Obligations Bonds | \$26,339,770             | \$14,635,000     | \$2,012,895       | \$38,961,875          |

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**11. CHANGES IN GENERAL LONG-TERM DEBT (continued)**

General Obligation Bonds:

| <b>Description</b> | <b>Original Amount</b> | <b>Interest Rate</b> | <b>Balance 06-30-06</b> | <b>Due Date</b> | <b>Due within One Year</b> |
|--------------------|------------------------|----------------------|-------------------------|-----------------|----------------------------|
| Bonds Series 1984  | \$ 263,000             | 5%                   | \$ 53,850               | 01-01-2009      | \$ 16,000                  |
| Bonds Series 1992  | 520,000                | 6.63                 | 60,000                  | 07-01-2006      | 60,000                     |
| Bonds Series 1992  | 229,000                | 5.75%                | 135,000                 | 01-01-2016      | 10,000                     |
| Bonds Series 1992  | 630,000                | 6.63                 | 132,000                 | 07-01-2007      | 65,000                     |
| Bonds Series 1992  | 257,000                | 5.75%                | 148,000                 | 01-01-2016      | 11,000                     |
| Bonds Series 1992  | 600,000                | 5.75%                | 343,000                 | 01-01-2016      | 26,000                     |
| Bonds Series 1993  | 277,000                | 5.75%                | 166,000                 | 01-01-2016      | 13,000                     |
| Bonds Series 1998  | 1,380,000              | 5.00%                | 1,185,000               | 07-01-2007      | 35,000                     |
| Bonds Series 1998  | 485,000                | 5.00%                | 130,000                 | 07-01-2007      | 60,000                     |
| Bonds Series 1999  | 1,710,000              | 5.00%                | 1,140,000               | 07-01-2013      | 110,000                    |
| Bonds Series 1996  | 400,000                | 5.00%                | 280,000                 | 01-01-2016      | 20,000                     |
| Bonds Series 1998  | 105,000                | 4.5%                 | 83,000                  | 01-01-2023      | 3,000                      |
| Bonds Series 1998  | 3,180,000              | 5.0%                 | 290,000                 | 07/01/2007      | 290,000                    |
| <b>SUB-TOTAL</b>   |                        |                      | <b>\$4,145,850</b>      |                 | <b>\$719,000</b>           |

| <b>Description</b>      | <b>Original Amount</b> | <b>Interest Rate</b> | <b>Balance 06-30-06</b> | <b>Due Date</b> | <b>Due within One Year</b> |
|-------------------------|------------------------|----------------------|-------------------------|-----------------|----------------------------|
| **<br>Bonds Series 1994 | \$ 3,250,000           | 9.0%                 | \$2,030,000             | 07-01-2007      | 460,000                    |
| Bonds Series 1987       | 1,520,000              | 9.0%                 | 85,000                  | 07-07-2007      | 85,000                     |
| Bonds Series 1994       | 411,000                | 5.0%                 | 264,000                 | 01-01-2007      | 17,000                     |
| Bonds Series 1988       | 120,000                | 8.0%                 | 7,500                   | 07-07-2013      | 6,000                      |
| <b>Sub-total</b>        |                        |                      | <b>\$2,386,500</b>      |                 | <b>568,000</b>             |

*Special Loans from Lottery Funds:*

|                   |            |      |                  |            |               |
|-------------------|------------|------|------------------|------------|---------------|
| Bonds Series 1988 | \$ 380,000 | 8.0% | \$19,000         | 07-01-2007 | 19,000        |
| Bonds Series 1988 | \$ 620,000 | 8.0% | 38,750           | 07-01-2007 | 31,000        |
| Bonds Series 1989 | \$ 530,000 | 8.0% | 69,763           | 10-01-2008 | 27,895        |
| <b>Sub-total</b>  |            |      | <b>\$127,513</b> |            | <b>77,895</b> |

*Revenue obligations Bonds*

|                   |              |              |                      |            |                     |
|-------------------|--------------|--------------|----------------------|------------|---------------------|
| Bonds Series 1997 | \$ 5,875,000 | 5.320%       | \$4,865,000          | 07-01-2021 | 160,000             |
| Bonds Series 1995 | 660,000      | 6.70 / 7.70% | 410,000              | 07-01-2013 | 35,000              |
| Bonds Series 1993 | 883,000      | 5.25%        | 499,000              | 01-01-2016 | 37,000              |
| Bonds Series 2005 | 5,020,000    | 4.50%        | 4,820,000            | 07-01-2028 | 110,000             |
| Bonds Series 2005 | 5,500,000    | 1.33%        | 5,300,000            | 08-01-2013 | 225,000             |
| Bonds Series 2003 | 3,250,000    | 5.00 – 6.50% | 1,773,012            | 07-01-2013 | 220,000             |
| Bond Series 2006  | 10,940,000   | 5.5%         | 10,940,000           | 07-01-2030 | 210,000             |
| Bond Series 2006  | 3,695,000    | 4.17-5.31%   | 3,695,000            | 07-01-2030 | 70,000              |
| <b>Sub-total</b>  |              |              | <b>32,302,012</b>    |            | <b>1,067,000</b>    |
| <b>TOTAL</b>      |              |              | <b>\$ 38,961,875</b> |            | <b>\$ 2,431,895</b> |

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

*The annual maturity requirements for the bonded debt outstanding as June 30, 2006 are as follows:*

| Year Ending      | Principal           | Interest            | Total               |
|------------------|---------------------|---------------------|---------------------|
| 2007             | 2,431,895           | 1,858,965           | 4,290,860           |
| 2008             | 2,084,144           | 1,728,189           | 3,812,333           |
| 2009             | 2,017,974           | 1,634,957           | 3,652,931           |
| 2010             | 2,129,000           | 1,554,451           | 3,683,451           |
| 2011             | 1,818,000           | 1,394,532           | 3,212,532           |
| Subsequent years | 28,480,862          | 13,597,968          | 42,078,830          |
|                  | <b>\$38,961,875</b> | <b>\$21,769,062</b> | <b>\$60,730,937</b> |

**The Municipality** is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond obligations that can be used to 10% of the assessed valuation of the property located at the **Municipality of Barceloneta**.

**12. DEBT SERVICE FUND**

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and reported 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 used. Interest income is used for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the general 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 | \$ 2,395,353       |
| General funds  | 872,624            |
| Other fund     | 267,188            |
|                | <b>\$3,535,165</b> |

*Expenditures for the year 2005-2006 were as follows:*

|           |                    |
|-----------|--------------------|
| Principal | \$ 2,012,895       |
| Interest  | 1,522,270          |
|           | <b>\$3,535,165</b> |

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**13. 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 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 at G.P.O. Box 42005, 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

Participants 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, 2006**

**13. RETIREMENT SYSTEM** Continuation)

**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  
multiplies by the numbers of years  
credited service

For both plans, the employees are vested when attaining ten years of credited services. Disability and death benefits 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 2006 amounted approximately \$15,298,468 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.

**Actuarial Valuation**

The actuarial determined present value of benefits accrued as of June 30, 2003 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$11.2 billion. The net assets available for benefits at such date were \$2.0 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$9.2 billion. This information is not available by each participant government agencies or municipalities.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**13. RETIREMENT SYSTEM (Continuation)**

**Actuarial Valuation**

Net assets of the system consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

- |  |   |
|--|---|
| a) Interest rate                                   | 8.5% a year   |
| b) Salary increases                                | 5.0% year   |
| c) Mortality                                       | GAM'83 Mortality Table set forward two years  |
| d) Termination                                     | Medium Turnover Table commensurate with anticipated experience.                                       |
| e) Disability                                      | 65% of Third Railroad Retirement Table Rates.   |
| f) Retirement age                                  | Graded scale of retirement ages commensurate with anticipated experience.                             |
| g) Proportion of participants with spouses         | 80% of participants assumed to be married, with wives assumed to be four years younger than husbands. |
| h) Number of employees electing high contributions | 15% of retiring employees assumed to pay retroactive contributions at retirement.                     |
| i) Cost-of-living adjustments                      | 3% every third year   |

**14. LONG TERM LIABILITIES**

**Compensated Absences**

Account for vacation and sick leave absences to be financed with governmental funds.

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method. In which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**14. LONG TERM LIABILITIES** (continuation)

**Compensated Absences** (continuation)

The changes in Compensated absences for the year ended June 30, 2006 are as follows:

| Governmental activity | June 30, 2005 | Net Increase | June 30, 2006 | Due within One year |
|-----------------------|---------------|--------------|---------------|---------------------|
| Compensated Absences  | \$1,550,745   | \$223,178    | \$1,773,923   | \$412,321           |
|                       |               |              |               |                     |

In addition, the liabilities for retirement obligations were recorded in the Government-Wide Financial Statements. The balance consists of unpaid, accumulated pension obligations. Report to Note 13.

**15. LEASES**

**Operating Leases**

The Municipality has several short-term operating lease agreements covering some of the Municipality's premises and equipment. Most of the agreements are renewed annually. Total rental charges for the year ended June 30, 2006, were approximately \$1,011,387 included in all funds.

**16. 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 was determined unilaterally. The Municipality's management decided to record the liability on the financial statements wide. The Municipality paid \$1,148,888 during the year to Health Insurance of PR Administration. .

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 from the additional lottery games.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**16. CLAIMS AND CONTINGENCIES (continuation)**

*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 reports 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, 2006**

**17. PRIOR PERIOD ADJUSTMENTS**

**Head Start Program, HUD Programs and other Programs**

Other Programs Fund, the HUD Programs and the Head Start Programs were adjusted to correct the beginning fund balance

**18. 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). 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 \$5,000,000. During this year the Municipality provides maintenance to the landfill super fund site with the employees of public work department. In addition, during fiscal year 2005-2006 the U.S. Environmental protection Agency presented the first five – year review (the report) for Barceloneta Landfill site and found that the remedy was constructed according with the requirements of the Record of Decision and that the remedy is functioning as designed according to the report the immediate threats have been addressed and the remedy is protective in the short-term. The report also indicated that final institutional controls should be implemented in order for the remedy to be protective in the long-term.

**19. SUBSEQUENT EVENT:**

On July 31, 2006, the Municipal Council approved Ordinance No. 51, Series 2006-2007, (the ordinance), that established a sales tax of 1% over retail sales in the municipality. The ordinance will be effective commencing on August 1, 2006. The monies collected through the above mentioned sales tax will be used among other purposes for the management for improvements in the Municipal infrastructure.

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Certified Public Accountant

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Fax (787) 880-1402

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

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

I have audited the accompanying financial statements of the Governmental Activities of the **Municipality of Barceloneta**, Puerto Rico, as of and for the year ended June 30, 2006, and have issued an unqualified report thereon dated October 24, 2006. I conducted my audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 caused by error of fraud in amounts that would be material in relation to the general purpose 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 we considered to be 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 letter dated October 24, 2006.

Compliance and other matters

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

This report is intended solely for the information of the Municipal Assembly, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*San Juan, Puerto Rico*

October 24, 2006

The stamp number  
was affixed to the  
original of this report

2202569

*Juan A. Feliciano Charneco*  
CPA/JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2007



The seal is circular with the text "JUAN A. FELICIANO CHARNECO" around the top edge and "PUERTO RICO" around the bottom edge. In the center, it reads "CONTADOR PUBLICO AUTORIZADO LIC. No. 1263".

*JUAN A. FELICIANO CHARNECO*  
Certified Public Accountant

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Mayor and Municipal Council 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, 2006. The **Municipality of Barceloneta** major federal programs are identified in the summary of auditor's results 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's management. My responsibility is to express an opinion on **Municipality of Barceloneta** compliance based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States, 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 the **Municipality of Barceloneta** compliance with those requirements.

In my opinion, the **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, 2006. 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 2006-01, 2006-02 and 2006-03 and 2006-04.

Internal Control Over Compliance

The management of the **Municipality of Barceloneta**, is responsible for establishing and maintaining effective internal control over compliance with the 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 reportable 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 the applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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 solely for the information of the Municipal Assembly, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*San Juan, Puerto Rico*  
October 24, 2006

The stamp number  
was affixed to the  
original of this report

2202570

*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2007



**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| Federal Grantor / Pass-through Grantor Program Title  | Federal CFDA<br>Number | Pass-through<br>Grantors Number | Federal<br>Expenditures |
|---|------------------------|---------------------------------|-------------------------|
| U.S. Of Housing and Urban Development Passed-through<br>the office of the Commissioner of Municipal Affairs |                        |                                 |                         |
| Community Planning and Development  |                        |                                 |                         |
| Community Development Block Grant (State Program)   |                        |                                 |                         |
| CDBG - 2005   | 14.228                 | 2005                            | \$ 37,420               |
| CDBG - 2004   | 14.228                 | 2004                            | 317,791                 |
| CDBG - 2003   | 14.228                 | 2003                            | 72,813                  |
| CDBG - 2002   | 14.228                 | 2002                            | 213,592                 |
| CDBG - 2001   | 14.228                 | 2001                            | 319,808                 |
|   |                        |                                 | <u>961,424</u>          |
| Section I08 loan guarantee  | 14.228                 |                                 | 320,405                 |
| Direct Program:   |                        |                                 |                         |
| Public and Indian Housing   |                        |                                 |                         |
| Section 8- Voucher  | 14.871                 | RQ-46-V-054-002/004             | 532,597                 |
| Section 8- Existing   |                        |                                 | 1,002                   |
|   |                        |                                 | <u>533,599</u>          |
| 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                      | 2,665,140               |
| Early Head Start  | 93.600                 | 02-CH-9892-03                   | 1,020,244               |
| Child Care Development Fund   | 93.575                 | CHC-0421                        | 479,547                 |
|   |                        |                                 | <u>4,164,931</u>        |
| Administration on Aging   |                        |                                 |                         |
| Special Program for the Aging (SENDEC)  | 93.044                 | Title III                       | 81,667                  |
| U.S. Department of Agriculture:   |                        |                                 |                         |
| Passed-through Department of Education  |                        |                                 |                         |
| Child Care Food Program   | 10.558                 |                                 | 398,738                 |
| Child Care Development Food Program   | 10.558                 |                                 | 17,432                  |
| Early Child Food Program  | 10.558                 |                                 | 99,953                  |
|   |                        |                                 | <u>516,123</u>          |
| U.S. Department of Transportation   |                        |                                 |                         |
| Passed-through Federal Transportation Administration  |                        |                                 |                         |
| Federal Transportation Act.   | 20.506                 | PR-18-X017                      | 38,653                  |
| U.S. Department of Justice  |                        |                                 |                         |
| Office of Community Oriented Policing Service Troops to Cops  | 16.710                 |                                 | 510,602                 |
|   |                        |                                 | <u>\$ 7,127,404</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 ENDED JUNE 30, 2006**

(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, U.S. Department of Agriculture – Food Programs and Department of Justice Programs represents the major federal financial awards of the Municipality. Major federal awards represent 98% 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 follows:

| <u>Description</u>             | <u>HUD Programs</u> | <u>Head Start Programs</u> | <u>Other funds</u> | <u>Total</u> |
|--------------------------------|---------------------|----------------------------|--------------------|--------------|
| Federal Programs Expenditures  | \$1,815,428         | \$4,164,931                | \$1,147,045        | \$7,127,404  |
| State & Municipal Expenditures | -                   | -                          | 7,137,079          | 7,137,079    |
| Total Expenditures             | \$ 1,815,428        | \$4,164,931                | \$8,284,124        | \$14,264,483 |

**MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006**

A. Summary of Audit results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness (es) identified?  Yes  No

Reportable condition(s) identified not considered  
to be material weaknesses?  Yes  No  
None reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major 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 major programs Unqualified

Any audit findings disclosed that are required to be  
Reported in accordance with Circular A-133,  
Section .510(a) are reported  Yes  No

**MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006**

Identification of Major Programs

| CFDA Number(s) | Name of Federal Program or Cluster   |
|----------------|--|
| 14.871         | Section 8 – Voucher  |
| 93.600, 93.575 | Head Start, Early Child Care, Early Head Start and Child Care Development Fund |
| 10.558         | Child Care Food Program  |
| 16.710         | Office Community Oriented Policing Service<br>Troops to Cops                   |
| 14.228         | CDBG   |
| 14.871         | Section 108 Loan Guarantee   |

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

Auditee qualified as low-risk audit   X   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 Costs**

Federal Program Information

**U.S. Department of Health and Human Services  
Child Care Development Fund  
Passed-through Office of Children and Families Administration  
CFDA No. 93.575  
Year ended June 30, 2006**

Ref. No. Finding / Noncompliance  
-----

2006-01 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury.

**MUNICIPALITY OF BARCELONETA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2006**  
**(continued)**

According to these requirements the Municipality had to establish 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.

Cause

The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

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, 2006**  
**(continued)**

**Department of Housing and Urban Development Public  
And Indian Housing  
CFDA No. 14.871  
Grant No. Section 8 - Voucher  
Year ended June 30, 2006**

Ref. No. Finding / Noncompliance

-----  
2006-02 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Housing and Urban Development 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 did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

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, 2006**  
**(continued)**

**U.S. Department of Justice**  
**Office of Community Oriented Policing**  
**Service Troops To Cops**  
**CFDA No. 16.710**  
**Grant No. None identified**  
**Year ended June 30, 2006**

Ref. No. Finding / Noncompliance

-----  
2006-03 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Justice 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 did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

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, 2006  
 (continued)**

**U.S. Department of Justice  
 Office of Community Oriented Policing  
 Service Troops To Cops  
 CFDA No. 16.710  
 Grant No. None identified  
 Year ended June 30, 2006**

| Ref. No. | Finding / Noncompliance   | Questioned<br>Cost |
|----------|---|--------------------|
| -----    | -----   | -----              |
| 2006-04  | <p><u>Statement of Condition and Criteria</u><br/>           It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial management Systems, Sub-part C, Section 66.20, 28 CFR, Uniform Administrative Requirements.</p> <ol style="list-style-type: none"> <li>1. Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to:               <ol style="list-style-type: none"> <li>a. Permit preparation of reports required by this part and the statues authorizing the grant, and</li> <li>b. Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statues</li> </ol> </li> <li>2. Accounting records. Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays or expenditures, and income.</li> </ol> <p>To establish procedures to comply with Financial and Program Management Standards of funds of the COPS Program. It was noted during my audit that the Municipality did not maintain proper accounting records.</p> <p><u>Cause</u><br/>           The Municipality did not comply with the Financial and Program Management System Standards.</p> | -0-                |

**MUNICIPALITY OF BARCELONETA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2006**

2005 – Finding No. 1: Head Start

CFDA No. 93.600

Year ended June 30, 2005

**Finding was corrected.**

2005 – Finding No. 2: Child Care Food Program

CFDA No. 10.558

Year ended June 30, 2005

**Finding was corrected.**

2005 – Finding No. 3: Early Child Care Program

CFDA No. 84.024

Year ended June 30, 2005

**Finding was corrected.**

2005 – Finding No. 4: Early Child Care Food Program

CFDA No. 10.558

Year ended June 30, 2005

**Finding was corrected.**

2005 – Finding No. 5: Child Care Development Fund

CFDA No. 93.575

Year ended June 30, 2005

**Finding reported again since it was repeated this year.**

2005 – Finding No. 6: Early Head Start

CFDA No. 93.600

Year ended June 30, 2005

**Finding was corrected.**



Estado Libre Asociado de Puerto Rico  
Municipio de Barceloneta  
Departamento de Finanzas

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2006  
(CONTINUE)**

Ref. No. Finding /Corrective Action Anticipated  
2006-01 Planned/Person Responsible: Completion Date

Statement of Condition:

The Child Care Development Fund, cash balance over \$5,000 for periods longer than 3 days.

On or before  
end of 2006-07  
fiscal year

Corrective Action Planned:

The Child Care Administrator will establish adequate procedures to control and use in an effective manner, federal funds.

Person Responsible:

Noel Gutiérrez, Finance Director

Ref. No. Finding /Corrective Action Anticipated  
2006-02 Planned/Person Responsible: Completion Date

Statement of Condition:

The Section 8 - Voucher Program Cash balance over \$5,000  
For periods longer than 3 days.

On or before  
end of 2006-07  
fiscal year

Corrective Action Planned:

The Section 8 voucher program Administration will evaluate and implement adequate procedures to control and use in effective manner, federal funds.

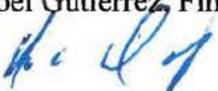
Person Responsible:

Noel Gutiérrez, Finance Director



Estado Libre Asociado de Puerto Rico  
Municipio de Barceloneta  
Departamento de Finanzas

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2006  
(CONTINUE)**

| Ref. No. | <u>Finding /Corrective Action<br/>Planned/Person Responsible:</u>   | <u>Anticipated<br/>Completion Date</u>                 |
|----------|---|--|
| 2006-03  | <p><u>Statement of Condition:</u><br/>The Cops Program, cash balance over \$5,000 for periods<br/>End longer than 3 days.</p> <p><u>Corrective Action Planned:</u><br/><br/>The Municipalities Administration will evaluate and implement<br/>adequate procedures to control and use in a effective manner<br/>federal funds. Standards for financial management system.</p> <p><u>Person Responsible:</u><br/>Noel Gutiérrez, Finance Director</p> | <p>On or before<br/>end of 2006-07<br/>fiscal year</p> |
| 2006-04  | <p><u>Statement of Condition:</u><br/>The Cops Program Management System Standards.</p> <p><u>Corrective Action Planned:</u><br/>The Municipalities Administration will established adequate and<br/>correct the finding before the audit report was issued.</p> <p><u>Person Responsible:</u><br/>Noel Gutiérrez, Finance Director</p>                          | <p>On or before<br/>end of 2006-07<br/>fiscal year</p> |