

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

**MUNICIPIO DE BARCELONETA
AUDITORÍA 2011-2012
30 DE JUNIO DE 2012**

Oficina del Comisionado
de Asuntos Municipales
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**MUNICIPALITY OF BARCELONETA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2012
(INDEPENDENT AUDITOR'S REPORT)**

MUNICIPALITY OF BARCELONETA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2012

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MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) 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, 2012. The MD & A should be read in conjunction with the transmittal letter on page 10 and the Municipality's financial statements, which begin on page 13. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended June 30, 2012. This MD & A is prepared in order to comply with such pronouncement and, 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 \$29,933,707 net assets increased by \$1,191,480 when compared with prior year.
- Revenues were \$626,327 less than last year; expenses were \$1,617,999 less than last year as reported in the Statement of Activities.
- The Municipality had reported in the General Fund a deficiency of expenditures over revenues amounting to \$8,833,426 in the accompanying statement of revenues, expenditures and changes in fund balances.
- Loans principal payments were \$3,393,012 during fiscal year 2011-12, new bond issue were \$5,727,000, for public improvement, infrastructure, motor vehicles and prior debts.
- The actual revenues were \$28,087,505 and the expenditures were \$27,330,744 creating an excess of \$756,760 over the revenues in the Budgetary Schedule mainly due to unfavorable variances in revenues, (Municipal license tax and Municipal tax).
- The Municipality government fund reported combined ending fund balances of \$574,166 in the accompanying statement of revenues, expenditures and changes in fund balances.
- The Municipality has reported a net unassigned fund balance deficit for the general fund amounting to \$8,833,426.

Fundamentals of Financial Statements Presentation

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

MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Fundamentals of Financial Statements Presentation (Continued)

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

General Fund

In spite of the difficult economic situation during fiscal year 2011-2012 and the budgetary deficit that the island of Puerto Rico has run through, our administration has worked very responsibly by paying attention to most urgent requests but without overlooking what is important and necessary. To that effect we have promoted and completed several projects related to permanent improvements in various areas that will provide quality facilities to the citizens of the Municipality.

The property tax revenue represents 25% of total revenues of the municipality during the last five years. The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality of Barceloneta and for the levy, administration and collection of the corresponding taxes.

However, we deal with a deficit situation in the general fund of approximately \$8.8 million at June 30, 2012. The decrease in the deficit during fiscal year 2011-2012 is due mainly to Municipal tax that was realized as needed. Construction projects in our Municipality have not been accomplished due to local banks inability to finance projects due to economic hardships. In addition, one industry company did not obtain their expected volume of business and, accordingly, this affected our revenue estimates. Therefore, we expect that during fiscal year 2011-2012 the construction projects receive final endorsement from the appropriate authorities and, accordingly, our Municipality's Management will correct the deficit in the general fund with 2011-2012 revenue sources.

Financial Statements Components

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

Governmental-wide financial statements - The government-wide financial statements which begin on page 11 of this report are designed to provide users 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. Increase or decrease of net assets may serve as an indicator of whether the municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year revenues and expenses are taken into account regardless of when cash is received or paid.

MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Financial Statements Components (continued)

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

The Statement of Net Assets and the statement of activities, on page 13-14 report the Municipality net assets and changes in them. One can analyze of the Municipality's net assets, as the difference between assets and liabilities, as one way to measure the Municipality's financial position. The increases or decreases in the Municipality's net assets are one of the indicators of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered, such as changes in the Municipality's property tax base, and the condition of roads, to assess the overall health of the Municipality's of Barceloneta.

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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 assets be valuated 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.

MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Infrastructure Assets (continued)

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 \$29,933,707 at the close of the recent fiscal year compared to \$30,147,885 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, 2012 and 2011

	2012	2011	Changes	%
Current and other assets	\$ 19,026,311	\$ 28,921,073	\$ (9,894,762)	-34%
Capital assets net	94,136,356	88,987,408	5,148,948	6%
Total assets	113,162,667	117,908,481	(4,745,814)	-0.04
Current and other liabilities	19,581,087	26,307,404	(6,726,317)	-26%
Long-term liabilities	63,647,873	61,453,192	2,194,681	4%
Total liabilities	83,228,960	87,760,596	(4,531,636)	-5%
Net assets:				
Invested in capital assets, net of related debt	61,111,508	53,352,415	7,759,093	15%
Restricted	6,360,937	10,675,959	(4,315,022)	-40%
Committed	2,772,814	1,327,544	1,445,270	
Unrestricted (deficit)	(40,311,552)	(35,208,033)	(5,103,519)	14%
Total net assets	\$ 29,933,707	\$ 30,147,885	\$ 214,178	1%

The decrease of \$8.4 million in current net assets was mainly due to decrease in cash of other funds; current liabilities were reduce by 6.7 million principally is reflected in accounts the accounts payable account. Capital asset net increase by: 5.7 million. The Land was reclassify for the amount of \$3.million. At the same time created an increased in the net invested in capital asset by \$7.7 million. Long-term liabilities increased by \$2.1 million are reflected principally in the Bonds payable of \$2.3 million.

MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Statement of Net Assets (continued)

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

	6/30/2012	%	6/30/2011	%	Change
Land	\$ 7,189,187	8%	\$ 4,104,657	5%	\$ 3,084,530
Construction in progress	27,084,326	29%	27,528,167	31%	(443,841)
Building and improvements, net	45,628,090	48%	43,823,979	49%	1,804,111
Infrastructure	7,035,148	7%	7,153,198	8%	(118,050)
Equipment, net	4,471,349	5%	4,277,016	5%	194,333
Motor vehicles	2,728,256	3%	2,100,391	2%	627,865
Total Net Capital Asset	\$ 94,136,356		\$ 88,987,408		\$ 5,148,948

The net building improvements net represent 39 percent and 48 percent of total asset and net capital assets respectively. Construction in progress represents 23 percent of total asset and 29 percent and net capital asset. The increases in building and improvements by \$1.8 million, when compare to prior year includes \$7.6 million increase in projects from Bond Issued Funds.

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MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

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

Statements of Activities
For the year ended June 30, 2012 and 2011
Changes in Net Assets

	2012	2011	Changes	%
General Revenues				
Property tax	\$ 10,261,785	\$ 12,318,201	\$ (2,056,416)	-17%
Municipal licenses tax	7,716,764	8,705,723	(988,959)	-11%
Intergovernmental revenue	6,857,934	4,939,028	1,918,906	39%
Rent	1,599,198	962,012	637,186	66%
Interest	401,817	360,817	41,000	11%
Other revenue	657,638	1,272,474	(614,836)	-48%
Municipal sales tax	4,411,818	3,875,010	536,808	14%
Program revenues:				
Capital grant	2,185,205	1,728,981	456,224	26%
Operating grant	5,616,736	6,172,976	(556,240)	-9%
Total Revenues	39,708,895	40,335,222	(626,327)	-2%
			-	
Expenditures				
General government	15,404,486	17,414,841	(2,010,355)	-12%
Public safety	3,057,335	2,452,284	605,051	25%
Public wok	7,212,561	8,454,829	(1,242,268)	-15%
Health	1,915,192	1,772,825	142,367	8%
Education and training	3,270,613	4,625,645	(1,355,032)	-29%
Culture and recreation	4,032,065	2,978,131	1,053,934	35%
Other expenditures	666,378	721,516	(55,138)	-8%
Interest and fiscal charges	2,619,871	2,323,785	296,086	13%
Charges for services	338,914	17,485	321,429	1838%
Total Expenditures	38,517,415	40,761,341	(2,243,926)	-6%
Changes in net assets	\$ 1,191,480	\$ (426,119)	\$ 1,617,599	-380%

MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

The Statement of Activities reflects for fiscal year 2012, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to increase of \$2,191,680 in the Municipality's net assets. Approximately 57 percent of the Municipality's total revenue came from taxes, while 19 percent resulted from Federal grants and 18 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, 2012, shows that total expenses incurred to afford the cost of all functions and programs amounted to \$37,517,415. Upon examining the sources of revenues for the financing of the programs, the Statement reflects the following; \$338,914 for charges for service, \$5,277,822 from operating grants and contributions; and \$2,185,205 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$39,370,181. Expenses decreased by \$2.5 million or 6 percent when compare to prior year.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

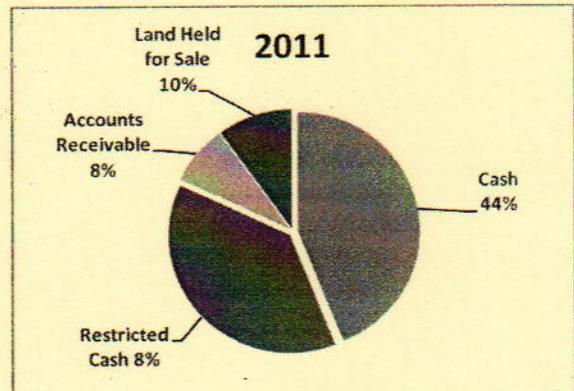
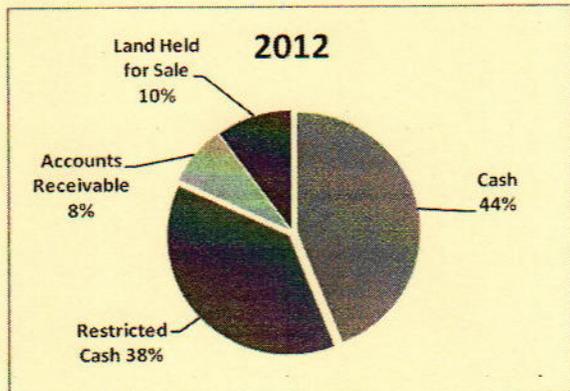
Governmental Funds
Balance Sheets
June 30, 2012 and 2011

	2012	2011	Changes	%
Assets:				
Cash	\$ 7,507,433	\$ 13,391,096	\$ (5,883,663)	-44%
Restricted Cash	10,595,195	11,675,546	(1,080,351)	-9%
Accounts Receivable	2,266,226	2,241,410	24,816	1%
Land held for sale	-	3,084,530	(3,084,530)	-100%
Total Assets	\$ 20,368,854	\$ 30,392,582	\$ (10,023,728)	-33%
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and due to other funds	\$ 11,245,665	\$ 19,336,769	\$ (8,091,104)	-42%
Deferred revenue	9,677,965	7,948,494	1,729,471	22%
Total Liabilities	20,923,630	27,285,263	\$ (6,361,633)	-23%
Funds Balances	(554,776)	3,107,319	(3,662,095)	-118%
Total liabilities and Fund Balances	\$ 20,368,854	\$ 30,392,582	\$ (10,023,728)	-33%

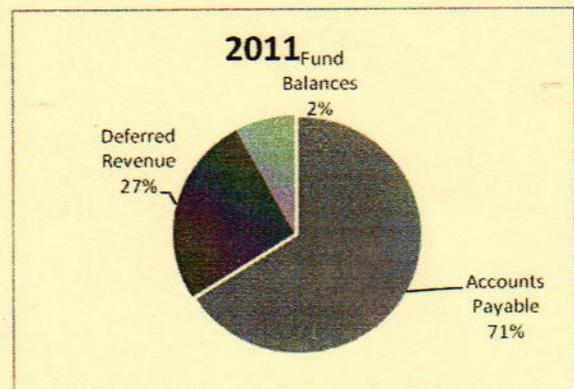
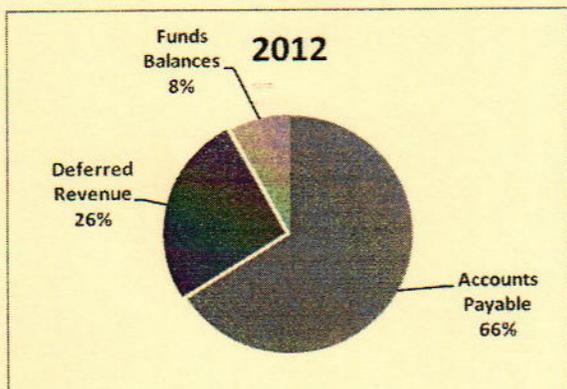
**MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS (continued)

ASSETS



LIABILITIES AND FUND BALANCE



The Governmental Fund Financial Statements is another important component of the Municipality's financial statements. A fund is a grouping of related accounts 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 through 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 2012 the municipality had \$11.4 million of cash restricted, in the bond issued fund \$3.3 and in the debt service was obligated by \$8.5 million. Cash for the amount of \$2.4 million is obligated for Special Revenue Fund and accounts payable. The account payable decreased by: \$9.3 million. Deferred revenues increased by: \$1.7 approximately.

MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Statements of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2012 and 2011

The most significant changes of this statement were as follows:

- Revenues from property tax decreased by \$2 million due to a decrease in property tax collection. The increase in Intergovernmental revenues of \$1.9 was the result of increase in funds received from central government. Revenue from volume business tax declaration were reduced by \$.9 million when compared with prior year, reflected in sales reported in the municipal tax declaration, was reduced approximately by 10 percent in many taxpayer, the sales for 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 2% of the tax paid which is 13 percent of tax paid. Other revenues decrease by \$98,752, principally for eventual income.
- Expenditures were increased by approximately \$1.2 million reflected by an increase in Capital outlays expense when compared the prior year. The general government expenditures an public work and expenditures decreased by \$3 million, principally.

	2012	2011	Changes	%
Revenues:				
Property taxes	\$ 10,261,785	\$ 12,318,201	\$ (2,056,416)	-17%
Municipal taxes	7,716,764	8,705,723	(988,959)	-11%
Intergovernmental revenue	6,857,934	4,939,028	1,918,906	39%
Federal grants	7,463,027	7,901,957	(438,930)	-6%
Sales Tax	4,411,818	3,875,010	536,808	14%
Other	2,997,567	3,096,319	(98,752)	-3%
Total Revenues	\$ 39,708,895	\$ 40,836,238	\$ (1,127,343)	-3%
Expenditures and Fund Balance				
Expenditures:				
General Government	\$ 15,301,445	\$ 17,330,944	\$ (2,029,499)	-12%
Public works	6,464,553	7,569,840	(1,105,287)	-15%
Public safety	2,966,280	2,378,145	588,135	25%
Health	1,148,888	1,148,888	-	0%
Capital outlays	6,754,308	3,990,698	2,763,610	69%
Culture and recreation	3,267,400	2,975,515	291,885	10%
Bonds (principal and interest)	6,012,883	5,206,549	806,334	15%
Education and training	3,959,964	4,566,939	(606,975)	-13%
Other expenditures	666,378	721,516	(55,138)	-8%
Total Expenditures	\$ 46,542,099	\$ 45,889,034	\$ 653,065	1%
Excess of revenues (expenditures)				
under expenditures (revenues)	(6,833,204)	(5,052,796)	(1,780,408)	35%
Fund Balance, ending	\$ (554,776)	\$ 980,824	\$ (1,535,600)	

MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Economic Factors and Next Year Budget

The Municipality is a political legal entity with full legislative and administrative powers in every area of the municipal government, with perpetual existence and legal personality, separate and independent from the central governmental of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which has 14 members, exercises the legislative power.

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 2011-2012.

The Budget for Revenues and expenditures were \$29.4 million for the general fund, total revenues decreased \$1.3 million when comparing the budgeted revenues with the actual revenue. The Municipal license tax decreased by: \$4.6. The actual expenditures were \$1.5 less than budgeted expenditures.

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 wills 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 2012. 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.

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

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Barceloneta
Barceloneta, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Barceloneta**, as of and for the year ended **June 30, 2012**, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Municipality of Barceloneta** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our 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. Those standards require that we 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously 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** of the Commonwealth of Puerto Rico, as of **June 30, 2012**, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

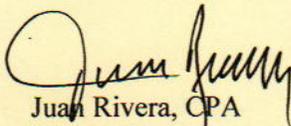
In accordance with *Government Audit Standards*, we have also issued our report dated **March 23, 2013** on our consideration of the **Municipalities of Barceloneta** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over a financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Budgetary Comparison* information on pages 1 through 10 and 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the

required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Barceloneta** of the Commonwealth of Puerto Rico's financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by *US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Barceloneta** financial statements. The introductory and statistical sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.


Juan Rivera, CPA
License 2214

March 23, 2013
Toa Baja, Puerto Rico



Stamp No. 2669711 of the Puerto Rico Society of Certified Public Accountants were affixed to the record copy of this report.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2012

<u>ASSETS</u>	Governmental Activities
Cash and investments	\$ 7,507,433
Cash with fiscal agent	10,595,195
Accounts receivable volumen business tax	99,954
Other accounts receivable	368,350
Accounts receivable from federal government	397,319
Accounts receivable from government	58,060
Capital Assets, net of accumulated depreciation	94,136,356
Total assets	<u>\$ 113,162,667</u>
<u>LIABILITIES AND NET ASSETS</u>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 3,104,762
Due to government entity	2,304,941
Deferred revenue	9,677,965
Non-current liabilities:	
Due within one year	4,493,419
Due in more than one year	63,647,873
Total liabilities	<u>83,228,960</u>
Net Assets:	
Invested in capital assets, net of related debt	61,111,508
Restricted for:	
Debt service	4,038,522
Other activities	461,881
Capital project activity	1,860,534
Committed	2,772,814
Unrestricted (deficit)	(40,311,552)
Total Net Assets	<u>29,933,707</u>
Total Liabilities and Net Assets	<u>\$ 113,162,667</u>

See notes to financial statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues			Net (expense) revenue and change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
EXPENDITURES:				
General government	\$ 15,404,486	\$ -	\$ (1,382,245)	\$ 11,837,036
Public works	7,551,475	(338,914)	-	7,212,561
Public safety	3,057,335	-	-	3,057,335
Health	1,915,192	-	-	1,915,192
Culture and recreation	3,270,613	-	-	3,270,613
Education and training	4,032,065	-	(3,895,577)	136,488
Other expenditures	666,378	-	-	666,378
Interest on long-term debt	2,619,871	-	-	2,619,871
Total governmental activities	\$ 38,517,415	\$ (338,914)	\$ (5,277,822)	\$ 30,715,474
GENERAL REVENUES:				
Property taxes				\$ 10,261,785
Municipal licenses tax				7,716,764
Intergovernmental revenues				6,857,934
Rent of properties				1,599,198
Interests income				401,817
Other Revenues				657,638
Municipal sales tax				4,411,818
Total general revenues				31,906,954
Change in net assets				1,191,480
Net assets at beginning of year				29,398,551
Prior period adjustments (note 18)				(656,324)
Beginning balance restated				28,742,227
Net assets at end of year				\$ 29,933,707

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 4,961,617	\$ -	\$ 69,041	\$ 30,041	\$ -	\$ 2,446,734	\$ 7,507,433
Cash with fiscal agent and other	107,521	1,955,733	-	-	8,531,941	-	10,595,195
Accounts receivable volumen business tax	99,954	-	-	-	-	-	99,954
Due from other funds	398,082	-	-	-	-	944,461	1,342,543
Other accounts receivable	368,350	-	289,690	107,629	-	-	368,350
Accounts receivable from Federal government	-	-	-	-	-	-	397,319
Accounts receivable from government	58,060	-	-	-	-	-	58,060
Total assets and other debits	\$ 5,993,584	\$ 1,955,733	\$ 358,731	\$ 137,670	\$ 8,531,941	\$ 3,391,195	\$ 20,368,854

LIABILITIES AND FUND BALANCES

Liabilities:							
Accounts payable and accrued liabilities	\$ 1,681,221	\$ 159,110	\$ 199,364	\$ 33,789	\$ 4,493,419	\$ 812,856	\$ 7,379,759
Due to special general fund and other funds	944,461	-	63,762	490	-	333,830	1,342,543
Due to governmental entities	2,304,941	-	-	-	-	-	2,304,941
Deferred revenue - (volume business tax)	9,677,965	-	-	-	-	-	9,677,965
Accrued employee benefits	218,422	-	-	-	-	-	218,422
Total liabilities	14,827,010	159,110	263,126	34,279	4,493,419	1,146,686	20,923,630
Fund balances:							
Restricted for:							
Debt service	-	1,796,623	-	-	4,038,522	-	4,038,522
Capital projects activity	-	-	63,911	-	-	-	1,860,534
Other activities	-	-	-	103,391	-	358,490	461,881
Committed	855,101	-	31,694	-	-	1,886,019	2,772,814
Unassigned	(9,688,527)	-	-	-	-	-	(9,688,527)
Total fund balances	(8,833,426)	1,796,623	95,605	103,391	4,038,522	2,244,509	554,776
Total liabilities and fund balance	\$ 5,993,584	\$ 1,955,733	\$ 358,731	\$ 137,670	\$ 8,531,941	\$ 3,391,195	\$ 20,368,854

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

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ (554,776)
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	
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	\$ 2,163,948
Bonds payable	59,860,000
Municipal solid waste landfill post-closure cost	1,623,925
Total long-term liabilities	\$ 63,647,873
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 29,933,707

**MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:							
Property taxes	\$ 6,490,768	\$ -	\$ -	\$ -	\$ 3,771,017	\$ -	\$ 10,261,785
Municipal license tax	7,716,764	-	-	-	-	-	7,716,764
Licenses, permits, fines and sales tax	338,914	-	-	-	-	-	338,914
Intergovernmental revenues	4,782,634	-	-	-	-	2,075,300	6,857,934
Rent of properties	108,293	-	-	-	-	1,490,905	1,599,198
Interest income	400,319	-	-	-	1,498	-	401,817
Other revenues	657,638	-	-	-	688,323	-	657,638
Municipal sales tax	3,723,495	-	-	-	-	-	3,723,495
Federal financial award	-	-	2,185,205	3,895,577	-	1,382,245	7,463,027
Total revenues	24,218,825	-	2,185,205	3,895,577	4,460,838	4,948,450	39,708,895
EXPENDITURES:							
Current:							
General government	10,450,930	-	1,274,654	-	-	3,575,861	15,301,445
Public works	6,464,553	-	-	-	-	-	6,464,553
Public safety	2,966,280	-	-	-	-	-	2,966,280
Health	1,148,888	-	-	-	-	-	1,148,888
Capital outlays	-	1,405,240	940,664	-	-	4,408,404	6,754,308
Culture and recreation	3,267,400	-	-	-	-	-	3,267,400
Education and training	-	-	-	3,959,964	-	-	3,959,964
Other expenditures	666,378	-	-	-	-	-	666,378
Debt service:							
Principal retirement	-	-	-	-	3,393,012	-	3,393,012
Interest and fiscal charges	-	-	-	-	2,619,871	-	2,619,871
Total expenditures	24,964,429	1,405,240	2,215,318	3,959,964	6,012,883	7,984,265	46,542,099
Excess of revenues over (under) expenditures	(745,604)	(1,405,240)	(30,113)	(64,387)	(1,552,045)	(3,035,815)	(6,833,204)
Other financing sources (uses):							
Transfer to debt service fund	(1,144,137)	-	-	-	2,067,542	923,405	-
Net bond issued debt	-	5,704,262	-	-	-	-	5,704,262
Transfer from bond issued fund	3,037,936	(4,299,022)	-	-	-	1,261,086	-
Total other financing sources (uses)	1,893,799	1,405,240	-	-	2,067,542	337,681	5,704,262
Excess of revenues and other sources over (under) expenditures and other uses	1,148,195	-	(30,113)	(64,387)	515,497	(2,698,134)	(1,128,942)
Net change in fund balances	1,148,195	-	(30,113)	(64,387)	515,497	(2,698,134)	(1,128,942)
Fund balance June 30, 2011 (deficit)	(6,897,091)	2,677,833	125,718	167,778	2,645,214	3,535,985	2,255,437
Prior period adjustments (note 19)	(3,084,530)	(881,210)	-	-	877,811	1,406,658	(1,681,271)
Beginning Balance Restated	(9,981,621)	1,796,623	125,718	167,778	3,523,025	4,942,643	574,166
Fund balance June 30, 2012 (deficit)	(8,833,426)	1,796,623	95,605	103,391	4,038,522	2,244,509	(554,776)

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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, 2012**

Net change in fund balance - total governmental funds \$ (1,128,942)

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	6,754,308	
Less: current year depreciation	<u>(2,122,636)</u>	
		4,631,672

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	(5,704,262)	
Principal payments	<u>3,393,012</u>	
		<u>(2,311,250)</u>

Change in net assets of governmental activities **\$ 1,191,480**

See notes to financial statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budget Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Property taxes	\$ 401,613	\$ 401,613	\$ 401,613	\$ -
Municipal license tax	12,513,135	12,513,135	7,878,971	(4,634,164)
Intergovernmental revenues	5,009,502	5,009,502	4,782,624	(226,878)
Licenses, permits and fines	841,500	841,500	441,189	(400,311)
Rent of properties	100,000	100,000	108,292	8,292
Interest income	215,000	215,000	400,319	185,319
Other revenues	196,000	196,000	3,695,574	3,499,574
Municipal Sales Tax	3,500,000	3,500,000	3,723,495	223,495
Other financial sources	6,655,427	6,655,427	6,655,427	-
Total revenues	\$ 29,432,177	\$ 29,432,177	\$ 28,087,504	\$ (1,344,673)
EXPENDITURES:				
Current:				
General Government	12,731,162	13,512,465	11,672,838	1,839,627
Public safety	3,029,444	2,378,145	2,966,580	(588,435)
Public Works	7,688,416	7,569,840	6,464,523	1,105,317
Health	1,148,888	1,148,888	1,148,888	-
Culture and Recreation	3,454,401	2,975,515	3,267,400	(291,885)
Other	621,066	547,109	666,378	(119,269)
Transfer out to debt service	758,800	713,925	1,144,137	(430,212)
Total expenditures	\$ 29,432,177	\$ 28,845,887	\$ 27,330,744	\$ 1,515,143
Excess of revenues over (under) expenditures			\$ 756,760	\$ 170,470
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 28,087,504
Differences - budget to GAAP:				(3,243,185)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				(625,494)
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				\$ 24,218,825
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 27,330,744
Differences - budget to GAAP:				(1,222,178)
Non budgeted expenditures				(1,144,137)
Transfer from general fund for budgetary purpose only				(1,144,137)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				\$ 24,964,429

See notes to budgetary comparison schedule.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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's** 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)* and *GASB Statement No. 39, Determining Whether Certain Organizations are Component Unites - Amendment of GASB Statement No. 14 (GASB No. 39)* to determine its financial reporting entity.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which in may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete.

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, 2012 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's** 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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Special Revenue Fund Head Start – 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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The principal revenues sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and certain charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying FFFS, except for amounts recorded as deferred revenues.

All revenues, expenses, gains losses and assets resulting from non-exchanges transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012.

f. 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:

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. 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.

h. Inventories

The general funds purchase 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.

i. 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.

j. 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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. 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.

l. 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.

m. Fund Balance

During year ended June 30, 2012, the Municipality implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Type Definitions ("GASB 54"). The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The implementation of this statement had no impact on the total fund balances for the Municipality's governmental funds.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Municipality classifies governmental fund balances as follows:

- **Nonspendable**— includes amounts that inherently cannot be spent either because it is not in spendable form (i.e., prepaid, inventories, long-term portions of loans receivable, etc.) or because of legal or contractual requirements (i.e., principal of an endowment, etc.).
- **Restricted** – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal actions made by **the Municipality's** legislative body, which is the highest level of decision making authority, before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those mounts.
- **Assigned** – includes amounts that are intended to be used for specific purposes that are neither consider restricted nor committed; in addition, such assignments are made before the report issuance date.
- **Unassigned** – include amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other government funds, if expenditures incurred for specific purposes exceeded the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The Municipality generally uses restricted amounts first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, **the Municipality** generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

n. Claims and Judgments

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. (See notes contingencies)

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Use of Estimates

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

p. 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 percent 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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2. PROPERTY TAXES (continued)

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.

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 \$329,579 during 2012.

The following is a summary of the property tax advances that resulted in an accounts payable, for the year ended June 30, 2012. 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	
07-01-11 - 06-30-12	\$ 8,849,386
Advance received, 07-01-11 - 06-30-12	(9,415,658)
Due to CRIM - 2012	\$ (566,272)
Due to CRIM - 2011	\$ (846,855)
	\$ (1,413,127)

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

3. DEPOSITS

The Municipality's cash and investments at June 30, 2012, 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.

4. CONCENTRATION OF CREDIT RISK

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.

Custodial Credit Risk

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2012:

Credit risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico*. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2012 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt of equity securities were made during the fiscal year ended June 30, 2012. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2012.

Interest rate risk - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2012, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4. CONCENTRATION OF CREDIT RISK (continued)

(3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico* (the adopted policy of the Municipality)

. At June 30, 2012, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

Custodial credit risk — In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB are uninsured and **uncollateralized**. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2012. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

Therefore, the Municipality's management has concluded that at June 30, 2012, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk -This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2012.

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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

5. MUNICIPAL LICENSE TAXES (continuation)

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, 2012 but pertaining to the next fiscal year is 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, 2012 are as follows:

Funds	Due From	Due To
General	\$ 398,082	\$ 944,461
Head Start Programs	-	490
Hud Programs		63,762
Other Funds	944,461	333,830
TOTAL	\$ 1,342,543	\$ 1,342,543

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

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.

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MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8. DUE TO GOVERNMENTAL ENTITIES

As of June 30, 2012 balances due to governmental entities of the general fund consists of the following:

Name	Due to
Puerto Rico Retirement System	\$ 195,360
General Administration Services	163,939
Puerto Rico Department of Labor	51,722
Puerto Rico Water and Server Authority	394,224
Puerto Rico Employee Asociation System	8,542
Puerto Rico Department of Treasury	78,027
Municipal Revenue Collection Center	1,413,127
TOTAL	\$ 2,304,941

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MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012 was as follows:

	Balance 6/30/2011	Additions	Retirements and transfers dispositions	Balance 6/30/2012
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,104,657	\$ 3,084,530	\$ -	\$ 7,189,187
Construction in progress	27,528,167	2,346,904	2,790,745	27,084,326
Total capital assets not being depreciated	31,632,824	5,431,434	2,790,745	\$ 34,273,513
Capital assets, being depreciated				
Buildings and building improvements	56,925,686	2,790,745	-	59,716,431
Infraestructure	16,715,949	-	-	16,715,949
Vehicles	7,662,060	1,240,524	989,758	7,912,826
Equipment	7,900,762	377,135	(993,599)	9,271,496
Total capital assets being depreciated	89,204,457	4,408,404	(3,841)	93,616,702
Less: accumulated depreciation for:				
Buildings and building improvements	13,101,707	-	986,634	14,088,341
Infraestructure	9,562,751	-	118,050	9,680,801
Equipment	3,617,922	(508,030)	674,195	4,800,147
Vehicles	5,349,778	508,965	343,757	5,184,570
Total accumulated depreciation	31,632,158	935	2,122,636	33,753,859
Total capital assets being depreciated, net	57,572,299	4,409,339	2,118,795	59,862,843
Governmental activities capital assets, net	\$ 89,205,123	\$ 9,840,773	\$ 4,909,540	\$ 94,136,356

Governmental activities:	
General government	\$ 103,041
Public safety	91,055
Public works	1,086,922
Culture and recreation	3,213
Health	766,304
Educational and training	72,101
Total depreciation expense governmental activities	\$ 2,122,636

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 is 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 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, 2012:

Description	Beginning Balance	Additions	Reductios	Ending Balance
General Obligations Bonds	\$ 60,565,012	\$ 5,727,000	\$ 3,393,012	\$ 62,899,000

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

General Obligation Bonds:

Description	Balance 06-30-2012	Due within One Year
Series 1992, \$229,000 payable in annual installments of \$4,000 to \$17,000 until 2016; with interest of 5.75%.	\$ 62,000	\$ 14,000
Series 1992, \$257,000 payable in annual installments of \$6,000 to \$19,000 until 2016; with interest of 5.75%.	70,000	16,000
Series 1992, \$600,000 payable in annual installments of \$13,000 to \$44,000 until 2016; with interest of 5.75%.	161,000	37,000
Series 1993, \$277,000 payable in annual installments of \$6,000 to \$21,000 until 2016; with interest of 5.75%.	78,000	18,000
Series 1993, \$833,000 payable in annual installments of \$18,000 to \$65,000 until 2016; with interest of 5.25%.	236,000	54,000
Series 1995, \$411,000 payable in annual installments of \$9,000 to \$29,000 until 2018; with interest of 6.62%.	152,000	22,000
Series 1995, \$660,000 payable in annual installments of \$15,000 to \$75,000 until 2013; with interest ranging from 6.11% to 7.71%.	135,000	60,000
Series 1997, \$5,875,000 payable in annual installments of \$80,000 to \$515,000 until 2021; with interest ranging from 4.87% to 6.75%.	3,690,000	255,000
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%.	925,000	55,000
Series 1998, \$105,000 payable in annual installments of \$2,000 to \$7,000 until 2023; with interest of 4.5%.	60,000	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%.	355,000	170,000
Series 2006, \$10,940,000 payable in annual installments of \$210,000 to \$775,000 until 2030; with interest ranging from 4.17% to 5.31%.	9,470,000	295,000
Series 2006, \$3,695,000 payable in annual installments of \$70,000 to \$265,000 until 2030; with interest ranging from 4.17% to 5.31%.	3,200,000	100,000
Series 2007, \$260,000 payable in annual installments of \$30,000 to \$50,000 until 2013; with interest ranging from 3.93% to 7%.	90,000	40,000
Series 2007, \$120,000 payable in annual installments of \$10,000 to \$15,000 until 2016; with interest ranging from 3.93% to 7%.	70,000	10,000
Series 2007, \$2,010,000 payable in annual installments of \$30,000 to \$165,000 until 2031; with interest ranging from 3.93% to 7%.	1,830,000	45,000
Series 2007, \$5,630,000 payable in annual installments of \$90,000 to \$450,000 until 2031; with interest ranging from 3.93 to 7%.	5,120,000	125,000
Series 2005, \$5,500,000 payable in annual installments of 200,000 to \$375,000 until 2022; with interest ranging from 1.3%	3,875,000	275,000
Series 2008, \$315,000 payable in annual installments of \$35,000 to \$55,000 until 2014; with interest ranging from 3.93% to 7.5%.	155,000	50,000
SUB-TOTAL	\$ 29,734,000	\$ 1,645,000

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

General Obligations Bonds

Description	Balance 06-30-2012	Due within One Year
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%	1,525,000	95,000
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%	1,125,000	25,000
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%	800,000	15,000
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%	3,390,000	65,000
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%	1,545,000	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%	1,772,000	30,000
Serie 2010, \$605,000 payable in annual installments of \$70,000 to \$105,000 until 2016; with interest ranging from 5% to 7.5%	460,000	80,000
Serie 2010, \$345,000 payable in annual installments of \$40,000 to \$65,000 until 2016; with interest ranging from 5% to 7.5%	265,000	45,000
Serie 2011, \$4,900,000 payable in annual installments of \$370,000 to \$860,000 until 2017; with interest ranging from 6% to 7%	4,345,000	600,000
Serie 2011, \$1,104,000 payable in annual installments of \$15,000 to \$89,000 until 2035; with interest ranging from 6% to 7.5%	1,089,000	20,000
Serie 2011, \$1,181,000 payable in annual installments of \$25,000 to \$116,000 until 2030; with interest ranging from 6% to 7.5%	1,156,000	30,000
Serie 2011, \$81,000 payable in annual installments of \$10,000 to \$16,000 until 2017; with interest ranging from 6% to 7.5%	71,000	10,000
Serie 2012, \$740,000 payable in annual installments of \$85,000 to \$130,000 until 2018; with interest ranging from 6% to 7%	740,000	85,000
Serie 2011, \$159,000 payable in annual installments of \$25,334 to \$31,088 until 2031; with interest ranging from 6% to 7.5%	159,000	19,000
Serie 2011, \$183,000 payable in annual installments of \$10,000 to \$20,000 until 2031; with interest ranging from 6% to 7.5%	133,000	5,000
Serie 2011, \$380,000 payable in annual installments of \$20,000 to \$40,000 until 2031; with interest ranging from 6% to 7.5%	380,000	5,000
Serie 2012, \$4,315,000 payable in annual installments of \$60,000 to \$360,000 until 2035; with interest ranging from 6% to 7.5%	4,315,000	60,000
SUB-TOTAL	\$ 23,270,000	\$ 1,214,000

MUNICIPALITY OF BARCELONETA, P UERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Special Revenue Bonds:

Description	Balance 06-30-2012	Due within One Year
Serie 1997, 400,000 payable in annual installments of \$10,000 to \$30,000 until 2016; with interest ranging from 3.29% to 7.5%	\$ 145,000	\$ 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%	4,200,000	150,000
Serie 2011, \$1,510,000 payable in annual installments of \$25,000 to \$130,000 until 2034; with interest ranging from 6% to 7.5%	1,485,000	25,000
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%	4,065,000	430,000
SUB-TOTAL	\$ 9,895,000	\$ 630,000
TOTAL	\$ 62,899,000	\$ 3,489,000

The annual debt service requirements for the bonded debt outstanding as June 30, 2012 are as follows:

Year Ending	Principal	Interest	Total
2013	\$ 3,489,000	\$ 2,928,636	\$ 6,417,636
2014	3,800,000	3,313,878	7,113,878
2015	3,700,000	3,163,462	6,863,462
2016	3,887,000	2,954,232	6,841,232
2017	3,647,000	2,579,087	6,226,087
Subsequent years	44,376,000	17,662,035	62,038,035
TOTAL	\$ 62,899,000	\$ 32,601,330	\$ 95,500,330

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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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	\$ 3,772,515
General funds	1,144,137
Special funds	923,405
Municipal sales tax	688,323
TOTAL	\$ 6,528,380

Expenditures for the year 2011-2012 were as follows:

Principal	\$ 3,393,012
Interest	2,619,871
TOTAL	\$ 6,012,883

13. RETIREMENT PLAN

Plan Description

Regular full time 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 GPO Box 42005, San Juan, Puerto Rico 00940.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. RETIREMENT PLAN (Continuation)

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)

<u>Eligibility</u>	<u>Pension Benefits</u>
Age 55 and 30 years Of service	5% 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, 2012 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

NEW PLAN (REFORMA 2000)

<u>Eligibility</u>	<u>Pension Benefits</u>
Age 65 with 10 years of service	.5% of average compensation during the final 5 years of credited services multiplies by the numbers of years credited service

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

Reform 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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. RETIREMENT PLAN (Continuation)

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 Reform 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.

Contribution Requirements

The Municipality's total payroll for the fiscal year 2012 amounted to approximately \$17,277,038. The Puerto Rico Commonwealth 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. The Municipality is required to contribute 9.275% of gross salary annually during year 2011. The Municipality actual contribution under Act 447 and Reform 2000 during year ended on June 30, 2012 was \$360,682 and \$555,913 respectively.

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MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation

As of June 30, 2011, 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 | 6.4% 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. |
| d) Termination | Withdrawal rates vary by employee category. The annual rate of termination is as follows: |
| | For general employees 2.0% |
| | For police and fire 1.6% |
| | For Mayors 3.0% |

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

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.

Adjustment to 1987 CGDT		
Act	Members Covered under Act 127	Other Members
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, 2012

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.

Act 447 General Employees (Includes General Hazardous Employees)			
Age	Service Condition		
	10 years	25 years	30 years
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

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

Act 447 Police & Fire			
Age	Service Condition		
	10 years	25 years	30 years
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, 2012

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

System 2000 Police & Fire			
Age	Service Condition		
	10 years	25 years	30 years
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 15% of retiring employees assumed to pay contributions retroactive contributions at retirement.
- i) Cost-of-living adjustments 3% every third year

Accordingly, the pension expense for fiscal year 2012 was approximately \$916,595 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, 2012

14. LONG TERM LIABILITIES (continuation)

Compensated Absences (continuation)

The changes in Compensated absences for the year ended June 30, 2012 are as follows:

Governmental activity	June 30, 2011	Net decrease	June 30, 2012	Due within One year
Compensated Absences	\$2,631,436	\$249,066	\$2,382,370	\$218,422

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, 2012, were approximately \$116,964 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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 Comptrollers' 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 advice of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are not determined at June 30, 2012.

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 \$3,723,495 during the year ended June 30, 2012.

18. 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.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

18. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE COST: (continued)

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 seventeen years are estimated for \$1,623,925 and are included in the wide financial statements.

19. RESTATEMENT OF 2011 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2012 **the Municipality** noted that certain assets were reclassified and 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 funds at June 30, 2011, as previously reported. The general fund decrease by \$3,084,530, other funds increase by \$1,406,658 and the Bond issue fund, the debt service fund decrease by \$881,210 and debt service fund by \$877,811.

	General fund	Bond issue fund	Debt Service	Other funds
Beginning balance at				
June 30, 2011	\$ (6,897,091)	\$ 2,677,833	\$ 2,645,214	\$ 3,535,985
Land reclassification	(3,084,530)	-	-	-
Accounts from prior year	-	(881,210)	877,811	1,406,658
Beginning balance, as				
restated June 30, 2011	<u>\$ (9,981,621)</u>	<u>\$ 1,796,623</u>	<u>\$ 3,523,025</u>	<u>\$ 4,942,643</u>

20. SUBSEQUENT EVENTS

In August 17, 2012 the Municipality issued a General Obligation Municipal Note in the amount of \$905,000 through the Governmental Development Bank (BGF) of Puerto Rico.

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

To the Honorable Mayor and
the Municipal Assembly
Municipality of Barceloneta
Barceloneta, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Municipality of Barceloneta* as of and for the year ended *June 30, 2012*, which collectively comprise the *Municipality of Barceloneta* basic financial statements and have issued our report thereon dated *March 23, 2013*. We conducted our audit in accordance with auditing standards generally accepted in 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

Management of **Municipality of Barceloneta** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered **Municipality of Barceloneta** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Municipality of Barceloneta** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Barceloneta** internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

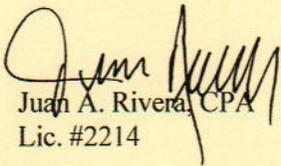
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Municipality of Barceloneta* financial statements are free of material misstatement, we performed tests 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 statements amounts. However, providing and opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such as an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, of the Honorable Mayor and The Municipal Assembly of *Municipality of Barceloneta*, 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.


Juan A. Rivera, CPA
Lic. #2214

March 23, 2013
Toa Baja, Puerto Rico



Stamp No. 2669712 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report

***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AN ON
INTERNAL CONTROL OVER COMPLIANCE N ACCORDANCE WITH OMB CIRCULAR A-133***

To the Honorable Mayor and
the Municipal Assembly
Municipality of Barceloneta
Barceloneta, Puerto Rico

Compliance

We have audited ***Municipality of Barceloneta*** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Municipality of Toa Alta's major federal programs for the year ended **June 30, 2012**. 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 the ***Municipality of Barceloneta*** management. Our responsibility is to express an opinion on the ***Municipality of Barceloneta*** compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Governmental 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 we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ***Municipality of Barceloneta*** compliance with those requirements and performing such others procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the ***Municipality of Barceloneta*** compliance with those requirements.

In our opinion, the ***Municipality of Barceloneta*** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costas as items 12-01.

As described in items 12-01 the accompanying schedule of findings and questioned costs, the ***Municipality of Barceloneta*** did not comply with requirements regarding 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. Compliance with such requirements is necessary, in our opinion, for ***Municipality of Barceloneta*** to comply with the requirements applicable to all programs.

Internal Control over Compliance

Management of the *Municipality of Barceloneta* is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant applicable to federal programs. In planning and performing our audit, we considered the *Municipality of Barceloneta* internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Barceloneta** internal control over compliance.

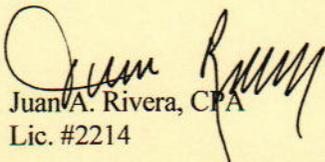
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies internal control over compliance that we consider to be significant deficiency.

A deficiency in internal control over compliances exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance such that there is a reasonable possibility that material noncompliance with type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

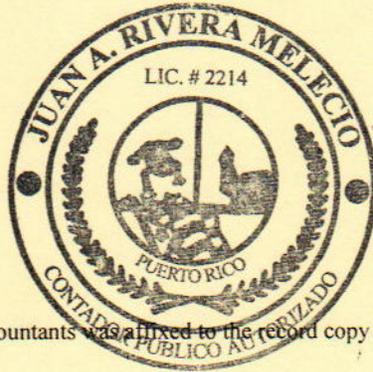
A significant deficiency in internal control over compliance is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedules of findings and questioned costs as items (12-01) to be significant deficiencies.

Municipality of Barceloneta response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Barceloneta** response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management of the *Honorable Major and the Municipal Assembly of the Municipality of Barceloneta*, 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.


Juan A. Rivera, CPA
Lic. #2214

March 23, 2013
Toa Baja, Puerto Rico



MUNICIPALITY OF BARCELONETA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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	14.228	2007 to 2010	\$ 1,429,073
Direct Program:			
ARRA - Homeless Prevention & Rapid Re-Housing Program	14.257	N/A	71,172
Section 8- Housing Choice Voucher	14.871	RQ-46-V-054-002/004	785,934
Total U.S. Department of Housing and Urban Development			<u>2,286,179</u>
<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	<u>1,076,948</u>
Passed-through the Commonwealth of Puerto Rico Governors Office for the:			
Care and Integral Development of Children:			
Head Start	93.600	02-CH-0483	2,883,016
ARRA Head Start - Stimulus	93.708	N/A	1,996
ARRA Child Care Development Block Grant	93.713	N/A	<u>378,684</u>
			3,263,696
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>77,292</u>
Total U.S. Department of Health and Human Service			<u>4,417,936</u>
U.S. Department of Justice			
Office of Juvenile Justice and Delinquency Prevention			
Passed-through - Commonwealth of P.R.			
Office of Youth Affairs, Governors Office			
Edward Byrne Memorial Justice Assistance Grant		2009-SU-B9-0053	<u>4,390</u>
Total U.S. Department of Justice			
<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	226,671
Child Care Development Food Program	10.558	N/A	21,588
Early Child Care Food Program	10.558	N/A	<u>63,741</u>
Total U.S. Department of Agriculture			312,000
<u>U.S. Department of Transportation Federal Transit Administration</u>			
Direct Program:			
Federal Transit - Capital Investment Grants	20.500	N/A	476,406
ARRA Federal Transit Formula Grants	20.507	N/A	225,435
Passed-through the Commonwealth of P.R. Governors Office of			
Puerto Rico Traffic Safety Commission			
State and Community Highway Safety	20.600	N/A	<u>60,308</u>
Total U.S. Department of Transportation Federal Transit Administration			<u>762,149</u>
TOTAL EXPENDITURE FEDERAL AWARDS			<u><u>\$ 7,782,654</u></u>

See notes to the schedule of expenditures of federal awards.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(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

CFDA Number(s)	Name of Federal Program or Cluster
14.871	Section 8 – Housing Choice Voucher
93.600	Head Start Early Head Start
14.228	Community Development Block Grant (State Program)
20.500	Federal Transit – Capital Investment Grant
14.257	ARRA - Homeless Prevention and Rapid Re-Housing Program
20.507	ARRA - Federal Transit – Formula Grants
93.713	ARRA - Child Care Development Block Grant

(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:

Federal Programs Expenditures	\$ 2,286,179	\$ 4,417,936	\$ 1,078,539	\$ 7,782,654
State & Municipal Expenditures	-	-	6,376,893	6,376,893
TOTAL	\$ 2,286,179	\$ 4,417,936	\$ 7,455,432	\$ 14,159,547

**MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Part I - Financial Statements

1. Type of auditor’s report issued: Unqualified
 j. Internal control over financial reporting:

Material weakness (es) identified? ___ Yes X No
 Significant deficiency(s) identified not considered
 to be material weaknesses? ___ Yes X No

k. Noncompliance material to financial statements noted? ___ Yes X No

Part II - Federal Awards

1. Internal control over major programs:

Material weakness (es) identified? ___ Yes X No
 Significant deficiency(s) identified not
 Considered being material weaknesses? ___ Yes X No

2. Type of auditor’s report issued on compliance
 for major programs Unqualified

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

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, 2012**

**Program: Accounting and Finance Department
General Fund – Deficit
Year ended June 30, 2012**

Ref. No.	Finding / Noncompliance	Questioned Cost
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12-01	<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, 2012**

<u>Program</u>	<u>Finding/Compliance</u>	<u>Status</u>
2011 – Finding No. 1:	Accounting and Finance Department General Fund Deficit Year ended June 30, 2011	Still prevail

(This space was intentionally left in blank)



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

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2012
(CONTINUE)**

Ref. No. Finding /Corrective Action
2011-01 Planned/Person Responsible:

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 2012-13
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