

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES  
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL  
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE BARCELONETA  
AUDITORÍA 2009-2010  
30 DE JUNIO DE 2010**

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UNIDAD DE CORREO

**MUNICIPALITY OF BARCELONETA, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2010  
(INDEPENDENT AUDITOR'S REPORT)**

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**SINGLE AUDIT REPORT**  
**JUNE 30, 2010**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and analysis of the Municipality of Barceloneta (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2010. The Management Discussion and Analysis (MD & A) should be read in conjunction with the transmittal letter on page 8 and the Municipality's financial statements, which begin on page 11. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended June 30, 2010. This MD & A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with major information.

**FINANCIAL HIGHLIGHTS**

- The Net assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$28,873,175 net assets increased by \$3,266,703 when compare with prior year.
- Revenues were \$5,528,726 less than last year; expenses were \$3,840,269 less than last year as reported in the Statement of Activities.
- The Municipality had reported in the General Fund a deficiency of revenues over expenditures amounting to \$3,481,233 in the accompanying statement of revenues, expenditures and changes in fund balances.
- Loans principal payments were \$2,874,000 during fiscal year 2009-10, new bond issue were \$9,637,000, for public improvement, infrastructure, motor vehicles and prior debts.
- The actual revenue was \$26,751,603 and the expenditures were \$29,639,837 creating an excess of \$2,888,234 million over the revenues in the Budgetary Schedule mainly due to unfavorable variances in revenues, (Municipal license tax and Municipal tax).
- Sales of 16 acres for the construction of a Hotel near the Prime Outlets.
- The Municipality government fund reported combined ending fund balances of \$763,958 in the accompanying statement of revenues, expenditures.
- The Municipality has reported a net undesignated fund balance deficit for the general fund amounting (\$2,795,067).

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

### **Fundamentals of Financial Statements Presentation**

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2010. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

### **Financial Statements Components**

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

Governmental-wide financial statements - The government-wide financial statements which begin on page 10 of this report are designed to provide reads with a broad overview of the Municipality's finances, in a manner similar to a private-sector business. The government wide statements provide short and long term information about the municipality's status as a whole.

The Statement of Net Assets reflects information of the Municipality as whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net assets at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

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

Governmental funds - The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash. The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

**Infrastructure Assets**

The Municipality implemented the major model portions of GASB statement 34 during the prior years. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statements. 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 Financial Analysis**

***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 \$28,873,175 at the close of the recent fiscal year compare to \$25,606,472 at the end of previous year, as restated and showed in the following condensed Statement of Net Assets of the Primary Government.

**Statements of Net Assets  
As of June 30, 2010 and 2009**

	2010	2009	Changes	%
Current and other assets	\$ 29,235,189	\$ 33,398,772	\$ (4,163,583)	-12%
Capital assets net	84,624,929	64,152,689	\$ 20,472,240	32%
<b>Total assets</b>	<b>113,860,118</b>	<b>97,551,461</b>	<b>\$ 16,308,657</b>	<b>0.17</b>
Current and other liabilities	29,034,366	21,528,980	7,505,386	35%
Long-term liabilities	55,952,577	50,416,009	5,536,568	11%
<b>Total liabilities</b>	<b>84,986,943</b>	<b>71,944,989</b>	<b>13,041,954</b>	<b>18%</b>
Net assets:				
Invested in capital assets, net of related debt	51,860,920	38,151,680	13,709,240	36%
Restricted	3,559,025	16,019,380	(12,460,355)	-78%
Unrestricted (deficit)	(26,546,770)	(28,564,588)	2,017,818	-7%
<b>Total net assets</b>	<b>\$ 28,873,175</b>	<b>\$ 25,606,472</b>	<b>\$ 3,266,703</b>	<b>13%</b>

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

The decrease of \$4,163,583 in current net asset was mainly due to decrease of cash with fiscal agent of \$5,737,520. The account Capital asset increased by \$20,472,240 principally by additions to construction in progress of \$20,986,193, at the same time created increased in the net investment in capital asset of \$13.7 million and the Capital Project Fund decrease by \$13.5 million.

Current liabilities increase by thirty- five percent caused by an increase of accounts payable of \$7.6 million. Long-term liabilities increase by \$8.1 million is reflected principally in the Bonds payable of \$9.6 million.

**Increase – (Decrease net in Capital Assets was as follows:**

	6/30/2010	%	6/30/2009	%	Change
Land	\$ 1,994,657	2%	\$ 1,994,657	3%	\$ -
Construction in progress	39,334,161	47%	18,347,968	29%	20,986,193
Building and improvements, net	30,276,420	36%	31,028,899	48%	(752,479)
Infrastructure	7,274,291	9%	7,400,222	12%	(125,931)
Equipment, net	3,646,482	4%	3,849,443	6%	(202,961)
Motor vehicles	2,098,918	2%	1,531,500	2%	567,418
<b>Total Net Capital Asset</b>	<b>\$ 84,624,929</b>		<b>\$ 64,152,689</b>		<b>\$ 20,472,240</b>

Building improvements net represent 27 percent and 36 percent of total asset and net capital asset respectively. Construction in progress represents 35 percent of total asset and 47 percent and net capital asset. The Increase in Construction in progress by \$20.9 million when compare with prior year, include \$13.3 million increase in projects from Bond Issued Funds and \$7.5 million increase in Special Revenue Funds.

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

**Statements of Activities  
For the year ended June 30, 2010 and 2009  
Changes in Net Assets**

	2010	2009	Changes	%
General Revenues	\$ 37,554,455	\$ 43,947,032	\$ (6,392,577)	-15%
Program Revenues	8,188,473	7,342,137	846,336	12%
<b>Total Revenues</b>	<b>45,742,928</b>	<b>51,289,169</b>	<b>\$ (5,546,241)</b>	<b>-11%</b>
Expenses				
Governmental activities	(42,493,710)	(46,333,979)	3,840,269	-8%
<b>Changes in net assets</b>	<b>\$ 3,249,218</b>	<b>\$ 4,955,190</b>	<b>\$ (1,705,972)</b>	<b>-34%</b>

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

The Statement of Activities reflects for fiscal year 2010, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to a decrease of \$1,688,487 in the Municipality's net assets. Approximately 53 percent of the Municipality's total revenue came from taxes, while 18 percent resulted from Federal grants and 13 percent resulted from Intergovernmental Revenues. The Municipality's expenses cover a range of services like health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and improvements. The largest expenses were for general government, public works, education and training and culture and recreation. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

A brief review of the Statements of Activities of the Municipality at June 30, 2010, shows total expenses incurred to afford the cost of all functions and programs amounted to \$34,287,752. Upon examining the sources of revenues for the financing of the programs, the Statement reflects the following; \$17,485 for charges for service, \$6,259,745 from operating grants and contributions; and \$1,928,728 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$37,544,455. There was a change in net assets \$3,266,703 that represents 7 percent of total revenues and a decrease of 34 percent when compared with prior year. Expenses decreased by \$3.8 million or 8 percent when compare with prior year.

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

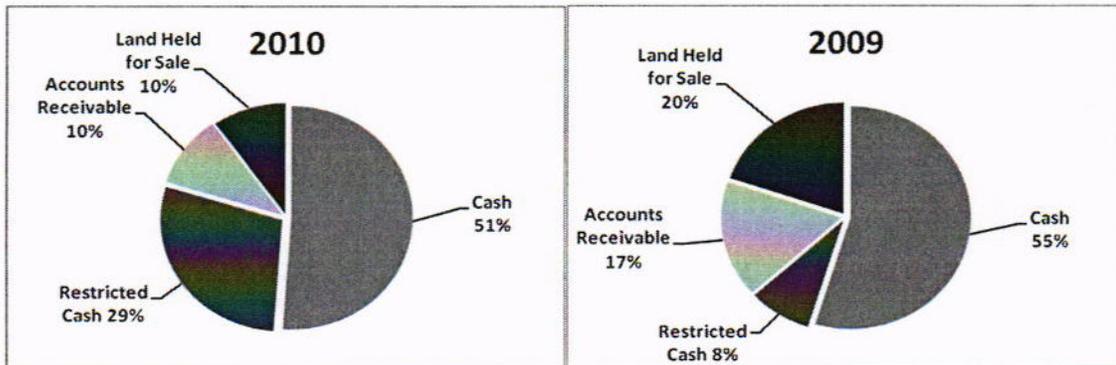
*The following reflects the condensed Balance Sheet of the Governmental Funds:*

**Governmental Funds  
Balance Sheets  
June 30, 2010 and 2009**

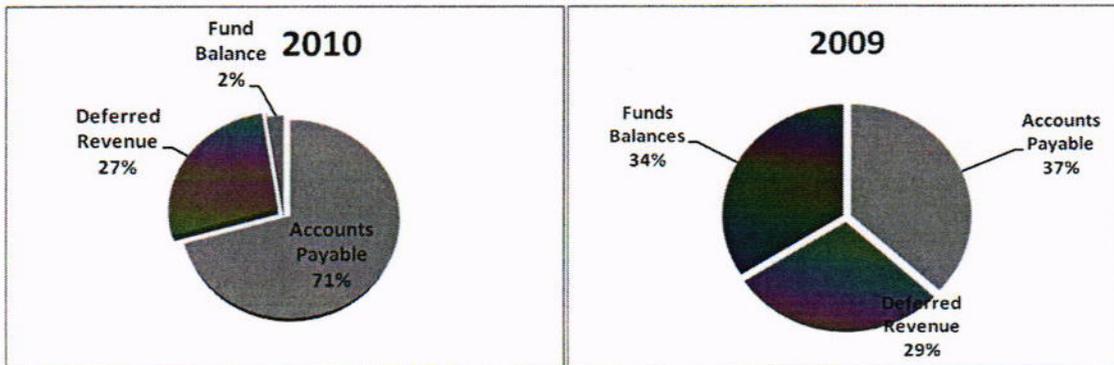
	2010	2009	Changes	%
<b>Assets:</b>				
Cash	\$ 16,069,196	\$ 19,179,591	\$ (3,110,395)	-16%
Restricted Cash	8,733,690	2,996,170	5,737,520	191%
Accounts Receivable	3,255,152	5,906,574	(2,651,422)	-45%
Land held for sale	3,084,530	6,933,067	(3,848,537)	-56%
<b>Total Assets</b>	<b>\$ 31,142,568</b>	<b>\$ 35,015,402</b>	<b>\$ (3,872,834)</b>	<b>-11%</b>
Liabilities and Fund Balance				
<b>Liabilities:</b>				
Accounts payable and due to				
other funds	\$ 21,980,321	\$ 12,934,074	\$ 9,046,247	70%
Deferred revenue	8,398,289	10,185,142	(1,786,853)	-18%
<b>Total Liabilities</b>	<b>30,378,610</b>	<b>23,119,216</b>	<b>\$ 7,259,394</b>	<b>31%</b>
Funds Balances	763,958	11,896,236	(11,132,278)	-94%
<b>Total liabilities and Fund Balances</b>	<b>\$ 31,142,568</b>	<b>\$ 35,015,452</b>	<b>\$ (3,872,884)</b>	<b>-11%</b>

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

**ASSETS**



**LIABILITIES AND FUND BALANCE**



The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts is used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities.

During the year 2010 the municipality had \$8.3 million cash restricted in the Special Revenue Fund and accounts payable of \$7.8 million and in 2010 the accounts payable were increased by \$9 million. Deferred revenues decreased by \$1.7 million. Sale of 15 acres near the Prime Outlet was realized during the year, that decrease the land held for sale for 1.4 million.

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

**Statements of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2010 and 2009**

	2010	2009	Changes	%
<b>Revenues:</b>				
Property taxes	\$ 12,660,084	\$ 8,940,152	\$ 3,719,932	42%
Municipal taxes	8,980,516	12,652,476	(3,671,960)	-29%
Intergovernmental revenue	5,822,755	17,187,368	(11,364,613)	-66%
Federal grants	8,188,473	7,342,137	846,336	12%
Sales Tax	2,811,924	2,083,594	728,330	35%
Other	4,312,553	3,110,304	1,202,249	39%
<b>Total Revenues</b>	<b>\$ 42,776,305</b>	<b>\$ 51,316,031</b>	<b>\$ (8,539,726)</b>	<b>-17%</b>
<b>Expenditures and Fund Balance</b>				
<b>Expenditures:</b>				
General Government	\$ 18,015,488	\$ 20,650,273	\$ (2,634,785)	-13%
Public works	8,926,665	9,517,188	(590,523)	-6%
Public safety	2,395,498	2,501,330	(105,832)	-4%
Health	1,148,888	1,148,888	-	0%
Capital outlays	22,121,315	8,125,184	13,996,131	172%
Culture and recreation	3,258,154	3,465,491	(207,337)	-6%
Bonds (principal and interest)	4,828,039	4,936,645	(108,606)	-2%
Education and training	4,458,688	4,101,206	357,482	9%
Other expenditures	687,215	1,156,863	(469,648)	-41%
<b>Total Expenditures</b>	<b>\$ 65,839,950</b>	<b>\$ 55,603,068</b>	<b>\$ 10,236,882</b>	<b>18%</b>
Excess of revenues (expenditures)				
under expenditures (revenues)	(23,063,645)	(4,287,037)	(18,776,608)	438%
<b>Fund Balance, ending</b>	<b>\$ 763,958</b>	<b>\$ 11,896,236</b>	<b>\$ (11,132,278)</b>	

The most significant changes of this statement were as follows:

- Revenues from property tax were increased by \$3.7 million due to increase in property tax in the amount collected. The decrease in Intergovernmental revenue of \$11.3 was the result of the funds in prior year received from central government to canalize sector "Cachete" that is affected by "Rio Grande de Manati". Revenue from volume business tax declaration were reduced by \$3.7 million on funds received when compared with prior year, reflected in sales reported in the municipal tax declaration was reduced approximately by 10 percent in many taxpayer, sales for the Prime Outlet increased by 5 percent but the industries that reflect an increase in exempt sales (sales outside the United States of America) present a decrease of 23% of the tax paid which is 75 percent of tax paid. Other revenues increase by \$1.2 million, principally for eventual income.
- Expenditures were increase by approximately \$13.9 million in Capital outlays expense when compared with the prior year. The other expenditures decreased by \$2.9 million, principally in salaries expense by \$1.4 million, and other all other expenses by \$1.5 million.



**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 relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Federal and State grant revenues may vary if new grants are available. Those factors were considered when preparing the Municipality's budget for the fiscal year 2009-2010.

The Budget for Revenues and expenditures were \$29.5 million for the general fund, total revenues decreased \$2.8 million when compare the budgeted revenues with the actual revenue. Municipal license tax decreased by \$5.4 million and excise tax by \$851,514. The actual expenditures were \$117,922 more than budgeted expenditures. General Government and Culture and Recreation reflected an increase of \$512,258 and Culture and Recreation a decrease of \$179,202 when compares Budget Expenditures with actual expenditures. Excess of revenues under expenditures reflect a deficiency of \$2.8 million.

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 management is committed to a continued improvement in the confection of a budget that will response to the need of the public and private sectors in accordance with its permissible revenues levels. Such has been the case of the financial operation corresponding to fiscal year 2010. It further contemplates to improve its current figure of net assets, which has been identified as one of the main short and long-term objectives of the Municipality.

**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, PO Box 2049, Barceloneta Puerto Rico, 00617.  
Telephone (787) 846-5618 Fax: (787) 846-2009

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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, 2010, 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, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated December 9, 2010 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, grants, agreements and other matters. 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 my 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 financial statements and in my opinion, is fairly stated in all material respects, in relation the by 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 schedule information on pages 1 through 8 and page 16, 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  
December 9, 2010

The stamp number 2541922  
was affixed to the  
original of this report.



*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2013

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

<u><b>ASSETS</b></u>	<b>Governmental Activities</b>
Cash and investments	\$ 16,069,196
Cash with fiscal agent	8,733,690
Accounts receivable (volume business tax)	346,654
Other accounts receivable	558,296
Accounts receivable from federal government	442,823
Lands held for sale	3,084,530
Capital Assets, net of accumulated depreciation	84,624,929
<b>Total assets</b>	<b>\$ 113,860,118</b>
<u><b>LIABILITIES AND NET ASSETS</b></u>	
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	\$ 15,640,358
Due to government entity	742,890
Deferred revenue	8,398,289
Non-current liabilities:	
Due within one year	4,252,829
Due in more than one year	55,952,577
<b>Total liabilities</b>	<b>84,986,943</b>
<u><b>Net Assets:</b></u>	
Invested in capital assets, net of related debt	51,860,920
Restricted for:	
Reserve for debt service	1,435,784
Special revenue fund	217,884
Capital project fund	1,905,357
Unrestricted (deficit)	(26,546,770)
<b>Total Net Assets</b>	<b>28,873,175</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 113,860,118</b>

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Functions/Programs	Program Revenues			Net (expense) revenue and change in Net Assets
	Expenses	Charges for Services	Capital Grants and Contributions	
			Operating Grants and Contributions	Governmental Activities
<b>EXPENDITURES:</b>				
General government	\$ 18,105,888	\$ -	\$ (1,928,728)	\$ 14,369,366
Public works	9,817,364	(17,485)	-	9,799,879
Public safety	2,478,597	-	-	2,478,597
Health	1,660,035	-	-	1,660,035
Culture and recreation	3,261,406	-	-	3,261,406
Education and training	4,529,166	-	(4,451,951)	77,215
Other expenditures	687,215	-	-	687,215
Interest on long-term debt	1,954,039	-	-	1,954,039
Total governmental activities	\$ 42,493,710	\$ (17,485)	\$ (1,928,728)	\$ 34,287,752

**GENERAL REVENUES:**

Property taxes	\$ 12,660,084
Municipal licenses tax	8,798,405
Licenses, permits and fines	182,111
Intergovernmental revenues	5,822,755
Rent of properties	897,749
Interests income	311,978
Other Revenues	3,085,341
Municipal sales tax	2,811,924
Special Item - Gain on sale of Land	2,984,108
Total general revenues	37,554,455
Change in net assets	3,266,703
Net assets at beginning of year	28,196,965
Prior period adjustments (note 20)	(2,590,493)
<b>Net assets at end of year</b>	<b>\$ 28,873,175</b>

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**

ASSETS	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 7,412,057	-	\$ 120,331	\$ 244,444	\$ -	\$ 8,292,364	\$ 16,069,196
Cash with fiscal agent and other	107,521	3,552,664	-	-	5,073,505	-	8,733,690
Accounts receivable	346,654	-	-	-	-	-	346,654
Due from other funds	1,894,725	-	-	4,466	-	8,188	1,907,379
Other accounts receivable	506,323	-	-	-	51,973	-	558,296
Accounts receivable from Federal government	-	-	154,685	127,082	-	161,056	442,823
Land held for sale	3,084,530	-	-	-	-	-	3,084,530
<b>Total assets and other debits</b>	<b>\$ 13,351,810</b>	<b>\$ 3,552,664</b>	<b>\$ 275,016</b>	<b>\$ 375,992</b>	<b>\$ 5,125,478</b>	<b>\$ 8,461,608</b>	<b>\$ 31,142,568</b>

**LIABILITIES AND FUND BALANCES**

Liabilities:							
Accounts payable and accrued liabilities	\$ 7,005,698	\$ 2,275,191	\$ 82,290	\$ 212,197	\$ 3,689,694	\$ 6,064,982	\$ 19,330,052
Due to special general fund and other funds	-	-	110,838	27,799	-	1,768,742	1,907,379
Due to governmental entities	742,890	-	-	-	-	-	742,890
Deferred revenue - (volume business tax)	8,398,289	-	-	-	-	-	8,398,289
<b>Total liabilities</b>	<b>16,146,877</b>	<b>2,275,191</b>	<b>193,128</b>	<b>239,996</b>	<b>3,689,694</b>	<b>7,833,724</b>	<b>30,378,610</b>
Fund balances:							
Reserve for debt service	-	-	-	-	1,435,784	-	1,435,784
Encumbrances	1,744,345	-	-	-	-	-	1,744,345
Undesignated	(4,539,412)	-	-	-	-	-	(4,539,412)
Special revenue fund	-	-	81,888	135,996	-	-	217,884
Capital Project fund	-	1,277,473	-	-	-	627,884	1,905,357
Total fund balances	(2,795,067)	1,277,473	81,888	135,996	1,435,784	627,884	763,958
<b>Total liabilities and fund balance</b>	<b>\$ 13,351,810</b>	<b>\$ 3,552,664</b>	<b>\$ 275,016</b>	<b>\$ 375,992</b>	<b>\$ 5,125,478</b>	<b>\$ 8,461,608</b>	<b>\$ 31,142,568</b>

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

<b>TOTAL FUND BALANCE - GOVERNMENTAL FUNDS</b>	<b>\$ 763,958</b>
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	84,624,929
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	\$ 2,631,436
Bonds payable	51,973,776
Municipal solid waste landfill post-closure cost	1,910,500
<b>Total long-term liabilities</b>	<b>\$ 56,515,712</b>
<b>TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 28,873,175</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>							
Property taxes	\$ 8,298,038	\$ -	\$ -	\$ -	\$ 4,362,046	\$ -	\$ 12,660,084
Municipal license tax	8,798,405	-	-	-	-	-	8,798,405
Licenses, permits, fines and sales tax	182,111	-	-	-	-	-	182,111
Intergovernmental revenues	3,201,348	-	-	-	-	2,621,407	5,822,755
Rent of properties	182,111	-	-	-	-	715,638	897,749
Interest income	311,978	-	-	-	-	-	311,978
Other revenues	3,090,464	-	-	-	526,601	12,362	3,102,826
Municipal sales tax	2,285,323	-	-	-	-	1,807,794	2,811,924
Federal financial award	-	-	1,928,728	4,451,951	-	-	8,188,473
Total revenues	26,349,778	-	1,928,728	4,451,951	4,888,647	5,157,201	42,776,305
<b>EXPENDITURES:</b>							
Current:							
General government	12,584,192	-	1,091,260	-	-	4,340,036	18,015,488
Public works	8,926,665	-	-	-	-	-	8,926,665
Public safety	2,395,498	-	-	-	-	-	2,395,498
Health	1,148,888	-	-	-	-	-	1,148,888
Capital outlays	273,313	13,331,414	923,074	-	-	7,593,514	22,121,315
Culture and recreation	3,258,154	-	-	-	-	-	3,258,154
Education and training	-	-	-	4,458,688	-	-	4,458,688
Other expenditures	687,215	-	-	-	-	-	687,215
Debt service:							
Principal retirement	-	-	-	-	2,874,000	-	2,874,000
Interest and fiscal charges	-	-	-	-	1,954,039	-	1,954,039
Total expenditures	29,273,925	13,331,414	2,014,334	4,458,688	4,828,039	11,933,550	65,839,950
Excess of revenues over (under) expenditures	(2,924,147)	(13,331,414)	(85,606)	(6,737)	60,608	(6,776,349)	(23,063,645)
Other financing sources (uses):							
Transfer to debt service fund	(557,086)	-	-	-	557,086	-	-
Net bond issued debt	-	9,599,352	-	-	-	-	9,599,352
Bond expenditure	-	(2,059,693)	-	-	-	-	(2,059,693)
Transfer to other funds	-	-	-	-	880,450	(880,450)	-
Total other financing sources (uses)	(557,086)	7,539,659	-	-	1,437,536	(880,450)	7,539,659
Excess of revenues and other sources over (under) expenditures and other uses	(3,481,233)	(5,791,755)	(85,606)	(6,737)	1,498,144	(7,656,799)	(15,523,986)
<b>SPECIAL ITEMS:</b>							
Proceeds from Sales of Land	4,391,708	-	-	-	-	-	4,391,708
Net change in fund balances	910,475	(5,791,755)	(85,606)	(6,737)	1,498,144	(7,656,799)	(11,132,278)
Fund balance June 30, 2009 (deficit)	(3,705,542)	7,054,072	167,494	-	308,177	8,489,636	12,313,837
Prior period adjustments (note 20)	-	15,156	-	142,733	(370,537)	(204,953)	(417,601)
<b>Fund balance June 30, 2010 (deficit)</b>	<b>\$ (2,795,067)</b>	<b>\$ 1,277,473</b>	<b>\$ 81,888</b>	<b>\$ 135,996</b>	<b>\$ 1,435,784</b>	<b>\$ 627,884</b>	<b>\$ 763,958</b>

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, 2010**

Net change in fund balance - total governmental funds \$ (11,132,278)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	22,121,315	
Less: current year depreciation	<u>(1,649,075)</u>	
		<b>20,472,240</b>

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 issued debt	(7,539,659)	
Principal payments	<u>2,874,000</u>	
		(4,665,659)

In the statement of activities, only the gain on the sale of the land is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from change in fund balance by the cost of the land sold. (1,407,600)

**Change in net assets of governmental activities \$ 3,266,703**

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGET BASIS)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budget Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 401,613	\$ 401,613	\$ 401,613	\$ -
Municipal license tax	14,747,873	14,747,873	9,265,957	(5,481,916)
Intergovernmental revenues	2,801,476	2,801,476	\$ 3,201,348	399,872
Licenses, permits and fines	1,033,625	1,033,625	182,111	(851,514)
Rent of properties	75,000	75,000	116,384	41,384
Interest income	773,404	773,404	311,978	(461,426)
Other revenues	550,000	550,000	3,090,464	2,540,464
Municipal Sales Tax	2,000,000	2,000,000	2,285,323	285,323
Other financial sources	7,138,924	7,138,924	7,896,425	757,501
<b>Total revenues</b>	<b>\$ 29,521,915</b>	<b>\$ 29,521,915</b>	<b>\$ 26,751,603</b>	<b>\$ (2,770,312)</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	11,659,951	12,154,073	12,666,331	(512,258)
Public safety	2,805,758	2,462,248	2,395,498	66,750
Public Works	8,868,838	9,023,478	8,926,665	96,813
Health	1,148,888	1,148,888	1,148,888	-
Culture and Recreation	4,007,594	3,437,356	3,258,154	179,202
Other	990,511	688,785	687,215	1,570
Transfer out to debt service	40,375	607,087	557,086	50,001
<b>Total expenditures</b>	<b>\$ 29,521,915</b>	<b>\$ 29,521,915</b>	<b>\$ 29,639,837</b>	<b>\$ (117,922)</b>
<b>Excess of revenues over (under) expenditures</b>			<b>\$ (2,888,234)</b>	<b>\$ (2,888,234)</b>
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 26,751,603
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				(401,825)
<b>Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances</b>				<b>\$ 26,349,778</b>
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 29,639,837
Differences - budget to GAAP:				
Non budgeted expenditures				191,174
Transfer from general fund for budgetary purpose only				(557,086)
<b>Total expenditures as reported on the statement of revenue, expenditures and change in fund balances</b>				<b>\$ 29,273,925</b>

See notes to budgetary comparison schedule.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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 implemented this Standard for the fiscal year ended June 30, 2003.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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, 2010 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 sustainability of **the Municipality** as an entity and 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, 2010**

**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 sources 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 based financial statements into the governmental column of the government-wide presentation.

**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.

Bond Issue Fund – Bond Issue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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, 2010**

**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 (non 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, 2010**

**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 balances 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, 2010**

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

**g. Budgetary Control**

The Municipality follows the following 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.

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

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

The 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.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**g. Budgetary Control (Continuation)**

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budge indicating: 1) interest, amortization and retirement public debt, 2) statutory obligations, 3) judicial claims payments, 4) any amount to cover prior years deficit, 5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtained of additional special property tax (municipal) collections. **The Municipality's** management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for debt service fund.

**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, 2010**

**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 leave 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, is 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 the Municipality revenue bonds 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. In debt service fund are unsecured and collateralized, as no collateral is required by governmental banks.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**n. Reservations of Fund Balance**

Undesignated – fund balance available for any purpose.

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.
- *Bond Issue Fund* – Represent net assets available to finance specified outlays.
- *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, 2010**

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

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

The total data under this column is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have not 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 10.33% for real property and 8.33% 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, 2010**

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 \$354,239 during 2010.

The following is a summary of the property tax advances that resulted in an accounts payable, for the year ended June 30, 2010. The resulting payable is presented as a decrease in the general fund and the Government Wide Financial Statements.

Account payable

Amortization through collections of property taxes by the CRIM	
07-01-09 - 06-30-10	\$ 9,288,426
Advance received, 07-01-09 - 06-30-10	(9,285,715)
Amount paid	(30,748)
Due to CRIM - 2010	\$ (28,037)

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**3. DEPOSITS**

**The Municipality's** cash and investments at June 30, 2010, 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 \$250,000. Deposits in excess of \$250,000 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, 2010**

**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, 2010 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, 2010 are as follows:

Funds	Due From	Due To
General	\$ 1,894,725	\$ -
Head Start Programs	4,466	17,629
Hud Programs	-	110,838
Other Funds	8,188	1,778,912
<b>TOTAL</b>	<b>\$ 1,907,379</b>	<b>\$ 1,907,379</b>

For the most part, the effect of inter-fund activity has been removed from the Statement of Net Assets (Government Wide Financial Statements).

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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, 2010 balances due to governmental entities of the general fund consists of the following:

Name	Due to
Puerto Rico Retirement System	\$ 185,158
General Administration Services	176,974
Puerto Rico Department of Labor	157,507
Puerto Rico Telephone Company	10,516
Puerto Rico Water Authority	59,621
Puerto Rico Employee Association System	22,134
Puerto Rico Department of Treasury	102,943
Municipal Revenue Collection Center	28,037
<b>TOTAL</b>	<b>\$ 742,890</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**9. CAPITAL ASSETS**

Include those changes pursuant to the implementation of GASB Statement No. 34, follows.  
Land and construction in progress are not subject to depreciation.

**Capital assets activity for the year ended June 30, 2010 was as follows:**

<b>Governmental activities:</b>	Balance 6/30/2009	Additions	Retirements and transfers dispositions	Balance 6/30/2010
Capital assets, not being depreciated:				
Land	\$ 1,994,657	\$ -	\$ -	\$ 1,994,657
Construction in progress	18,347,968	20,986,193	-	39,334,161
Total capital assets not being depreciated	<u>20,342,625</u>	<u>20,986,193</u>	<u>-</u>	<u>\$ 41,328,818</u>
Capital assets, being depreciated				
Buildings and building improvements	42,625,648	-	-	42,625,648
Infrastructure	16,715,949	-	-	16,715,949
Vehicles	6,418,406	861,809	-	7,280,215
Equipment	6,522,575	273,313	-	6,795,888
Total capital assets being depreciated	<u>72,282,578</u>	<u>1,135,122</u>	<u>-</u>	<u>73,417,700</u>
Less: accumulated depreciation for:				
Buildings and building improvements	11,596,749	-	752,479	12,349,228
Infrastructure	9,315,727	-	125,931	9,441,658
Vehicles	4,886,906	-	294,391	5,181,297
Equipment	2,673,132	-	476,274	3,149,406
Total accumulated depreciation	<u>28,472,514</u>	<u>-</u>	<u>1,649,075</u>	<u>30,121,589</u>
Total capital assets being depreciated, net	<u>43,810,064</u>	<u>1,135,122</u>	<u>1,649,075</u>	<u>43,296,111</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 64,152,689</u></b>	<b><u>\$ 22,121,315</u></b>	<b><u>\$ 1,649,075</u></b>	<b><u>\$ 84,624,929</u></b>

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

Governmental activities:	
General government	\$ 90,400
Public safety	83,099
Public works	890,699
Culture and recreation	3,252
Health	511,147
Educational and training	70,478
<b>Total depreciation expense governmental activities</b>	<b>\$ 1,649,075</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

The following is a summary of Bonds outstanding at June 30, 2010.

Description	Beginning Balance	Additions	Reductios	Ending Balance
General Obligations Bonds	\$ 47,693,776	\$ 9,637,000	\$ 2,874,000	\$ 54,456,776

**General Obligation Bonds:**

Description	Balance 06-30-10	Due within One Year
Series 1984, \$263,000 payable in annual installments of \$5,000 to \$18,000 until 2009: with interest of 5%.	\$ 13,764	\$ 13,764
Series 1992, \$229,000 payable in annual installments of \$4,000 to \$17,000 until 2016: with interest of 5.75%.	88,000	13,000
<b>SUB-TOTAL</b>	<b>\$ 101,764</b>	<b>\$ 26,764</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**General Obligation Bonds:**

Description	Balance 06-30-10	Due within One Year
Series 1992, \$257,000 payable in annual installments of \$6,000 to \$19,000 until 2016: with interest of 5.75%.	\$ 99,000	\$ 14,000
Series 1992, \$600,000 payable in annual installments of \$13,000 to \$44,000 until 2016: with interest of 5.75%.	229,000	33,000
Series 1993, \$277,000 payable in annual installments of \$6,000 to \$21,000 until 2016: with interest of 5.75%.	111,000	16,000
Series 1995, \$411,000 payable in annual installments of \$9,000 to \$29,000 until 2018: with interest of 6.62%.	193,000	20,000
Series 1998, \$1,380,000 payable in annual installments of \$15,000 to \$120,000 until 2022: with interest ranging from 4.87% to 6.56%.	1,025,000	50,000
Series 1998, \$105,000 payable in annual installments of \$2,000 to \$7,000 until 2023: with interest of 4.5%.	68,000	4,000
Series 1999, \$1,710,000 payable in annual installments of \$65,000 to \$185,000 until 2013: with interest ranging from 2.7% to 7.81%.	655,000	145,000
Series 1992, \$3,250,000 payable in annual installments of \$25,000 to \$160,000 until 2012: with interest ranging from 7.1% to 9%.	763,012	150,000
Serie 2008, \$315,000 payable in annual installments of \$35,000 to \$55,000 until 2014: with interest ranging from 3.93% to 7.5%.	240,000	40,000
Serie 2008, \$1,840,000 payable in annual installments of \$70,000 to \$195,000 until 2022: with interest ranging from 3.93% to 7.5%.	1,695,000	80,000
Serie 2008, \$1,205,000 payable in annual installments of \$20,000 to \$105,000 until 2032: with interest ranging from 3.93% to 7.5%.	1,165,000	20,000
Serie 2008, \$860,000 payable in annual installments of \$15,000 to \$70,000 until 2032: with interest ranging from 3.93% to 7.5%.	830,000	15,000
Serie 1997, \$5,875,000 payable in annual installments of \$80,000 to \$515,000 until 2021; with interest ranging fom 4.87% to 6.75%.	4,145,000	220,000
Serie 1995, \$660,000 payable in annual installments of \$15,000 to \$75,000 until 2013; with interest ranging fom 6.11% to 7.71%.	240,000	50,000
Serie 1993, \$833,000 payable in annual installments of \$18,000 to \$65,000 until 2016; with interest of 5.25%.	335,000	48,000
Serie 2005, \$5,500,000 payable in annual installments of \$200,000 to \$375,000 until 2022; with interest of 1.3%.	4,425,000	275,000
Serie 2006, \$10,940,000 payable in annual installments of \$210,000 to \$775,000 until 2030; with interest ranging fom 4.17% to 5.31%.	10,015,000	265,000
Serie 2006, \$3,695,000 payable in annual installments of \$70,000 to \$265,000 until 2030; with interest ranging fom 4.17% to 5.31%.	3,385,000	90,000
Serie 2007, \$260,000 payable in annual installments of \$30,000 to \$50,000 until 2013; with interest ranging fom 3.93% to 7%.	165,000	35,000
Serie 2007, \$120,000 payable in annual installments of \$10,000 to \$15,000 until 2016; with interest ranging fom 3.93% to 7%.	90,000	10,000
<b>SUB-TOTAL</b>	<b>\$ 29,873,012</b>	<b>\$ 1,580,000</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**General Obligation Bonds:**

Description	Balance 06-30-10	Due within One Year
Serie 2007, \$2,010,000 payable in annual installments of \$30,000 to \$165,000 until 2031; with interest ranging fom 3.93% to 7%.	\$ 1,910,000	\$ 40,000
Serie 2007, \$5,630,000 payable in annual installments of \$90,000 to \$450,000 until 2031; with interest ranging fom 3.93 to 7%.	5,345,000	110,000
<b>SUB-TOTAL</b>	<b>7,255,000</b>	<b>150,000</b>
<b>TOTAL</b>	<b>\$ 37,229,776</b>	<b>\$ 1,756,764</b>

**Revenue Obligation Bonds:**

Description	Balance 06-30-10	Due within One Year
Serie 1997, \$400,000 payable in annual installments of \$10,000 to \$40,000 until 2016; with interest ranging from 3.29% to 7.5%	\$ 195,000	\$ 25,000
Serie 2005, \$5,020,000 payable in annual installments of \$95,000 to \$380,000 until 2028; with interest ranging from 4.5% to 6%	4,260,000	130,000
Serie 2008, \$3,555,000 payable in annual installments of \$50,000 to \$300,000 until 2032; with interest ranging from 1.53% to 7.5%	3,505,000	55,000
Serie 2010, \$1,595,000 payable in annual installments of \$25,000 to \$135,000 until 2034; with interest ranging from 5% to 7.5%	1,595,000	25,000
Serie 2010, \$1,827,000 payable in annual installments of \$25,000 to \$152,000 until 2034; with interest ranging from 5% to 7.5%	1,827,000	25,000
Serie 2010, \$605,000 payable in annual installments of \$70,000 to \$105,000 until 2016; with interest ranging from 5% to 7.5%	605,000	70,000
Serie 2010, \$345,000 payable in annual installments of \$40,000 to \$65,000 until 2016; with interest ranging from 5% to 7.5%	345,000	40,000
Serie 2010, \$5,265,000 payable in annual installments of \$370,000 to \$720,000 until 2019; with interest ranging from 5% to 6.5%	4,895,000	370,000
<b>SUB - TOTAL</b>	<b>\$ 17,227,000</b>	<b>\$ 740,000</b>
<b>TOTAL</b>	<b>\$ 54,456,776</b>	<b>\$ 2,496,764</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

*The annual debt service requirements for the bonded debt outstanding as June 30, 2010 are as follows:*

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 2,620,500	\$ 3,178,135	\$ 5,798,635
2012	2,733,000	3,122,119	5,855,119
2013	2,610,000	3,009,091	5,619,091
2014	2,875,000	2,839,174	5,714,174
2015	2,605,000	2,674,740	5,279,740
Subsequent years	41,013,276	21,121,082	62,134,358
<b>TOTAL</b>	<b>\$ 54,456,776</b>	<b>\$ 35,944,341</b>	<b>\$ 90,401,117</b>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property tax restricted for debt services. Other obligations include compensated absences; LIMS refinance debt, claims and judgments.

**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	\$ 4,362,046
General funds	557,086
Municipal sales tax	526,601
<b>TOTAL</b>	<b>\$ 5,445,733</b>

*Expenditures for the year 2009-2010 were as follows:*

Principal	\$ 2,874,000
Interest	1,954,039
<b>TOTAL</b>	<b>\$ 4,828,039</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**13. RETIREMENT PLAN**

**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, "Retirement Pensions, Disability and Death Benefits", 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 (LAW 447)**

**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 years  
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.

No benefit is payable if the participant receives a refund of his accumulated contributions.

**Additional information of ERS is provided in its financial statements for the year ended June 30, 2010 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.**

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**13. RETIREMENT PLAN (Continuation)**

**NEW PLAN (REFORMA 2000)**

Eligibility

Age 65 with 10 years  
of service

Pension Benefits

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

For both plans, the employees are vested when attaining ten years of plan participation. 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.

Reforma 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under Reforma 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

**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.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**13. RETIREMENT PLAN (Continuation)**

**Contribution Requirements**

The Municipality's total payroll for the fiscal year 2010 amounted to approximately \$16,863,391. Common wealth legislation requires employees to contribute 5.775% of gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600. Municipality is required to contribute 9.275% of gross salary annually during year 2009. Municipality is required and actual contribution under Act 447 and Reforma 2000 were \$362,169 and \$487,601 respectively.

**Actuarial Valuation**

As of June 30, 2009, the ERS has an unfunded accrual liability of approximately \$17.1 billion, representing a 9.7% funding ratio. This information is not available by each participating government agency or municipalities.

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	7.5% a year
b) Salary increases	3.0% year
c) Pre-retirement Mortality	For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA.
Post-retirement Health Mortality	Gender-specific mortality rates were developed based on a study of plan's experience from 2003 to 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA.
Post-retirement Disabled Mortality	RP 2000 Disabled Annuitant Mortality Rates, without projection.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**13. RETIREMENT PLAN (Continuation)**

**Actuarial Valuation (Continued)**

d) Termination

Withdrawal rates vary by employee category.

e) Disability

Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, adjusted as set forth in the table below. Rates of disability cease to apply once a member is eligible for the 75% of the Highest Salary maximum benefit.

<b>Adjustment to 1987 CGDT</b>		
<b>Act</b>	<b>Members Covered under Act 127</b>	<b>Other Members</b>
447	100%	75%
1	100%	75%
2000	100% if more than 10 years from retirement eligibility.  300% if at or past retirement eligibility.  Interpolated from 100% to 300% in the 10 years leading up to retirement eligibility.	75%

100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127. For other members, 90% of disabilities occurring while in active service are assumed to be occupational and 10% are assumed to be non-occupational.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**13. RETIREMENT PLAN (Continuation)**

**Actuarial Valuation** (Continued)

f) Retirement

Rates of retirement vary by employment category, Act, and by age and years of Creditable Service.

<b>Act 447 General Employees (Includes General Hazardous Employees)</b>			
	<b>Service Condition</b>		
<b>Age</b>	<b>10 years</b>	<b>25 years</b>	<b>30 years</b>
45 to 49			10.0%
50 to 53			15.0
54			20.0
55 to 57		10.0%	20.0
58	5.0%	10.0	20.0
59 to 64	10.0	15.0	20.0
65 to 69	15.0	15.0	20.0
70	100.0	100.0	100.0

<b>System 2000 General Employees</b>		
<b>Age</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
60 to 66	15.0%	12.0%
67	100.0	100.0

<b>Act 447 Police &amp; Fire</b>			
	<b>Service Condition</b>		
<b>Age</b>	<b>10 years</b>	<b>25 years</b>	<b>30 years</b>
45 to 48			10.0%
49			15.0
50		7.0%	15.0
51 to 56		15.0	20.0
57		20.0	30.0
58	2.5%	20.0	100.0
59 to 64	10.0	25.0	
65 to 69	10.0	30.0	
70	100.0	100.0	

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**13. RETIREMENT PLAN (Continuation)**

**Actuarial Valuation** (Continued)

<b>System 2000 Police &amp; Fire</b>			
<b>Age</b>	<b>Service Condition</b>		
	<b>10 years</b>	<b>25 years</b>	<b>30 years</b>
45 to 48			9.0%
49			13.5
50		6.3%	13.5
51 to 56		13.5	18.0
57		18.0	27.0
58	2.25%	18.0	27.0
59 to 64	9.0	22.5	27.0
65 to 69	9.0	27.0	31.5
70	100.0	100.0	100.0

- g) Proportion of participants with spouses      50% of participants assumed to be married at retirement, with females assumed to be four years younger than males.
- 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

Accordingly, the pension expense for fiscal year 2010 was approximately \$850,000 that represented 100% of the contributions required by funding policies of the Plan.

**14. LONG TERM LIABILITIES**

**Compensated Absences**

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, 2010**

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

**Compensated Absences** (continuation)

The changes in Compensated absences for the year ended June 30, 2010 are as follows:

Governmental activity	June 30, 2009	Net increase	June 30, 2010	Due within One year
Compensated Absences	\$2,389,061	\$ 242,375	\$2,631,436	\$472,610

**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 expenditures for the year ended June 30, 2010, were approximately \$780,820 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. 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.

*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.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

*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 prior period of the single audit. These audit reports do not cover any findings subsequently disclosed to Municipality operations by the Comptroller's Office.

Contingencies and claims and judgments against the Municipality

The **Municipality** is a defendant in a number of lawsuits arising principally from claims against the **Municipality** for alleged improper actions. It is management's opinion, based on the advise of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are not determined at June 30, 2010.

**17. MUNICIPAL SALES TAX**

Pursuant to the provisions of the Law number 80 of July 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contributions of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by Treasury Department. The Act provides and optional surtax on the un-processed food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create the Municipal Development Fund (.02%), the Municipal Redemption Fund (.02%) and the Municipal Improvements Fund (.01%) with the remaining 0.5%. The Municipality collected \$2,285,323 during the year ended June 30, 2010.

**18. LAND HELD FOR SALE**

The Municipality, as part of an strategic within the "Plan de Obras y Mejoras Permanentes", has acquired several parcels of land for sale in the near future. The above mentioned land is ideal for the construction of tourism facilities, light industries and general commerce that will consolidate the economic development of the Municipality of Barceloneta. The total cost o acquiring this land is approximately \$3 million.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**19. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE COST:**

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB (GASB 18), "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has to perform a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations.

The Municipality of Barceloneta discontinued the landfill operation on December 31, 1998, allowing the 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. 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 and that the immediate threats have been addressed and the remedy is protective in the short-term. The Municipality implemented controls in order for the remedy to be protective in the long-term. During this year the Municipality provided maintenance and monitoring to the landfill super fund site with the employees of public work department.

The estimated annual Post-closure applicable to entire landfill is as follows: Maintenance of final cover \$70,000, Ground water monitoring \$25,525, total landfill cost \$95,525. Accordingly the total landfill costs for the next twenty years are estimated for \$1,910,500, and are included in the wide financial statements.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**20. RESTATEMENT OF 2009 FINANCIAL STATEMENTS**

During the fiscal year ended June 30, 2010 **the Municipality** noted that certain liabilities had been overstated or understated as well as other differences related with adjustments to capital assets and reclassification of certain fund balances. As a result the fund balance of program funds at June 30, 2010, as previously reported, had been increased by \$15,156 in the Bond issue fund, the debt service fund decreased by \$370,357 and other funds by \$62,220. The net asset was decrease by the provision for twenty years in the landfill monitoring and maintenance.

	Net assets	Bond issue fund	Debt Service	Other Funds
Beginning balance at				
June 30, 2009	\$ 28,196,965	\$ 7,054,072	\$ 308,177	\$ 8,489,636
Accounts payable cancelled from prior year	-	15,156	-	-
Acrued Expense from landfill cost from prior year	(2,590,493)	-	(370,537)	(62,220)
Beginning balance, as restated June 30, 2009	\$ 25,606,472	\$ 7,069,228	\$ (62,360)	\$ 8,427,416

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**Certified Public Accountant**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
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, 2010 and have issued my report thereon dated December 9, 2010. 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 in the internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weakness, as defined 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that I reported to management of Municipality of Barceloneta Puerto Rico in a separate letter dated December 9, 2010.

This 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  
December 9, 2010

The stamp number 2541923  
was affixed to the  
original of this report



*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2013

**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, 2010. The Municipality of Barceloneta major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Barceloneta's management. My responsibility is to express an opinion on Municipality of Barceloneta compliance based on my audit.

I conducted my audit 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, Local Governments and Non-Profit Organizations". Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether 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's 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 of Municipality of Barceloneta's 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, 2010.

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, I 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 defined above.

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  
December 9, 2010

The stamp number 2541924  
was affixed to the  
original of this report



*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2013

**MUNICIPALITY OF BARCELONETA, PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through State Commissioner of Municipal Affairs			
Community Planning and Development			
Community Development Block Grant (State Program)			
CDBG - 2009	14.218	2009	\$ 64,770
CDBG - 2008	14.218	2008	267,030
CDBG - 2007	14.218	2007	593,700
CDBG - 2006	14.228	2006	148,739
CDBG - 2005	14.228	2005	86,699
<b>ARRA - Community Development Block Grant Program</b>			
<b>ARRA Entitlement Grant</b>	14.253	CDBG-R	<u>\$ 33,338</u>
			1,194,276
Direct Program:			
<b>ARRA - Homeless Prevention &amp; Rapid Re-Housing Program</b>	14.257	N/A	37,057
Section 8- Housing Choice Voucher	14.871	RQ-46-V-054-002/004	764,999
Community Development Block Grant - Section 108 loan guarantee	14.248	N/A	<u>18,002</u>
			820,058
<b>Total U.S. Department of Housing and Urban Development</b>			<b>2,014,334</b>
<u>U.S. Department of Health and Human Services:</u>			
Administration for children and families			
Direct Program:			
Early Head Start	93.600	02-CH-9892-03	1,007,615
<b>ARRA - Early Head Start</b>	93.709	02-SE-9892-01	<u>72,058</u>
			<b>1,079,673</b>
Passed-through the Commonwealth of Puerto Rico Governors Office for the: Care and Integral Development of Children:			
Head Start	93.600	02-CH-0483	2,839,430
<b>ARRA Head Start - Stimulus</b>	93.708	N/A	36,276
Child Care Mandatory matching fund of the Child Care and Development Fund	93.596	CHC-0421	408,309
<b>ARRA Child Care Development Block Grant</b>	93.713	N/A	<u>5,850</u>
			<b>3,289,865</b>
Passed-through the Commonwealth of Puerto Rico Governors Office for the: Administration on Aging			
Special Program for the Aging - Title III, Part B Grant for Supportive Service and Senior Center	93.044	N/A	<u>89,150</u>
<b>Total U.S. Department of Health and Human Service</b>			<b>4,458,688</b>

**MUNICIPALITY OF BARCELONETA, PUERTO RICO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Agriculture:</u>			
Passed-through the Commonwealth of P.R. Governors Office for the:			
Department of Education			
Child Care Food Program	10.558	N/A	303,344
Child Care Development Food Program	10.558	N/A	11,587
Early Child Food Program	10.558	N/A	94,770
<b>Total U.S. Department of Agriculture</b>			<b>409,701</b>
<u>U.S. Department of Transportation Federal Transit Administration</u>			
Direct Program:			
Federal Transit - Capital Investment Grants	20.500	N/A	1,019,546
<b>ARRA Federal Transit Formula Grants</b>	20.507	N/A	204,605
Passed-through the Commonwealth of P.R. Governors Office of			
Puerto Rico Traffic Safety Commission			
State and Community Highway Safety	20.600	N/A	105,261
<b>Total U.S. Department of Transportation Federal Transit Administration</b>			<b>1,329,412</b>
<u>U.S. Department of Transportation Federal Transit Administration</u>			
Passed-through the Commonwealth of P.R. Governors Office of			
Department of Justice P.R.			
<b>ARRA Federal Transit Formula Grants</b>	16.803	N/A	118,072
<b>Total U.S. Department of Justice</b>			<b>118,072</b>
<b>TOTAL EXPENDITURE FEDERAL AWARDS</b>			<b>\$ 8,330,207</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, 2010**

(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, Federal Transit Administration Program and **American Recovery and Reinvestment Act Stimulus Programs** represents the major federal financial awards of the Municipality. Major federal awards represent 96% 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	\$ 2,014,334	\$ 4,458,688	\$ 1,857,185	\$ 8,330,207
State & Municipal Expenditures	-		10,076,365	\$ 10,076,365
<b>TOTAL</b>	<b>\$ 2,014,334</b>	<b>\$ 4,458,688</b>	<b>\$ 11,933,550</b>	<b>\$ 18,406,572</b>

**MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

Significant deficiency(s) identified not considered  
to be material weaknesses? \_\_\_\_\_  X  Yes \_\_\_\_\_ No

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

Federal Awards

Internal control over major programs:

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

Significant deficiency(s) identified not  
Considered being material weaknesses? \_\_\_\_\_ Yes  X  No

Type of auditor's report issued on compliance  
for major programs Unqualified

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

**MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

Identification of Major Programs

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
14.871	Section 8 – Housing Choice Voucher
93.600	Head Start Early Head Start
93.596	Child Care Mandatory and Matching funds of the Child Care and Development Fund
10.558	Child Care Food Program
14.228	Community Development Block Grant (State Program)
20.500	Federal Transit – Capital Investment Grant
<b>14.257</b>	<b>ARRA - Homeless Prevention and Rapid Re-Housing Program</b>
<b>16.803</b>	<b>ARRA - Byrne Memorial Justice Assistant Grant</b>
<b>20.507</b>	<b>ARRA - Federal Transit – Formula Grants</b>
<b>93.708</b>	<b>ARRA – Head Start</b>
<b>93.708</b>	<b>ARRA - Early Head Start</b>
<b>93.713</b>	<b>ARRA - Child Care Development Block Grant</b>
<b>14.253</b>	<b>ARRA – Community Development Block Grant Program ARRA Entitlement Grant</b>

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  
FOR THE YEAR ENDED JUNE 30, 2010**

**Program: Accounting and Finance Department  
General Fund – Deficit  
Year ended June 30, 2010**

Ref. No.	Finding / Noncompliance	Questioned Cost
2010-01	<u>Statement of Condition and Criteria</u>	-0-

It was noted in my test of balance of accounts that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems for Regulations for Municipal Administration and with GASB codifications 1700, with requirements stated in OMB Circular A-133.

Cause

The Municipality has some deficiencies in its financial management systems, and financial reporting practices as related to the General Fund.

Effect

The lack of deficiency in the financial management systems does not permit the Municipality:

- a) To provide services to citizens without affecting them.
- b) To determine compliance with finance – related legal and contractual provisions.

Auditors Recommendation

The Municipality should revise and evaluate in a monthly basis revenues and disbursements to adjust disbursements to the revenues receipts to comply with the Standards of Financial Management Systems for Regulations for Municipal Administration; and with GASB codifications 1700 with requirements stated in OMB Circular A-133. Implement measures to reduce the Municipal deficit. Evaluate the impact in the revenues of the change in construction tax and the increase of the real and personal taxes. Evaluate the impact in the disbursement to approve only necessary professional services and consolidate services.

Municipality Response

The Municipality management took serious and radical measures to minimize the impact of this condition and expects to correct them in the near future.

**MUNICIPALITY OF BARCELONETA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010**

2009 – Finding No. 1: Accounting and Finance Department  
General Fund Deficit  
Year ended June 30, 2009  
**Finding reported again.**

2009 – Finding No. 2: Section 8 – Housing Choice Voucher  
CFDA No. 14.871  
Year ended June 30, 2009  
**Finding was corrected.**



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

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2010  
(CONTINUE)**

Ref. No. Finding /Corrective Action  
2010-01 Planned/Person Responsible:

UNIDAD DE CORRECCION  
10 DEC 27 AM 11:25  
Anticipated  
Completion Date

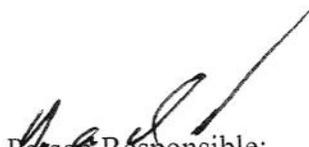
Statement of Condition:

The General Fund is not complying with budget balances and criteria established by the Standards of Financial Management System for Regulations for Municipal Administration, with GASB codification 1700, with Requirements stated in OMB Circular A-133 and with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended.

On or before  
end of 2010-11  
fiscal year

Corrective Action Planned:

The Finance Director will establish adequate procedure to permit the preparation of reliable budget and comply with all standards, requirements and laws that apply.

  
Person Responsible:  
Noel Gutiérrez  
Finance Director