

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE BARCELONETA**

**AUDITORIA 2006-2007**

**30 DE JUNIO DE 2007**

**MUNICIPALITY OF BARCELONETA, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2007  
(INDEPENDENT AUDITOR'S REPORT)**

Juan Feliciano Charneco \* Certified Public Accountant

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AREA PROGRAMAS FEDERALES  
DE ASISTENCIA TECNICA

**MUNICIPALITY OF BARCELONETA, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2007**

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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, 2007. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2006-2007 operations sustain the Municipality's track of solvency and sound fiscal condition. The Governmental Wide financial statements 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 \$29,332,792 (net assets).
- The adjusted actual of the General Fund operations resulted in favorable variance of \$154,120 as compared to the revised budget.
- As June 30, 2006 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$109,528 and a decrease of \$1,944,654 in comparison with the prior year.
- Loans principal payments were \$2,511,895 during fiscal year 2006-07.
- The Municipality invested approximately \$6,700,000 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 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.

The Statement of Net Assets and the statement of activities, on page 10-11, report the Municipality net assets and changes in them. One can analyze of the Municipality's net assets, as the difference between assets and liabilities, as one way to measure the Municipality's financial position. Over time increase decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered, such as changes in the Municipality's property tax base, and the condition of roads, to assess the overall health of the Municipality's of Barceloneta.

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 and Fund financial Statements**

***Statement of Net Assets***

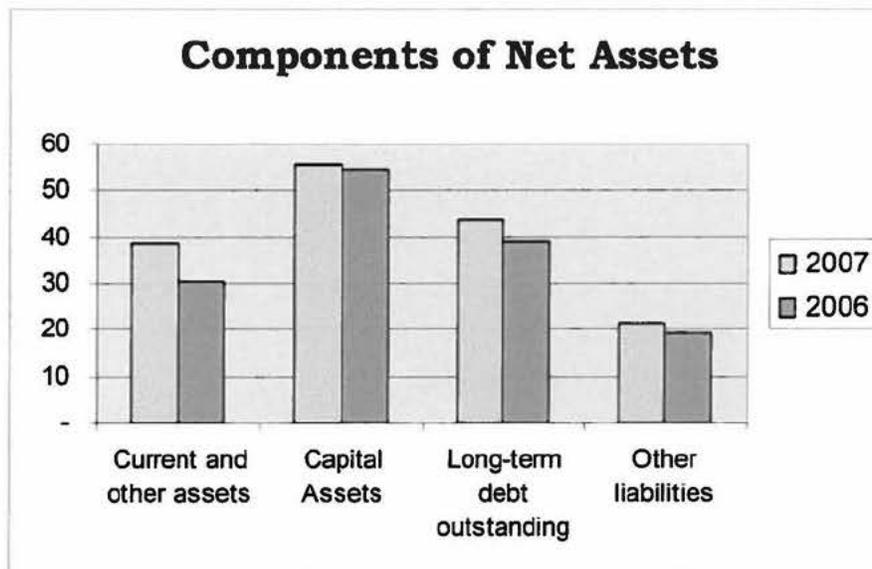
The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$29,332,792 at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

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

**Statements of Net Assets  
As of June 30, 2007 and 2006**

	2007	2006
Current and other assets	\$ 38,496,521	\$ 30,252,002
Capital assets	55,904,998	54,505,706
<b>Total assets</b>	<b>94,401,519</b>	<b>84,757,708</b>
Current and other liabilities	21,481,290	19,339,527
Long-term liabilities	43,587,437	38,786,223
<b>Total liabilities</b>	<b>65,068,727</b>	<b>58,125,750</b>
Net assets:		
Invested in capital assets, net of related debt	28,995,726	26,483,831
Restricted	20,028,690	11,903,509
Unrestricted (deficit)	(19,691,624)	(11,755,382)
<b>Total net assets</b>	<b>\$ 29,332,792</b>	<b>\$ 26,631,958</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, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
General Revenue	\$ 36,430,506	\$ 31,185,799
Program Revenue	6,284,250	11,974,170
<b>Total Revenue</b>	<b>42,714,756</b>	<b>43,159,969</b>
<b>Expenses</b>		
Governmental activities	(41,721,735)	(43,638,056)
<b>Changes in net assets</b>	<b>\$ 993,021</b>	<b>\$ (478,087)</b>

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

**Governmental Funds  
Balance Sheets  
June 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>Assets:</b>		
Cash	\$ 18,327,726	\$ 13,273,202
Restricted Cash	13,157,273	11,049,297
Accounts Receivable	4,044,629	7,242,115
Investment in land held for sale	4,326,409	-
<b>Total Assets</b>	<b>\$ 39,856,037</b>	<b>\$ 31,564,614</b>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable and due to other funds	\$ 5,419,755	\$ 4,617,971
Deferred Volume of Business Tax	14,298,064	12,988,952
<b>Total Liabilities</b>	<b>19,717,819</b>	<b>17,606,923</b>
Funds Balances	20,138,218	13,957,691
<b>Total liabilities and Fund Balances</b>	<b>\$ 39,856,037</b>	<b>\$ 31,564,614</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 and the increase in deferred revenues volume of business tax.

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

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2007 and 2006**

	2007	2006
<b>Revenues:</b>		
Property taxes	\$ 12,019,994	\$ 9,839,418
Volume of business tax	15,846,666	12,834,949
Intergovernmental revenue	7,320,915	7,064,607
Federal grants	6,257,790	6,935,882
Other	2,394,736	4,799,880
<b>Total Revenues</b>	<b>\$ 43,840,101</b>	<b>\$ 41,474,736</b>
Liabilities and Fund Balance		
<b>Expenditures:</b>		
General Government	\$ 18,302,336	\$ 16,620,093
Public works	8,470,019	8,044,014
Public safety	1,860,223	1,760,033
Health	1,148,888	1,148,888
Capital projects	2,858,199	7,664,261
Culture and recreation	3,001,116	2,827,585
Bonds, notes and interest	4,789,217	3,535,165
Education and training	4,065,554	4,164,931
Other expenditures	722,418	485,618
<b>Total Expenditures</b>	<b>\$ 45,217,970</b>	<b>\$ 46,250,588</b>
Excess of revenues (expenditures)		
Over expenditures (revenues)	\$ (1,377,869)	\$ (4,775,852)
<b>Fund Balance, ending</b>	<b>\$ 20,138,218</b>	<b>\$ 13,957,691</b>

The most significant changes of this statement were as follows:

- The larger increase in revenues is related to property tax, volume business tax, and intergovernmental revenue for the range of \$2.1 to \$3 millions.
- The most significant change in the expenditures was a decrease in capital projects for approximately \$4.8 millions.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Economic Factors and Next Year Budget**

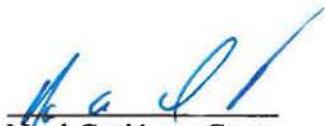
The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and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

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

The Municipality's Budget for fiscal year 2006-2007 is \$2,216,961 more than the last fiscal year (2005-2006).

**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 Cruz  
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, 2007, 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, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund 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 31, 2007 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 result 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 7 and page 15, are not a required part of the basic financial statements but is 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.

Arecibo, Puerto Rico  
October 31, 2007

The stamp number 2227519  
was affixed to the  
original of this report



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

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 18,327,726
Cash with fiscal agent	13,157,273
Accounts receivable	632,636
Accounts receivable government	906,541
Accounts receivable federal government	1,145,936
	4,326,409
Capital Assets	55,904,998
<b>Total assets</b>	<b>\$ 94,401,519</b>
 <b><u>LIABILITIES AND NET ASSETS</u></b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 3,691,949
Due to government entity	368,290
Deferred revenue	14,298,064
Non-current liabilities:	
Due within one year	3,122,987
Due in more than one year	43,587,437
<b>Total liabilities</b>	<b>65,068,727</b>
 <b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	28,995,726
Restricted for:	
Reserve for debt service	5,775,131
Special revenue fund	1,091,163
Capital project fund	13,162,396
Unrestricted (deficit)	(19,691,624)
<b>Total Net Assets</b>	<b>29,332,792</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 94,401,519</b>

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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	\$ 18,429,218		\$ (811,877)	\$ (964,048)	\$ 16,653,293
Public work	9,329,613	(26,460)	-	-	9,303,153
Public safety	1,946,549	-	-	-	1,946,549
Capital project	416,311	-	(416,311)	-	-
Health	1,434,485	-	-	-	1,434,485
Culture and recreation	3,012,669	-	-	(4,065,554)	(1,052,885)
Education and training	4,153,150	-	-	-	4,153,150
Other expenditures	722,418	-	-	-	722,418
Interest on long-term debt	2,277,322	-	-	-	2,277,322
Total governmental activities	<u>\$ 41,721,735</u>	<u>\$ (26,460)</u>	<u>\$ (1,228,188)</u>	<u>\$ (5,029,602)</u>	<u>\$ 35,437,485</u>
<b><u>GENERAL REVENUES:</u></b>					
Property taxes					\$ 12,019,994
Municipal licenses tax					15,846,666
Licenses, permits and fines					544,586
Intergovernmental revenues					6,356,867
Rent of properties					294,353
Interests income					994,916
Other Revenues					373,124
Total general revenues					<u>36,430,506</u>
Change in net assets					993,021
Net assets at beginning of year					26,631,958
Prior period adjustments					1,707,813
<b>Net assets at end of year</b>					<u><u>\$ 29,332,792</u></u>

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

<b>ASSETS</b>	<b>General Fund</b>	<b>Bond Issue Fund</b>	<b>HUD Programs</b>	<b>Head Start Programs</b>	<b>Debt Service Fund</b>	<b>Other Funds</b>	<b>Total Governmental Funds</b>
Cash and investments	\$ 8,011,667	-	\$ 111,849	\$ 288,616	\$ 5,775,131	\$ 4,140,463	\$ 18,327,726
Cash with fiscal agent and other	-	13,157,273	-	-	-	-	13,157,273
Accounts receivable	632,636	-	-	-	-	-	632,636
Due from other funds	1,359,516	-	-	-	-	-	1,359,516
Accounts receivable government	906,541	-	-	-	-	-	906,541
Accounts receivable Federal government	-	-	46,880	920,830	-	178,226	1,145,936
Land held for sale	4,287,417	-	25,133	5,544	-	8,315	4,326,409
Total assets and other debits	<u>\$ 15,197,777</u>	<u>\$ 13,157,273</u>	<u>\$ 183,862</u>	<u>\$ 1,214,990</u>	<u>\$ 5,775,131</u>	<u>\$ 4,327,004</u>	<u>\$ 39,856,037</u>
 <b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 421,895	-	\$ 45,402	\$ 538,655	-	\$ 2,685,997	\$ 3,691,949
Due to special general fund and other funds	-	-	-	676,335	-	683,181	1,359,516
Due to governmental entities	368,290	-	-	-	-	-	368,290
Deferred revenue - (volume business tax)	14,298,064	-	-	-	-	-	14,298,064
Total liabilities	<u>15,088,249</u>	<u>-</u>	<u>45,402</u>	<u>1,214,990</u>	<u>-</u>	<u>3,369,178</u>	<u>19,717,819</u>
Fund balances							
Reserve for debt service	-	-	-	-	5,775,131	-	5,775,131
Encumbrances	48,500	-	-	-	-	-	48,500
General Fund	61,028	-	-	-	-	-	61,028
Special revenue fund	-	-	133,337	-	-	957,826	1,091,163
Capital Project fund	-	13,157,273	5,123	-	-	-	13,162,396
Total fund balances	<u>109,528</u>	<u>13,157,273</u>	<u>138,460</u>	<u>-</u>	<u>5,775,131</u>	<u>957,826</u>	<u>20,138,218</u>
Total liabilities and fund balance	<u>\$ 15,197,777</u>	<u>\$ 13,157,273</u>	<u>\$ 183,862</u>	<u>\$ 1,214,990</u>	<u>\$ 5,775,131</u>	<u>\$ 4,327,004</u>	<u>\$ 39,856,037</u>

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET NET ASSETS:**

<b>TOTAL FUND BALANCE - GOVERNMENTAL FUNDS</b>	\$ 20,138,218
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	55,904,998
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 absences	\$ 2,015,444
Bonds payable	44,469,980
Legal claims	225,000
	<u>\$ 46,710,424</u>
Total long-term liabilities	(46,710,424)
<b>TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<u>\$ 29,332,792</u>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General Fund	2007 Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>							
Property taxes	\$ 7,655,307	\$ -	\$ -	\$ -	\$ 4,364,687	\$ -	\$ 12,019,994
Municipal license tax	15,846,666	-	-	-	-	-	15,846,666
Licenses, permits and fines	571,046	-	-	-	-	-	571,046
Intergovernmental revenues	3,457,132	-	-	-	-	3,863,783	7,320,915
Rent of properties	75,106	-	-	-	-	219,247	294,353
Interest income	982,949	-	-	-	173,264	-	1,156,213
Other revenues	373,124	-	-	-	-	-	373,124
Federal financial award	-	-	1,228,188	4,065,554	-	964,048	6,257,790
<b>Total revenues</b>	<b>28,961,330</b>	<b>-</b>	<b>1,228,188</b>	<b>4,065,554</b>	<b>4,537,951</b>	<b>5,047,078</b>	<b>\$ 43,840,101</b>
<b>EXPENDITURES:</b>							
Current:							
General government	14,282,722	-	779,302	-	-	3,240,312	18,302,336
Public works	8,470,019	-	-	-	-	-	8,470,019
Public safety	1,860,223	-	-	-	-	-	1,860,223
Health	1,148,888	-	-	-	-	-	1,148,888
Capital projects	961,612	-	416,311	-	-	1,480,276	2,858,199
Culture and recreation	3,001,116	-	-	-	-	-	3,001,116
Education and training	-	-	-	4,065,554	-	-	4,065,554
Other expenditures	722,418	-	-	-	-	-	722,418
Debt service:	-	-	-	-	-	-	-
Principal retirement	-	-	-	-	2,511,895	-	2,511,895
Interest and fiscal charges	-	-	-	-	2,277,322	-	2,277,322
<b>Total expenditures</b>	<b>30,446,998</b>	<b>-</b>	<b>1,195,613</b>	<b>4,065,554</b>	<b>4,789,217</b>	<b>4,720,588</b>	<b>45,217,970</b>
Excess of revenues over (under) expenditures	(1,485,668)	-	32,575	-	(251,266)	326,490	(1,377,869)
Other financing source (uses):							
Transfer to debt service fund	(665,273)	-	-	-	665,273	-	-
Interest expenditures	-	-	-	-	(161,297)	-	(161,297)
Net bond issue debt	-	7,975,818	-	-	-	-	7,975,818
Bond expenditure	-	(502,324)	-	-	-	-	(502,324)
Bond expenditure	-	-	-	-	-	-	-
Transfer to other funds	-	(1,216,795)	-	-	1,351,837	(135,042)	-
<b>Total other financing source (uses)</b>	<b>(665,273)</b>	<b>6,256,699</b>	<b>-</b>	<b>-</b>	<b>1,855,813</b>	<b>(135,042)</b>	<b>7,312,197</b>
Excess of revenues and other sources over (under) expenditures and other uses	(2,150,941)	6,256,699	32,575	-	1,604,547	191,448	5,934,328
Fund balance June 30, 2006	2,054,182	6,900,574	87,834	-	4,148,723	766,378	13,957,691
Prior period adjustments (Note 17)	206,287	-	18,051	-	21,861	-	246,199
<b>Fund balance June 30, 2007</b>	<b>\$ 109,528</b>	<b>\$ 13,157,273</b>	<b>\$ 138,460</b>	<b>\$ -</b>	<b>\$ 5,775,131</b>	<b>\$ 957,826</b>	<b>20,138,218</b>

*Handwritten notes:*  
2260,469  
01/27/07  
2/10/07

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007**

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

Net change in fund balance - total governmental funds		<b>\$ 5,934,328</b>
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	2,441,888	
Less: current year depreciation	<u>(1,457,548)</u>	
		984,340

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	(7,975,818)	
Principal payments	2,511,895	
Bond expenditures	502,324	
Transfer to debt service	<u>(665,273)</u>	
		(5,626,872)

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.

<b>Change in net assets of governmental activities</b>		<u><u>\$ 993,021</u></u>
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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, 2007**

	Budget Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 401,613	\$ 401,613	\$ 406,613	\$ 5,000
Municipal license tax	14,825,495	13,720,231	13,721,866	1,635
Intergovernmental revenues	3,344,419	3,457,131	3,457,132	1
Licenses, permits and fines	567,500	570,895	571,046	151
Rent of properties	60,000	73,526	75,106	1,580
Interest income	140,000	944,000	945,267	1,267
Other revenues	1,548,960	6,371,124	6,373,124	2,000
Other financial sources	5,312,013	6,025,424	6,194,125	168,701
Property tax (debt service)	2,174,674	4,789,217	4,537,951	(251,266)
<b>Total revenues</b>	<b>\$ 28,374,674</b>	<b>\$ 36,353,161</b>	<b>\$ 36,282,230</b>	<b>\$ (70,931)</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	9,620,923	14,572,907	14,509,344	63,563
Public safety	2,053,318	1,862,574	1,860,223	2,351
Public Work	7,318,973	8,473,356	8,470,019	3,337
Health	1,148,888	1,148,888	1,148,888	-
Culture and Recreation	3,428,679	3,004,250	3,001,116	3,134
Capital project	965,500	965,500	961,612	3,888
Other	805,491	724,185	722,418	1,767
Transfer out to debt service	858,228	812,284	665,273	147,011
Principal and interest	2,174,674	4,789,217	4,789,217	-
<b>Total expenditures</b>	<b>\$ 28,374,674</b>	<b>\$ 36,353,161</b>	<b>\$ 36,128,110</b>	<b>\$ 225,051</b>
<b>Excess of revenues over (under) expenditures</b>			<b>\$ 154,120</b>	<b>\$ 154,120</b>
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 36,282,230
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				(6,000,000)
Revenues included in the statement of revenues and not in the budgeted amounts				3,217,051
<b>Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances</b>				<b>\$ 33,499,281</b>
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 36,128,110
Differences - budget to GAAP:				
Non budgeted expenditures				303,296
Expenditures budgeted this year from prior year				(529,918)
Transfer from general fund for budgetary purpose only				(665,273)
<b>Total expenditures as reported on the statement of revenue, expenditures and change in fund balances</b>				<b>\$ 35,236,215</b>

See notes to budgetary comparison schedule.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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, 2007**

**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, 2007 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, 2007**

**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, 2007**

**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 and Financial Statement presentation***

*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, 2007**

**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 90 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, 2007**

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

**g. Budgetary Control**

The Municipality follows these procedures, which are in accordance with the municipal law; in establishing the annual budget as 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 \$7,978,487 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, 2007**

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

**g. Budgetary Control (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 Statements*

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value as of the time they are received by **the Municipality** and are 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, 2007**

**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, 2007**

**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 appropriated 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, 2007**

**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 this 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 Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment of all real and personal property located within the **Municipality of Barceloneta** and for the levy, administration and collection of all real and personal property 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 exemption 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, 2007**

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 \$270,315 during 2007.

The following is a summary of the property tax advances, that resulted in an Accounts Receivable, for the year ended June 30, 2007. The resulting receivable is presented as a revenue in the general fund for and the Government Wide Financial Statements.

Accounts Receivable:

Amortization through collections of property taxes by the CRIM	
07-01-06 - 06-30-07	\$ (9,407,845)
Advance received, 07-01-06 - 06-30-07	8,501,304
Due from CRIM - 2007	<b>\$ (906,541)</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**3. DEPOSITS**

Deposits include investments accounts amounting to \$7,755,853. **The Municipality's** cash and investments at June 30, 2007, 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, 2007**

**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 minimum 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 balances of internal transactions of June 30, 2007 are as follows:

Funds	Due From	Due To
General	\$ 1,359,516	\$ -
Head Start Programs	-	676,335
Other Funds	-	683,181
	<b>\$ 1,359,516</b>	<b>\$ 1,359,516</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, 2007**

**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 TO GOVERNMENTAL ENTITIES**

As of June 30, 2007 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	\$ 99,680
Puerto Rico Retirement System	140,810
General Administration Services	46,083
Puerto Rico Department of Treasury	64,974
Puerto Rico Employees Association	16,743
	<b>\$ 368,290</b>

Part of the balances of due from governmental agencies were recorded as deferred revenues- others as of June 30, 2007.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**9. CAPITAL ASSETS**

**Capital assets activity for the year ended June 30, 2007 was as follows:**

	Balance 6/30/2006	Additions	Retirements and transfers dispositions	Balance 6/30/2007
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 5,129,965	\$ 597,742		\$ 5,727,707
Construction in progress	9,068,812	1,298,456	-	10,367,268
Total capital assets not being depreciated	<u>14,198,777</u>	<u>1,896,198</u>	<u>-</u>	<u>\$ 16,094,975</u>
Capital assets, being depreciated				
Buildings and building improvements	39,052,321	-	-	39,052,321
Infrastructure	14,841,420	115,100	-	14,956,520
Equipment	10,414,582	846,901	1,359	11,260,124
Total capital assets being depreciated	<u>64,308,323</u>	<u>962,001</u>	<u>1,359</u>	<u>65,268,965</u>
Less accumulated depreciation for:				
Buildings and building improvements	9,474,621	-	681,394	10,156,015
Infrastructure	8,995,947	-	97,242	9,093,189
Equipment	1,856,126	-	178,151	2,034,277
Vehicles	3,674,700	-	500,761	4,175,461
Total accumulated depreciation	<u>24,001,394</u>	<u>-</u>	<u>1,457,548</u>	<u>25,458,942</u>
Total capital assets being depreciated, net	<u>40,306,929</u>	<u>962,001</u>	<u>1,458,907</u>	<u>39,810,023</u>
Governmental activities capital assets, net	<u>\$ 54,505,706</u>	<u>\$ 2,858,199</u>	<u>\$ 1,458,907</u>	<u>\$ 55,904,998</u>

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

Governmental activities:	
General government	\$ 126,882
Public safety	86,326
Public works	859,594
Culture and recreation	11,553
Health	285,597
Educational and training	87,596
Total depreciation expense governmental activities	<u>\$ 1,457,548</u>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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.

**Fund Financial Statements**

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

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

**General in General Long – Term Debt**

The principal long-term obligation of the Municipality are 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 outstanding at June 30, 2007.

Description	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations Bonds	\$38,961,875	\$8,020,000	\$2,511,895	\$ 44,469,980

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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

**General Obligation Bonds:**

Description	Original Amount	Interest Rate	Balance 06-30-07	Due Date	Due within One Year
Bonds Series 1984	263,000	5.0%	\$ 37,850	1/1/2009	\$ 17,000
Bonds Series 1992	229,000	5.75%	122,000	1/1/2016	11,000
Bonds Series 1992	630,000	6.63%	70,000	7/1/2007	70,000
Bonds Series 1992	257,000	5.75%	137,000	1/1/2016	12,000
Bonds Series 1992	600,000	6.63%	317,000	1/1/2016	28,000
Bonds Series 1993	277,000	5.75%	153,000	1/1/2016	13,000
Bonds Series 1998	1,380,000	5.0%	1,150,000	7/1/2022	40,000
Bonds Series 1998	485,000	5.0%	70,000	7/1/2007	70,000
Bonds Series 1999	1,710,000	5.0%	1,030,000	7/1/2013	115,000
Bonds Series 1996	400,000	5.0%	260,000	1/1/2016	20,000
Bonds Series 1998	105,000	4.50%	80,000	1/1/2023	4,000
<b>SUB-TOTAL</b>	<b>6,336,000</b>		<b>\$ 3,426,850</b>		<b>\$ 400,000</b>

Description	Original Amount	Interest Rate	Balance 06-30-07	Due Date	Due within One Year
Bond Series 1994	\$ 3,250,000	9.0%	\$ 1,553,012	7/1/2013	\$ 245,000
Bond Series 1994	411,000	5.0%	247,000	1/1/2018	17,000
Bond Series 1988	120,000	8.0%	1,500	7/7/2008	1,500
<b>SUB-TOTAL</b>	<b>3,781,000</b>		<b>\$ 1,801,512</b>		<b>\$ 263,500</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

Description	Original Amount	Interest Rate	Balance 06-30-07	Due Date	Due within One Year
Bond Series 1988	620,000	8.0%	7,750	7/1/2007	7,750
Bond Series 1989	530,000	8.0%	41,868	10/1/2008	27,895
<b>SUB-TOTAL</b>	<b>1,150,000</b>		<b>\$ 49,618</b>		<b>\$ 35,645</b>

**Revenue Obligation Bonds:**

Description	Original Amount	Interest Rate	Balance 06-30-07	Due Date	Due within One Year
Bond Series 1997	\$ 5,875,000	5.320%	\$ 4,705,000	7/1/2021	\$ 175,000
Bond Series 1995	660,000	6.70/73.70%	375,000	7/1/2013	40,000
Bond Series 1993	833,000	5.3%	462,000	1/1/2016	40,000
Bond Series 2005	5,020,000	4.5%	4,605,000	7/1/2028	115,000
Bond Series 2005	5,500,000	1.3%	5,100,000	8/1/2013	225,000
Bond Series 2003	3,250,000	5.00-6.50%	1,570,000	7/1/2009	490,000
Bond Series 2006	10,940,000	5.5%	10,730,000	7/1/2030	225,000
Bond Series 2006	3,695,000	4.17-5.31%	3,625,000	7/1/2030	75,000
Bond Series 2007	260,000	7.25%	260,000	7/1/2013	30,000
Bond Series 2007	120,000	7.25%	120,000	7/1/2016	10,000
Bond Series 2007	2,010,000	7.25%	2,010,000	7/1/2031	30,000
Bond Series 2007	5,630,000	7.25%	5,630,000	7/1/2031	90,000
<b>SUB-TOTAL</b>	<b>43,793,000</b>		<b>\$ 39,192,000</b>		<b>\$ 1,545,000</b>
<b>TOTAL</b>	<b>60,660,000</b>		<b>\$ 44,469,980</b>		<b>\$ 2,244,145</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

*The annual maturity requirements for the bonded debt outstanding as June 30, 2007 are as follows:*

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	2,244,145	2,331,640	4,575,785
2009	2,187,947	2,322,632	4,510,579
2010	2,309,000	2,257,287	4,566,287
2011	1,918,000	2,133,948	4,051,948
2012	1,938,000	2,022,469	3,960,469
Subsequent years	33,872,888	18,721,651	52,594,539
	<b>\$ 44,469,980</b>	<b>\$ 29,789,627</b>	<b>\$ 74,259,607</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	\$ 4,364,687
General funds	665,273
Other fund	1,351,837
	<b>\$ 6,381,797</b>

*Expenditures for the year 2006-2007 were as follows:*

Principal	\$ 2,511,895
Interest	2,277,322
	<b>\$ 4,789,217</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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 retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P.O. Box 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, 2007**

**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 2007 amounted to approximately \$15,506,487. Members' required contributions are 5.775% of 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 annually during year 2007, the Municipality's required and actual contribution under Act 447 and Reforma 2000 were \$382,189 and \$323,289 respectively.

**Actuarial Valuation**

The actuarial determined present value of benefits accrued as of June 30, 2005 (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, 2007**

**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, 2007**

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

**Compensated Absences** (continuation)

The changes in Compensated absences for the year ended June 30, 2007 are as follows:

Governmental activity	June 30, 2006	Net Increase	June 30, 2007	Due within One year
Compensated Absences	\$1,773,923	\$241,521	\$2,015,444	\$498,782

**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, 2007, were approximately \$898,788 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, 2007 the amount billed by HIA to the Municipality amounted to \$538,401. 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 not to record the liability on the government-wide financial statements. 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, 2007**

**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, 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 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, 2007**

**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) determined that the Municipality of Barceloneta together ten pharmaceuticals companies were 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 provided 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.

**JUAN A. FELICIANO CHARNECO**  
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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 financial statements of the governmental activities of Municipality of Barceloneta, Puerto Rico as of and for the year ended June 30, 2007 and have issued my report thereon dated October 31, 2007. I 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Municipality of Barceloneta, internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Barceloneta internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Municipality of Barceloneta, Puerto Rico's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the Municipality of Barceloneta Puerto Rico's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement the of the Municipality of Barceloneta, Puerto Rico's financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Barceloneta, Puerto Rico's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality of Barceloneta, Puerto Rico's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as define above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Barceloneta, Puerto Rico's financial statements are free of material misstatement, I performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2007-01 and 2007-2.

I noted certain matters that I reported to management of Municipality of Barceloneta Puerto Rico in a separate letter dated October 31, 2007.

Municipality of Barceloneta, Puerto Rico's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the Municipality of Barceloneta, Puerto Rico's response and, accordingly, I express no opinion on it.

The report is intended solely for the information and use of management, Municipal Council 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.

Arecibo, Puerto Rico  
October 31, 2007

The stamp number 2227520  
was affixed to the  
original of this report

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



**JUAN A. FELICIANO CHARNECO**  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND 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, 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, 2007. 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 Management. My responsibility is to express an opinion on of Municipality of Barceloneta compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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". Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Barceloneta' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Barceloneta' compliance with those requirements.

In my opinion, Municipality of Barceloneta, Puerto Rico, 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, 2007. However, the results of my auditing procedures disclosed instances of non compliance with those requirements, which 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 item 2007-01 and 2007-2.

Internal Control Over Compliance

The management of Municipality of Barceloneta is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality of Barceloneta internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Barceloneta internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Barceloneta, Puerto Rico's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as define above.

Municipality of Barceloneta' response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit Municipality of Barceloneta' Puerto Rico's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Municipal Council, others within the entity, 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.

Arecibo, Puerto Rico  
October 31, 2007

The stamp number 2227521  
was affixed to the  
original of this report



*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, 2007**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
U.S. Of Housing and Urban Development Passed-through the office of the Commissioner of Municipal Affairs			
Community Planning and Development			
Community Development Block Grant (State Program)			
CDBG - 2005	14.228	2005	\$ 206,379
CDBG - 2004	14.228	2004	242,159
CDBG - 2003	14.228	2003	42,462
CDBG - 2002	14.228	2002	79,369
CDBG - 2001	14.228	2001	47,594
			617,963
Direct Program:			
Public and Indian Housing			
Section 8- Voucher	14.871	RQ-46-V-054-002/004	577,560
			577,560
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	2,656,572
Early Head Start	93.600	02-CH-9892-03	1,037,566
Child Care Development Fund	93.575	CHC-0421	371,416
			4,065,554
Administration on Aging			
Special Program for the Aging (SENDEC)	93.044	Title III	383,225
U.S. Department of Agriculture:			
Passed-through Department of Education			
Child Care Food Program	10.558	N/A	171,242
Child Care Development Food Program	10.558	N/A	7,308
Early Child Food Program	10.558	N/A	45,246
			223,796
U.S. Department of Transportation			
Passed-through Federal Transportation Administration			
Federal Transportation Act.	20.506	PR-18-X017	89,480
U.S. Department of Justice			
Office of Community Oriented Policing Service Troops to Cops	16.710	N/A	163,458
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)</u>			
Public Assistance Grant			
Passed through-Emergency Management State and Local Assistance			
FEMA Tormenta Jeanne	83.544	1552	64,398
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>\$ 6,185,434</b>

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, 2007**

(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 represents the major federal financial awards of the Municipality. Major federal awards represent 94% 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	\$ 1,195,613	\$ 4,065,554	\$ 924,357	\$ 6,185,524
State & Municipal Expenditures	-	-	3,796,231	3,796,231
Total Expenditures	\$ 1,195,613	\$4,065,554	\$4,720,588	\$ 9,981,755

**MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007**

A. Summary of Audit results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness (es) identified? \_\_\_ Yes X No

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

Noncompliance material to financial statements noted? \_\_\_ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_ Yes X No

Reportable condition(s) identified not  
Considered being material weaknesses? X 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 X Yes \_\_\_ No

**MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007**

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
14.228	CDBG
93.044	Special Program for the Aging

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

**MUNICIPALITY OF BARCELONETA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2007**  
**(continued)**

**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, 2007**

Ref. No. Finding / Noncompliance

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2007-01 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system did not comply 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 Children and Families Administration and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 20 days.

Cause

The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States as per Title 24 of CFR, part 84, Cc) (7).

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 and establish internal procedures to minimize the time elapsed to disburse the funds receive. The municipality should apply for an authorization from HUD to invest the excess of cash.

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, 2007**  
**(continued)**

**Department of Housing and Urban Development Public  
And Indian Housing  
CFDA No. 14.871  
Grant No. Section 8 - Voucher  
Year ended June 30, 2007**

Ref. No. Finding / Noncompliance  
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2007-02 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system did not comply 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 HUD and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 20 days.

Cause

The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States as per Title 24 of CFR, part 84, Cc) (7).

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 and establish internal procedures to minimize the time elapsed to disburse the funds receive. The municipality should apply for an authorization from HUD to invest the excess of cash.

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 and will apply for an authorization from HUD to invest the excess of cash.

**MUNICIPALITY OF BARCELONETA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2007**

2006 – Finding No. 1: Child Care Development Fund

CFDA No. 93.575

Year ended June 30, 2006

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

2006 – Finding No. 2: Section 8 - Voucher

CFDA No. 14.871

Year ended June 30, 2006

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

2006 – Finding No. 3: Service Troops To Cops

CFDA No. 16.710

Year ended June 30, 2006

**Finding was corrected.**

2005 – Finding No. 4: Service Troops To Cops

CFDA No. 16.710

Year ended June 30, 2006

**Finding was corrected.**