

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

MUNICIPIO DE BARRANQUITAS
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

OFFICE OF THE COMPTROLLER
GENERAL GOVERNMENT
119 ALIQUET
SAN JUAN, P.R. 00901

Cash No. 5. 318)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS**

**SINGLE AUDIT REPORT
June 30, 2004**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Basic Financial Statements and
Supplemental Schedule
June 30, 2004**

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BENÍTEZ-JAIME, CPA - PSC

Certified Public Accountants and Business Consultants

Independent Auditors' Report on Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards

The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Barranquitas
Barranquitas, 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 Barranquitas of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, 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.

As described in Note 8, the Municipality of Barranquitas has not maintained complete and adequate records of its estimated liability for landfill closure and postclosure costs and, accordingly we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's estimated liability for landfill closure and postclosure maintenance care costs at June 30, 2004. The Municipality had not performed a study of activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable State and Federal regulations, and had not estimated the obligation for landfill closure and postclosure costs. Governmental Accounting Standard Board Statement 18 requires among other things, that the Municipality estimates and recognizes the municipal solid waste landfill closure and postclosure costs.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the estimated liability for landfill closure and postclosure costs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Barranquitas of the Commonwealth of Puerto Rico, as of June 30, 2004, and the respective changes in financial

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

In accordance with Government Auditing Standards we have also issued our report dated December 15, 2004, on our consideration of the Municipality of Barranquitas of the Commonwealth of Puerto Rico internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not required parts of the basic financial statements referred to above, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Municipality. The schedule of expenditures and federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 15, 2004
Toa Alta, Puerto Rico

Stamp No. 1934155
was affixed to the
original report.



CPA - PSC

BENÍTEZ-JAIME, CPA - PSC

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the Municipality of Barranquitas of the Commonwealth of Puerto Rico (the "Municipality") provides this *Management's Discussion and Analysis* of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

During fiscal year ended June 30, 2004, the Municipality implemented the new required financial reporting standards established by Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued by the Governmental Accounting Standards Board (commonly known as "GASB 34"). According to this statement, significant required changes in content and structure have been made in the accompanying Municipality's basic financial statements as of and for the fiscal year ended June 30, 2004, which make the accompanying basic financial statements not easily comparable to the Municipality's general purpose financial statements issued in prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Municipality's financial position and results of operations.

This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of GASB 34, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and;
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality's has reported assets and net assets amounting to \$28,617,629 and \$17,434,166, respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to \$17,837,115 (62 percent of total Municipality's assets).
- The Municipality has reported total liabilities amounting to \$11,183,463 in the accompanying statement of net assets, of which the most significant liabilities are: (1) deferred revenues \$3,440,166, (2) solid waste landfill closure and postclosure maintenance care costs \$2,593,920, (3) bonds payable \$3,089,402 and (4) accrued compensated absences \$1,283,522. These liabilities account for 93 percent of the Municipality's total liabilities at June 30, 2004.
- The Municipality has reported total revenues amounting to \$12,103,180 in the accompanying statement of activities, of which: (1) unrestricted intergovernmental grants and reimbursements \$6,030,948, (2) restricted capital and operating grants \$1,920,881, (3) property taxes \$2,399,188 and (4) municipal licenses \$571,790 were the most significant revenues amounting to \$10,922,807 (90 percent of total revenues).
- The Municipality has reported a net change in net assets (excess of revenues over expenses) amounting to \$2,844,368 in the accompanying statement of activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

- The Municipality's governmental funds reported combined ending fund balances of \$5,795,305 of which \$5,818,279 represent the fund balances of the general fund, the state legislative joint resolutions fund and debt service fund combined (jointly known as the Municipality's major funds).
- The Municipality has reported unreserved fund balance for the general fund amounting to \$3,203,935.
- The Municipality has reported an excess of expenditures and other financing uses over revenues and other financing sources amounting to \$835,727 in the governmental funds.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from the previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedules), the Schedule of Expenditures of Federal Awards and other supplementary information (combining financial statements) in addition to the basic financial statements themselves. These components are described below:

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2004 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net *assets* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2004. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements, which consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds.

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 Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year (June 30, 2004). This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has three major funds: (1) the general fund, (2) the state legislative joint resolutions fund and (3) the debt service fund.

Notes to the Basic Financial Statements

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund and the Schedule of Expenditures of Federal Awards.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (modified approach), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2002, the Municipality retroactively recorded the historical costs of infrastructure assets. Also the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, net assets (excess of assets over liabilities) amounted to \$17,434,166 at June 30, 2004, compared to \$13,538,965 at the end of the previous year.

The largest portion of the Municipality's net assets are invested in capital assets net of their related debt \$17,837,115. The Municipality's net assets is also composed of net assets amounting to \$1,603,636 that are restricted for (1) future debt service payments, (2) the future acquisition or construction of capital assets and (3) other purposes, mainly the financing of federal and state assisted programs. In addition, the Municipality has unreserved net assets amounting to \$1,206,107.

The portion of the Municipality's net assets invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, are used by the Municipality to provide services to its citizens; consequently these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the debt service fund, since the capital assets themselves cannot be used to liquidate these liabilities.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

Condensed Statement of Net Assets:

Current assets	\$ 5,734,545
Noncurrent assets	<u>22,883,084</u>
Total assets	<u>28,617,629</u>
Current liabilities outstanding	5,070,027
Noncurrent liabilities outstanding	<u>6,387,657</u>
Total liabilities	<u>11,457,684</u>
Net assets/(liabilities):	
Invested in capital assets, net of related debt	14,624,423
Restricted	1,603,636
Unrestricted	<u>931,886</u>
Total net assets	<u>\$ 17,159,945</u>

Changes in Net Assets

The Municipality's net assets increased by \$2,844,368. Approximately 26 percent of the Municipality's total revenues came from taxes, while 66 percent resulted from restricted and unrestricted capital and operating grants, contributions and reimbursements, including federal financial assistance. Charges for services provided 4 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government (41 percent), urban and economic development (25 percent), public housing and welfare (15 percent) and health and sanitation (13 percent).

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a condensed presentation of the Municipality's results of operations, as reported in the government-wide financial statements:

Condensed Statement of Activities:

Revenues:	
Program revenues:	
Operating grants and contributions	\$ 517,525
Capital grants and contributions	1,403,356
Charges for services	425,310
General revenues:	
Property taxes	2,399,188
Municipal license taxes	571,790
Construction excise taxes	134,213
Unrestricted intergovernmental contributions and reimbursements	6,030,948
Other	<u>620,850</u>
Total revenues	<u>12,103,180</u>
Expenses:	
General government	3,787,474
Urban and economic development	2,270,754
Public safety	524,185
Health and sanitation	1,320,321
Public housing and welfare	1,345,547
Interest on bonds, notes and capital lease obligations	<u>163,678</u>
Total expenses	<u>9,411,959</u>
Net increase in net assets	2,691,221
Net assets - at beginning of year, as restated	<u>14,468,724</u>
Net assets - at end of year	<u>\$ 17,159,945</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Municipality's governmental *funds* is to provide information on near-term inflows, outflows, and balance of *expendable resources*. Such information is useful in assessing the Municipality's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of fiscal year. The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Condensed Balance Sheet - Governmental funds:

Total assets - major funds	\$ 9,241,784
Total assets - nonmajor funds	<u>2,680,148</u>
Total assets	<u>11,921,932</u>
Total liabilities - major funds	3,423,505
Total liabilities - nonmajor funds	<u>2,703,122</u>
Total liabilities	<u>6,126,627</u>
Total fund balances - major funds	5,818,279
Total fund balances - nonmajor funds	<u>(22,974)</u>
Total fund balances	<u>\$ 5,795,305</u>

Condensed Statement of Operations - Governmental funds:

Total revenues - major funds	\$ 9,607,997
Total revenues - nonmajor funds	<u>1,798,235</u>
Total revenues	<u>11,406,232</u>
Total expenditures - major funds	8,493,954
Total expenditures - nonmajor	<u>2,076,551</u>
Total expenditures	<u>10,570,505</u>
Excess of revenues over expenditures - major funds	1,114,043
Excess of revenues over expenditures - nonmajor funds	<u>(278,316)</u>
Total excess of revenues over expenditures	<u>\$ 835,727</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The accompanying Budgetary Comparison Schedule shows a total negative variance between budgeted revenues and actual revenue results of \$981,813.

In addition, the accompanying Budgetary Comparison Schedule shows a total positive variance between budgeted expenditures and actual expenditure results of \$842,480.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$27,599,462, of which \$10,572,955 represents infrastructure assets at June 30, 2004. The related accumulated depreciation and amortization of capital assets amounted to \$9,762,347, of which \$4,374,209 is related to infrastructure assets at June 30, 2004. This investment in capital assets includes

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems. Lighting systems, and similar items.

Actual costs incurred to purchase or construct capital assets were \$2,066,222 for the year ended June 30, 2004. Depreciation and amortization charges for the year totaled \$972,979.

The Municipality finances a significant portion of its construction activities through bond issuances and state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable laws and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by the Government Development Bank for Puerto Rico, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable laws and regulations to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax Levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT BUDGETS AND RATES

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal year. There were no significant changes between the budget for fiscal year 2003-2004 and the one for fiscal year 2004-2005.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and demonstrate the Municipalities' accountability. If you have any questions about the report or need additional financial information, contact the Municipality' Director of Finance, Mr. José O. Díaz, at PO Box 250, Barranquitas, Puerto Rico, 00618.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Statement of Net Assets
June 30, 2004

ASSETS

Current Assets:

Cash and cash equivalents		\$ 3,148,597
Receivables, net of allowance for doubtful accounts:		
Taxes:		
Property taxes	\$ 1,494,654	
Municipal license taxes	78,419	
Total taxes receivable	<u>1,573,073</u>	
Accrued interest	3,048	
Intergovernmental	932,214	
Other	<u>32,525</u>	
Total receivables		2,540,860
Inventories		13,601
Prepaid expenses		<u>31,487</u>
Total current assets		<u>5,734,545</u>

Noncurrent Assets:

Temporarily restricted cash and cash equivalents		5,034,708
Deferred charges, net of accumulated amortization		11,261
Capital assets, net of accumulated depreciation and amortization		<u>17,837,115</u>
Total noncurrent assets		<u>22,883,084</u>
Total assets		<u>\$ 28,517,529</u>

LIABILITIES

Current liabilities:

Accounts payable and other accrued liabilities		598,630
Accrued interests on bonds, notes and obligations under capital leases		79,409
Intergovernmental		83,186
Deferred revenues		3,440,166
Accrued compensated absences, excluding long-term portion		626,092
Obligation under capital leases, excluding long portion		5,143
Bonds and notes payable		<u>237,401</u>
Total current liabilities		5,070,027

Noncurrent liabilities:

Accrued compensated absences, excluding current portion		657,430
Estimated liability for landfill closure and postclosure maintenance care costs		2,868,141
Obligation under capital leases, excluding current portion		10,085
Bonds and notes payable, excluding current portion		<u>2,852,001</u>
Total noncurrent liabilities		<u>6,387,657</u>
Total liabilities		<u>11,457,684</u>

NET ASSETS

Invested in capital assets, net of related debt		<u>14,624,423</u>
Restricted for:		
Debt service	1,288,788	
Advances and other specified purposes	<u>314,848</u>	
Total restricted net assets	<u>1,603,636</u>	
Unrestricted net assets	<u>931,886</u>	
Total net assets		<u>\$ 17,159,945</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Statement of Activities
Year Ended June 30, 2004

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net Expenses and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 3,787,474	\$		\$	\$ (3,787,474)
Urban and economic development	2,270,754			1,271,880	(998,874)
Public safety	524,185		126,165		(398,020)
Health and sanitation	1,320,321	425,310			(895,011)
Public housing and welfare	1,345,547		391,360	131,476	(822,711)
Interest on bonds, notes, capital lease obligations and long-term debt	163,678				(163,678)
Total governmental activities	\$ 9,411,959	\$ 425,310	\$ 517,525	\$ 1,403,356	\$ (7,065,768)
General revenues:					
Taxes:					
Property taxes					\$ 2,399,188
Municipal license taxes					571,790
Construction excise taxes					134,213
Total taxes					3,105,191
Intergovernmental contributions and reimbursements					6,030,948
Unrestricted interests, fines and penalties					51,276
Miscellaneous					569,574
Total general revenues					9,756,989
Net change in net assets					2,691,221
Net assets—beginning of fiscal year, as restated					14,468,724
Net assets—end of fiscal year					\$ 17,159,945

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
 Balance Sheet
 Governmental Funds
 June 30, 2004

	<u>Major Funds</u>				<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>State Legislative Joint Resolutions Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	
ASSETS					
Unrestricted cash and cash equivalents	\$ 3,148,597	\$	\$	\$	\$ 3,148,597
Investments in certificates of deposits					
Receivables, net of allowance for doubtful accounts:					
Taxes:					
Property taxes	1,394,581		100,073		1,494,654
Municipal license tax	78,419				78,419
Accrued interest or deposits	1,424		936	688	3,048
Other	<u>32,525</u>				<u>32,525</u>
Total taxes receivable	1,506,949		101,009	688	1,608,646
Intergovernmental, principally from the governments of the Commonwealth of Puerto Rico and United States of America	428,209			505,464	933,673
Advances from other funds	218,320				218,320
Due from other funds	<u>869,570</u>		<u>108,418</u>		<u>977,988</u>
Total receivables, net	3,023,048		209,427	506,152	3,738,627
Total current assets	6,171,645		209,427	506,152	6,887,224
Temporarily restricted cash and cash equivalents		<u>1,479,323</u>	<u>1,381,389</u>	<u>2,173,996</u>	<u>5,034,708</u>
Total assets	<u>\$ 6,171,645</u>	<u>\$ 1,479,323</u>	<u>\$ 1,590,816</u>	<u>\$ 2,680,148</u>	<u>\$ 11,921,932</u>
LIABILITIES					
Account payable and accrued liabilities	\$ 404,178	\$	\$ 78,637	\$ 85,871	\$ 568,686
Matured bonds due and payable			220,600		220,600
Advances to other funds				218,320	218,320
Due to other funds	108,418	26,967	2,791	839,812	977,988
Intergovernmental	2,460				2,460
Deferred revenues	<u>1,095,496</u>	<u>1,452,356</u>	<u>31,602</u>	<u>1,559,119</u>	<u>4,138,573</u>
Total liabilities	<u>1,610,552</u>	<u>1,479,323</u>	<u>333,630</u>	<u>2,703,122</u>	<u>6,126,627</u>
FUND BALANCES					
Encumbrances	1,138,838				1,138,838
Debt service			1,257,186		1,257,186
Advances and long-term receivables	218,320				218,320
Other specified purposes				96,528	96,528
Unreserved	<u>3,203,935</u>			<u>(119,502)</u>	<u>3,084,433</u>
Total fund balances	4,561,093		1,257,186	(22,974)	5,795,305
Total liabilities and fund balances	<u>\$ 6,171,645</u>	<u>\$ 1,479,323</u>	<u>\$ 1,590,816</u>	<u>\$ 2,680,148</u>	<u>\$ 11,921,932</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2004

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>State Legislative Joint Resolutions</u>	<u>Debt Service</u>		
REVENUES:					
Taxes:					
Property taxes	\$ 1,566,000	\$	\$ 361,188	\$	\$ 1,927,188
Municipal license taxes	571,790				571,790
Construction excise taxes	134,213				134,213
Total taxes	2,272,003		361,188		2,633,191
Charges for services and rents	260,085				260,085
Intergovernmental contributions and reimbursements:					
Federal grants and contributions				1,663,240	1,663,240
State grants and contributions	5,988,475	131,476		125,165	6,246,116
Interests, fines and penalties	17,064	14,583	10,799	8,830	51,276
Other revenues	552,324				552,324
Total revenues	9,089,951	146,059	371,987	1,798,235	11,406,232
EXPENDITURES:					
Current:					
General government	2,358,503			683,945	3,042,448
Urban and economic development	2,202,957				2,202,957
Public Safety	340,827			126,165	466,992
Public housing and welfare	824,600	61,577		394,919	1,281,096
Health and Sanitation	1,101,178				1,101,178
Capital Outlays	1,125,302	69,899		571,522	2,066,723
Debt service:					
Principal	10,588		236,401		246,989
Interest on bonds and notes	1,849		160,273		162,122
Total expenditures	7,965,804	131,476	396,674	2,076,551	10,570,505
Excess (deficiency) of revenues over (under) expenditures	1,124,147	14,583	(24,687)	(278,316)	835,727
OTHER FINANCING SOURCES (USES):					
Operating transfer-in from other funds	33,972		125,285		159,257
Operating transfer-out to other funds	(125,285)	(14,583)	(10,834)	(8,555)	(159,257)
Total other financing sources (uses)	(91,313)	(14,583)	114,451	(8,555)	
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES AND OTHER FINANCING USES	1,032,834		89,764	(286,871)	835,727
FUND BALANCES AT BEGINNING OF YEAR	3,528,259		1,167,422	263,897	4,959,578
FUND BALANCES AT END OF YEAR	\$ 4,561,093		\$ 1,257,186	\$ (22,974)	\$ 5,795,305

The accompanying notes to the basic financial statements are an integral part of this statement.

MUNICIPALITY OF BARRANQUITAS
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year Ended June 30, 2004

Excess of revenues and other financing sources over expenditures and other financing uses, as reported in the accompanying statement of revenues, expenditures and changes in fund balances - governmental funds \$ 835,727

Governmental funds report capital outlays as expenditures. However, in the accompanying statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 1,093,744

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements. 696,948

Repayment of bond and notes principal is recorded as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 246,989

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditure is reported when due. (1,556)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (180,631)

Net change in net assets as reported in the accompanying statement of activities \$ 2,691,221

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Basic Financial Statements
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Barranquitas of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1803 with full legislative, fiscal and administrative powers to operate as a government.

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature, which is also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban and economic development, and many other general and administrative duties.

a) *New Financial Reporting Model*

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below on July 1, 2002. These statements require the reporting of new financial information and restructure much of the information that governments have reported in the past. Comparability with financial statements issued prior to June 30, 2003 has been affected significantly.

According to the new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

The RSI is information presented along with, but separate from, the Municipality's basic financial statements. RSI is composed of the management discussion and analysis (MD&A) and the Schedule of Expenditures of Federal Awards.

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2004, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

As previously mentioned, on July 1, 2002, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange*

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Transactions, (2) GASB Statement No. 37 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus, (3) GASB Statement No. 38 – Certain Financial Statement Note Disclosures and (4) GASB Interpretation No. 6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

GASB No. 34 also requires that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, in conjunction and simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 – *Accounting Changes*, (2) APB Opinion No. 21 – *Interest on Receivables and Payables*, (3) FASB Statement No. 5 - *Accounting for Contingencies* and (4) FASB Statement No. 16 – *Prior Period Adjustments*. The Municipality has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

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 and Budget, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*.

The Municipality’s management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality’s basic financial statements to be misleading or incomplete.

GASB Statement No. 14 - *The Financial Reporting Entity* (GASB No. 14), has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body and (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

On July 1, 2003, the Municipality adopted the provisions of GASB Statement No. 39 – *Determining Whether Certain Organizations are Component Units* (GASB No. 39). This statement provides additional guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, GASB No. 39 requires reporting a component unit if an organization raises and holds economic resources for the direct benefit of a governmental unit.

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, 2004 nor for the year then ended.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Basic Financial Statements
June 30, 2004

c) *Government-wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements do not report fund information but rather report information of all of the Municipality's governmental activities. These statements are aimed at presenting a broad overview of the Municipality's finances through reporting its financial position and results of operations as a whole, using methods that are similar to those used by most private businesses.

The focus of the GWFS is not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability), but on operational accountability information about the Municipality as a single economic unit. Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position and condition by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). This statement assists management in assessing the level of services that can be provided by the Municipality in the future, and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets, including infrastructure, and discloses legal and contractual restrictions on resources.

Net assets are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – These consist of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets have been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net assets** – These consist of net assets restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation is defined as legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

COMMONWEALTH OF PUERTO RICO
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Internally imposed designations of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

- **Unrestricted net assets** – These consist of net assets that are neither externally or legally restricted, nor invested in capital assets. However, unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, it is the Municipality's policy to generally use restricted resources first, and then unrestricted resources as they are needed.

The accompanying statement of activities presents the results of the Municipality's operations by showing how the Municipality's net assets changed during the year ended June 30, 2004, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal legislature
- Mayor's office
- Department of finance and budget
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Department of general services
- Department of public relations

Urban and economic development:

- Department of public works
- Department of planning and development
- Department of transportation and mechanics

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Department of public transportation station

Department of conservation and ornate

Public safety:

Department of municipal police

Department of emergency management

Health and sanitation

Department of health

Department of recycling

Culture, recreation and education:

Department of recreation and sports

Public housing and welfare:

Department of community affairs

Department of elderly affairs

Department of services to citizens

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: (1) program revenues and (2) general revenues.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at the net cost of the function/program that must be financed from the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific capital and operating grants and contributions** – These consist of transactions that are either mandatory or voluntary nonexchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Capital grants and contributions consist of capital assets or resources that are

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restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Restricted capital and operating grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other nontax revenues (including unrestricted investment earnings, grants and contributions not restricted for specific programs, and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The *general government* function/program reported in the accompanying statement of activities, includes expenses that are, in essence, indirect or overhead expenses of the Municipality's other functions/programs. Even though some of these costs have been charged to other funds in the governmental fund financial statements as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect expenses as direct expenses of the general government function. Accordingly, the Municipality does not allocate general government (indirect) expenses to other functions.

The effects of all interfund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net assets and activities.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other nonexchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the governmental fund financial statements.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges.

d) Governmental Fund Financial Statements

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major funds, as defined below, (2) the fiscal accountability and (3) the

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individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current year have complied with public decisions concerning the raising and spending of public moneys in the short term (one fiscal year).

Each governmental fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity or deficit, revenue and expenditures. The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- **General fund** – The general fund is the Municipality's main operating and major fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Special revenue funds** – The special revenue funds are nonmajor funds, as defined below, used by the Municipality to account for revenues derived from grants or other revenue sources (other than major capital projects) that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.
- **Debt service fund** – The debt service fund is a major fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds and notes for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) general long-term debt for which the Municipality is being accumulating financial resources in advance, to pay principal and interest payments maturing in future years. Principal and accrued interest due on July 1 of the following fiscal year related to long-term debt for which debt service payments are accounted for in the debt service fund, are recorded as debt service fund's liabilities at June 30, if resources are available at June 30 for its payment.

General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as capital leases, compensated absences, claims and judgments, notes payable to the U.S. Department of Housing and Urban Development (HUD) and the Puerto Rico Treasury Department, and federal cost disallowances, among others) are accounted for in the accompanying statement of net assets. The debt service payments of such debts are accounted for in the general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Basic Financial Statements
June 30, 2004

- **Capital projects funds** – Capital projects funds are major and nonmajor funds, as defined below, used to account for the financial resources used in the acquisition or construction of major capital facilities, other assets and permanent improvements. Significant capital outlays financed from general obligation bond proceeds are accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved for major capital acquisitions or construction activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as vehicles and other minor capital assets) have been reported in the fund from which financial resources were used for the purchase.

Prior to GASB No. 34, the Municipality was required to report governmental fund financial statements that presented a single aggregated column for each fund type. Each column presented the combined total of all funds of a particular type. Fund types are no longer the focus of the accompanying governmental fund financial statements. Under GASB No. 34, the focus of the governmental fund financial statements is on major funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds among major and nonmajor within the governmental fund financial statements. Major individual governmental funds are reported individually as separate columns in the governmental fund financial statements, while data from all nonmajor governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other fund is considered a major fund for financial reporting purposes if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and nonoperating revenues (net of allowances), except for other financing sources. Total expenditures for these purposes means all expenditures, including operating and nonoperating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying governmental fund financial statements are: (1) the general fund, (2) the state legislative joint resolutions capital project fund and (3) the debt service fund.

The state legislative joint resolutions capital project fund is a major fund used to account for financial resources derived from operating grants awarded each year by the Commonwealth's Senate and House of Representatives (the Commonwealth's Legislature). The purpose of the amounts awarded by the Commonwealth's Legislature vary from year to year, but are generally restricted to (1) partially subsidize certain qualifying administrative and operational activities of the Municipality, (2) provide specific multipurpose services to citizens and (3) finance the acquisition or construction of capital assets approved by the Commonwealth's Legislature.

e) Measurement Focus and Basis of Accounting

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including investment earnings) are

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generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from nonexchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB No. 33), which the Municipality adopted on July 1, 2002. GASB No. 33 established accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a nonexchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its nonexchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed nonexchange revenues, (c) government mandated nonexchange transactions, and (d) voluntary nonexchange transactions.

In the case of derived tax revenue transactions (such as municipal license taxes), which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is, when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed nonexchange revenue transactions (such as property taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes are generally recorded as revenues (net of amounts considered not collectible) in the period when resources are required to be used or the first period that the use of the resources is permitted.

Government-mandated nonexchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to another government (such as the Municipality), and the provider government requires the recipient government to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary nonexchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. In these types of transactions, receivables and revenues are generally

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accounted for in the same manner as government-mandated nonexchange transactions discussed above.

Receipts of any type of revenue sources collected in advance for use in the following period are recorded as deferred revenues.

Events that are neither exchange nor nonexchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include a reconciliation to better identify the relationship between the GWFS and the GFFS.

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are generally considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2004, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred revenues at June 30, 2004. The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions and interest income. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from nonexchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for nonexchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, municipal license tax receivables and revenues are generally recorded when the underlying exchange has occurred. Property tax receivables are also generally recorded in the period when an enforceable legal claim has arisen while property tax revenues (net of amounts considered not collectible) are also generally recorded in the period when resources are required to be used or the first period 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).

Interest income is recorded when earned only if collected within 90 days after year-end since these would be considered both measurable and available.

As previously discussed, on July 1, 2003, the Municipality adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), which modifies the recognition

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criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting and clarifies a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities.

Pursuant to the provisions of GASBI No. 6, expenditures and related liabilities are generally recorded in the accompanying governmental fund financial statements in the accounting period in which the liability is incurred, as under the accrual basis of accounting, but only to the extent that they are normally expected to be liquidated with expendable financial resources.

Modifications to the accrual basis of accounting include:

- Employees' accumulated vacation, sick leave and compensatory time (compensated absences) is recorded as expenditure when consumed. The amount of the unpaid compensated absences has been reported only in the accompanying statements of net assets.
- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest due in July 1 of the following fiscal year, which are recorded when resources are available in the debt service funds (generally June 30).
- Obligations under capital leases, amounts subject to claims and judgments under litigation and other long-term obligations are recorded only when they mature (when payment is due).
- Accounts payable and accrued liabilities not expected to be liquidated with available and expendable financial resources are recorded in the accompanying statement of net assets but not in the governmental funds.
- Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and in full from current financial resources.

The measurement focus of the GFFS is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities, but are not recorded in the accompanying GFFS.

Under the new financial reporting model established by GASB No. 34, all general capital assets and the unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are now incorporated into the accompanying statement of net assets.

f) Stewardship, Compliance and Accountability

Budgetary Control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source for both funds. The annual

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budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

The Mayor must submit an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of Puerto Rico (the Commissioner) and the Municipal Legislature no later than each May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 13.

The Municipal Legislature has 10 business days, up to June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue making payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

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Budgetary Accounting

The Municipality's annual budgets are prepared under the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

Under the budgetary basis of accounting, revenue is generally recognized when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying budgetary comparison schedule provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2004. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2004, which is prepared by the Municipality's Department of Finance and Budget. Copies of that report may be obtained by writing to the Municipality's Director of Finance and Budget.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP. Accordingly, the accompanying budgetary comparison schedule is accompanied by a reconciliation of the differences between the budgetary basis and GAAP actual amounts.

The Municipality does not legally adopt budgets for the state legislative joint resolutions capital project fund. The financial resources received by this fund are not subject to budgeting by the Municipality since the resources received each year from the respective grantors vary from year to year and the respective amounts are granted at their discretion.

g) Unrestricted and Restricted Deposits

The Municipality's deposits are composed of cash on hand and demand deposits in: (1) commercial banks, (2) the Government Development Bank for Puerto Rico (GDB), a governmental bank and a major component unit of the Commonwealth, who is statutorily designated as fiscal agent of the Municipality, and (3) the Municipal Revenue Collection Center (CRIM, by its Spanish acronym), a governmental entity responsible for the collection of property taxes on behalf of all municipalities of Puerto Rico.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any excess is invested in money market accounts or certificates of deposit.

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Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Commonwealth, but not in the Municipality's name.

Restricted assets consist of cash in commercial banks and GDB. These cash balances are classified as restricted assets since its use is limited for the specified purposes discussed below, which are established by applicable agreements or required by law.

Cash with fiscal agent in the general and debt service funds represent property tax collections, which are retained and restricted for the payment of the Municipality's debt service, as established by law. Cash in fiscal agent in other governmental funds consists of unspent proceeds of bonds and notes, and the balance of interest and noninterest bearing accounts which are restricted for: (1) the acquisition, construction or improvement of major capital assets and the operations of federal and state funded programs.

h) Unrestricted and Restricted Accounts and Notes Receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2004. Major receivable balances for the governmental activities include municipal license taxes, property taxes and intergovernmental receivables.

Tax receivables in the general fund represent uncollected property taxes and municipal license taxes. Tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of the Municipality's debt service, as established by law.

Intergovernmental receivables are composed of: (1) amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federal and state funded programs (recorded in the special revenue funds).

These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

i) Inventories and Other Current Assets

Inventories and other current assets consist of materials, supplies, food and medicine inventories held for consumption; and prepaid expenses. Generally, inventories are capitalized (consumption method) and stated at cost using the first-in, first-out method (FIFO) in the GWFS. Inventories and prepaid expenses in the GFFS are recorded as expenditures (purchase method) when purchased (paid) rather than capitalized as an asset.

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j) *Deferred Charges*

Deferred charges capitalized in the accompanying statement of net assets consist of bond issuance costs, net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recognized in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

k) *Capital Assets*

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net assets. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

The Municipality defines capital assets as assets with an individual cost of \$500 or more at the date of acquisition or construction, and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the accompanying statement of activities. In the governmental funds, all capital assets are recorded as expenditures.

In the statement of net assets, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure and certain land, buildings, structures and building improvements constructed or acquired prior to June 30, 2002. The method to deflate the current costs using an approximate price index was used only in the case of certain items for which their historical cost documentation was not available. Actual historical costs were used to value the infrastructure, land, building, structures, building improvements, construction in progress, machinery and equipment and licensed vehicles constructed or acquired during or after the year ended June 30, 2003.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction-in-progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight – line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50

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Motor vehicles	8
Furniture and fixtures	5 to 20
Machinery and equipment, excluding those held under capital leases	5 to 20

Depreciation and amortization expense on capital assets are recorded as direct expenses of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

l) Deferred Revenues

The Municipality reports deferred revenue on its GFFS and GWFS. In the GFFS, deferred revenue arises when:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period. As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30, or;
- The Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

m) Solid Waste Landfill Closure and Postclosure Maintenance Care Costs

Solid waste landfill closure and postclosure maintenance care costs are accounted for under the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by the Governmental Accounting Standards Board (GASB 18).

According to GASB 18, the estimated liability for solid waste landfill closure and postclosure care costs (including monitoring and maintenance) include an estimate of all costs to be incurred near or after the close of the Municipality’s solid waste landfill under the accrual basis of accounting. In the accompanying government-wide statement of net assets, this liability is recognized over the useful life of the landfill, even though such costs will only be incurred, by definition, near or after the close of the landfill. The estimates of closing and post closing costs are made using current costs (costs that would be incurred if the closing date of the landfill would have been June 30, 2004). The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the fund level, landfill closure and postclosure care costs are recorded in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds as expenditures in the accounting period in which the liability is incurred. At June 30, 2004, the Municipality has recorded an estimated liability for solid waste landfill closure and postclosure maintenance care costs amounting to \$2,868,141 in the accompanying government-wide statement of net assets.

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n) *Compensated Absences*

Compensated absences are accounted for under the provisions of Statement No. 16, Accounting for Compensated Absences, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2004 and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes, medicare taxes, employer contributions to the employees' retirement systems and others).

The vacation policy of the Municipality is established by law and provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

o) *Long-term Debt*

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds, notes, obligation under capital leases, compensated absences, legal claims and judgments, and a reserve for federal cost disallowances.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due in July 1 of the following fiscal year, are recorded as fund liabilities in the GFFS when resources are available in the debt service fund (generally at June 30). In the GFFS, the face amount of debt issued is reported as other financing sources when issued.

In the GWFS debt issuance costs are reported as deferred charges and are amortized under the straight-line method over the life of the debt while in the GFFS such costs are recognized as expenditures during the current period.

On July 1, 2002, the Municipality adopted the provisions of APB Opinion No. 21, *Interest on Receivables and Payables* (APB No. 21), to account for certain non-interest bearing notes payable to the Puerto Rico Treasury Department. According to APB No. 21, the Municipality

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has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net assets, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The notes discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

p) Leases

The Municipality classifies its lease agreements either as operating or capital leases. Capital lease agreements are non-cancelable and involve, substance over form, the transfer of substantially all benefits and risks inherent in the ownership of the leased property, while operating leases do not involve such transfer. Accordingly, a capital lease involves the recording of an asset and a related lease liability at the inception of the lease. According to GAAP, the Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

- By the end of the lease term, ownership of the leased property is transferred to the Municipality.
- The lease agreement contains a bargain purchase option.
- The lease term is substantially equal (75% or more) to the estimated useful life of the leased property.
- At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90% or more of the fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond the current year budget, most capital lease agreements entered by the Municipality contain fiscal funding clauses or a cancellation clause that makes the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria and have fiscal funding or cancellation clauses have been recorded as capital leases in the accompanying GWFS, since the likelihood of invoking the provision is considered to be remote. The Municipality's lease agreements do not include contingent rental payments or escalation clauses.

In the GWFS, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executory costs and profit thereon to be paid by the lessor. A portion of each minimum lease payment is allocated to interest expense and the balance is applied to reduce the lease liability using the effective interest method.

In the GFFS, the net present value of the minimum lease payments at the inception of the capital lease is recorded simultaneously as (1) expenditure and (2) other financing source. Minimum lease payments are recorded as expenditures in the GFFS.

q) Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers (GASB No. 27), the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the

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Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, the two retirement systems in which the employees of the Municipality participate. Accordingly, the Municipality is considered a participant and not a sponsor of these retirement systems since the majority of the participants in the aforementioned pension trust funds are part of the financial reporting entity of the Commonwealth. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth account for the total amount of the net pension obligation of ERS, including any amount that may be allocated to the Municipality.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

r) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments deducted from the Municipality's gross property tax collections made by CRIM.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration ("ACAA", by its Spanish acronym), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation ("FSE" by its Spanish acronym), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a quarterly basis.

The Municipality also obtains medical insurance coverage for its employees. The current insurance policies have not been canceled or terminated at June 30, 2004. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

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s) Reservations of Fund Balances

Reservations of fund balances represent portions of fund balances that are legally segregated for specific future uses or are not appropriated for expenditure. The Municipality has the following types of reservations of fund balances:

- **Encumbrances** – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future periods as the goods or services are received.
- **Capital Projects** – Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- **Debt Service** – Represent fund balances available to finance future debt service payments.
- **Advances and long-term receivables** – Represent the reservation of resources set aside for long-term accounts, notes and interfund receivables, which are not considered current available financial resources.
- **Other Specified Purposes** – Represent resources set aside for use in federal and state grant programs accounted for in the special revenue funds.

t) Interfund Activities

Permanent reallocations of resources among the Municipality's funds are classified as interfund transfers. The Municipality has the following types of activities recorded among funds in the accompanying GFFS:

- **Operating Transfers** – Represent legally required transfers that are reported when incurred as "operating transfers-in" by the recipient fund and as "operating transfer-out" by the disbursing fund.
- **Intra-entity Activities** – Represent transfers among funds that are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
- **Advances** – Represent amounts advanced among funds, which are not considered to be currently available financial resources.

In the GFFS, interfund activity has not been eliminated, as permitted by GAAP.

u) Use of Estimates

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

v) Future Adoption of Accounting Pronouncements

On March 27, 2003, the GASB issued its Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and

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investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate, (3) investment maturity, (4) interest rate sensitivity and (5) foreign exchange exposure. The provisions of GASB No. 40 are effective for the Municipality's fiscal year commencing on July 1, 2004.

On November 18, 2003, the GASB issued its Statement No. 42 (GASB No. 42), *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires governments to report the effects of capital asset impairment in their financial statements. This statement also requires all governments to account for insurance recoveries in the same manner. The provisions of GASB No. 40 are effective for the Municipality's fiscal year commencing on July 1, 2005.

The Municipality's management has concluded that the future adoption of GASB Statements No. 40 and 42 will not have a significant impact on the Municipality's basic financial statements.

2. DEPOSITS

The Municipality maintains its deposits of cash in the Government Development Bank for Puerto Rico (a governmental bank and component unit of the Commonwealth) who serves as fiscal agent of the Municipality; and various commercial banks located in Puerto Rico. The balances deposited in commercial banks are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum of \$100,000 per depositor. However, under the laws and regulations of the Commonwealth, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance provided by the FDIC. All securities pledged as collateral are held by an agent of the Secretary of the Treasury of the Commonwealth in the name of the Municipality.

Cash and cash equivalents at June 30, 2004 consist of the following:

	<u>Included in General Fund</u>	<u>Included in State Legislative Joint Resolutions Fund</u>	<u>Included in Debt Service Funds</u>	<u>Included in Other Governmental Funds</u>	<u>Total</u>
Unrestricted cash and cash equivalents in commercial bank	\$ 3,148,597	-	-	-	\$ 3,148,597
Temporarily restricted cash and cash equivalents	-	1,479,323	1,381,389	2,173,996	5,034,708
Total	<u>\$ 3,148,597</u>	<u>1,479,323</u>	<u>1,381,389</u>	<u>2,173,996</u>	<u>\$ 8,183,305</u>

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The Municipality's bank balance of deposits with financial institutions is categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2004. Risk categories are described as follows:

- Category 1:** Deposit is insured or collateralized with securities held by the Secretary of the Treasury' agents in the Municipality's name.
- Category 2:** Deposit is collateralized with securities held by pledging financial institution's trust department or agent in the Municipality's name.
- Category 3:** Deposit is uncollateralized; including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Municipality's name.

The carrying amount (book balance) of deposits with financial institutions of the Municipality at June 30, 2004 consist of the following:

	Carrying Amount	Bank Balance
Deposits in commercial banks	\$ 3,148,597	\$ 4,481,505
Deposits in governmental banks	2,056,229	2,060,383
Deposits temporarily restricted in commercial banks	2,978,479	2,985,582
Total	\$ 8,183,305	\$ 9,527,470

Bank balances of deposits:

Category 1	\$ 7,467,087
Category 2	
Category 3	2,060,383
Total bank balances	\$ 9,527,470

3. MUNICIPAL LICENSE TAXES

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$ 1 million or more must include rates are established by the Municipality. At June 30, 2004, the municipal tax rates imposed by the Municipality were 1.50 percent for financing institutions and 0.30 percent for any other taxpayers. Any taxpayers, who have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth, ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return every April 15 based on the actual volume of business generated in the preceding calendar year. The tax can be paid by the taxpayer in two equal installments: (1) the first

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payment due at the filing date of the return (generally April 15), and (2) January 15 subsequent to the filing of the declaration. The first installment of the tax covers the taxable period (six months) ended December 31 subsequent to the filing date of the declaration, while the second installment of the tax covers the taxable period (six months) ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (April 15), a 5 percent discount is granted automatically on the tax amount due.

Any municipal license taxes collected in advance (that is, prior to June 30 but pertaining to the next fiscal year) are recorded as deferred revenues. As of June 30, 2004, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$78,419 and \$426,236, respectively, in the accompanying government-wide financial statements.

4. PROPERTY TAXES

The Municipality is authorized by law to impose and collect personal and real property taxes. Personal property taxes can be imposed on any natural or legal person engaged in trade or business that at January 1 of each year is owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. At June 30, 2004, the total personal property tax rate in force was 6.28 percent (of which taxpayers pay 6.08 percent and .20 percent is reimbursed by the Department of Treasury of the Commonwealth. Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. At June 30, 2004, the total real property tax rate in force was 8.28 percent (of which 8.08 percent is paid by taxpayers).

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury of the Commonwealth assumes payment of the basic tax (4.00 and 6.00 percent for personal and real property, respectively) to the Municipality, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when collections are received from the CRIM.

CRIM is required to remit 1.03 percent of the personal and real property tax collected to the Municipality to be used for the partial funding of the debt service requirements on general obligations and notes payable of the Municipality. In addition, 1.25 percent of the total personal and real property taxes collected by CRIM is restricted for debt service requirements of the Municipality and is retained by GDB for such purposes. Accordingly, such amount is recorded as revenues in the debt service fund when collected and reported by the CRIM.

The Additional Lottery System of the Commonwealth (the "Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- i. Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of which a maximum of \$26 million, on an annual basis, is distributed to the

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Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.

- ii. An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35 percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform is covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

5. INTERFUND BALANCES

On July 1, 2001 the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures*, issued by the Governmental Accounting Standards Board. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2004 consisted of the following:

	Operating Transfer from:					Total
	Major Funds			Other Capital Projects Funds	Special Revenue Fund	
	General Fund	Debt Service Fund	State Legislative Joint Resolutions Fund			
Operating Transfer to:						
Major funds:						
General fund	\$	\$ 125,285	\$			\$ 125,285
Debt service fund		10,834				10,834
State Legislative Joint Resolutions Fund		23,138				23,138
Nonmajor funds:						
Special revenue fund						
Other capital projects fund						
Total	\$ 33,972	\$ 125,285	\$	\$	\$	\$ 159,257

	Due From:				Total
	Major Funds			Special Revenue Fund	
	General Fund	Debt Service Fund	State Legislative Joint Resolutions Fund		
Due To:					
Major funds:					
General fund	\$	\$ 108,418	\$		\$ 108,418
Debt service fund		2,791			2,791
State legislative joint resolutions fund		26,967			26,967
Nonmajor funds:					
Special revenue fund		180,945			180,945
Capital projects fund		658,867			658,867
Total	\$ 869,570	\$ 108,418	\$	\$	\$ 977,988

At June 30, 2004 all amounts due to among funds are considered collectible by the Municipality's management.

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6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance at June 30, 2003	Additions	Reclassifications	Other Adjustments	Balance at June 30, 2004
COST BASIS:					
Cost basis of capital assets, not subject to depreciation and amortization:					
Infrastructure land	\$ 1,498,174				\$ 1,498,174
Construction in progress	996,340	1,792,380	(2,332,502)	(30,015)	426,203
Total cost basis of capital assets, not subject to depreciation and amortization	<u>2,494,514</u>	<u>1,792,380</u>	<u>(2,332,502)</u>	<u>(30,015)</u>	<u>1,924,377</u>
Cost basis of capital assets, subject to depreciation and amortization:					
Buildings, structures and building improvements	7,940,053	23,500	989,472		8,953,025
Infrastructure	9,669,990		902,965		10,572,955
Land Improvements	1,659,068		378,184		2,037,252
Licensed vehicles	2,776,061	88,935			2,864,996
Machinery and equipment	976,125	161,407	61,881		1,199,413
Equipment under capital leases	47,444				47,444
Total cost basis of capital assets subject to depreciation and amortization	<u>23,068,741</u>	<u>273,842</u>	<u>2,332,502</u>		<u>25,675,085</u>
Total cost basis of capital assets	<u>\$ 25,563,255</u>	<u>\$ 2,066,222</u>	<u>\$ 2,332,502</u>	<u>\$ (30,015)</u>	<u>\$ 27,599,462</u>
ACCUMULATED DEPRECIATION AND AMORTIZATION:					
Buildings, structures and building improvements	\$ 1,771,188	\$ 168,534			\$ 1,939,722
Infrastructure	3,990,426	383,783			4,374,209
Land Improvements	882,968	86,735			969,703
Licensed vehicles	1,758,769	224,756			1,983,525
Machinery and equipment	360,789	100,048			460,837
Equipment under capital leases	25,228	9,123			34,351
Total accumulated depreciation and amortization	<u>8,789,368</u>	<u>972,979</u>			<u>9,762,347</u>
CAPITAL ASSETS, NET	<u>\$ 16,773,887</u>	<u>\$ 1,093,243</u>		<u>\$ (30,015)</u>	<u>\$ 17,837,115</u>

Depreciation and amortization expense was charged to functions in the accompanying government-wide statement of activities as follows:

General government	\$ 797,735
Public safety	46,818
Public housing and welfare	50,078
Health and sanitation	48,073
Urban and economic development	<u>30,275</u>
Total depreciation and amortization expense	<u>\$ 972,979</u>

7. EMPLOYEES RETIREMENT SYSTEM

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System"). The System is the administrator of a multi-employer cost-sharing (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. The System was created under Act. No. 447 approved on May 15, 1951, as amended, and became effective on January 1, 1952. The System covers all regular

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employees of the Commonwealth and its instrumentalities, the Municipality and other municipalities of the Commonwealth.

The System is independent, thus assets may not be transferred to another system or used for any purpose other than to benefit each system's participants. The System issues publicly available financial reports that include its basic financial statements and required supplementary information for each of them, including required six-year trend information. Those reports may be obtained by writing to the administrator of the System.

The System provides for retirement, death and disability benefits. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75 percent of the average compensation.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension system ("System 2000"). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, had the option to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, are the only required to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as cash balance plan. Under this new plan, there is a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth nor the Municipality will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275 percent of the employees' salary up to a maximum of 10.00 percent) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity U.S. Treasury Note; (2) earn a rate equal to 75 percent of the return of the System 2000's investment portfolio (net of management fees); or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employer's contributions (9.275 percent of the employees' salary which is applicable to the Municipality) will be used to fund the current plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or later January 1, 2000.

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Funding Policy:

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600 8.275 of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

During the fiscal year ended June 30, 2004 the employer's contributions paid by the Municipality to both retirement systems amounted to \$218,685. On August 12, 2000, Act No. 174 was approved to allow certain participants of the ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001. Those who elected early retirement under this law will receive monthly benefits of 75 percent (if 25 or more year of service and 55, or 30 or more years or services and age 50) or benefits of 65 percent (if 25 years of service by less than age 55) of their average compensation which is computed based on the highest 36 months of compensation recognized by the System. In these cases, the employer (including the Municipality) is responsible for contributing to the System the amount needed to cover the benefit payments and employer contribution with respect to the participants covered until the participants reaches the normal retirement age.

Historically, the Commonwealth has reported the System as a single-employer plan (as relates only to the financial reporting entity of the Commonwealth) in its comprehensive annual financial report. Accordingly, any actuarial deficiency that may exist or arise related to the Municipality's participating employees will be assumed by the Commonwealth since the System does not allocate any actuarial deficiencies pertaining to municipal employees participating in the System. The Municipality is only required by law to make statutory contributions in the rates mentioned above. As a result, no net pension obligation nor net pension asset that may be allocable to the Municipality's participating employees, if any, has been recorded in the accompanying basic financial statements.

8. LANDFILL CLOSURE AND POSTCLOSURE COSTS

On July 1, 2002, the Municipality adopted the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board*. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws or regulations to incur closure and postclosure care costs.

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. The Municipality has determined that the present value of total estimated closing costs and post closing maintenance care costs amount to \$1,095,815 and \$1,677,691, respectively, as of June 30, 2004.

Of these estimated costs, the Municipality has recorded a liability amounting to \$2,868,141, which is the amount required by GAAP for accrual as of June 30, 2004. The liability was recorded in the accompanying government-wide financial statements with: (1) a charge to health and sanitation expenses for \$153,147, and (2) a restatement (charge) to beginning net assets for \$121,074 as a prior-period adjustment related to the portion of the accrual corresponding to prior years that was not

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recorded as of June 30, 2003 in the general long-term debt account group. Management is of the opinion that the estimated remaining useful life of the landfill is approximately ten years from June 30, 2004. The Municipality is currently evaluating alternatives for the expansion of its solid waste landfill. The expansion would extend the useful life for 10 to 15 years approximately.

9. LONG-TERM DEBT

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2004, the Municipality is in compliance with the debt limitation requirements.

The general long-term debt activity for the year ended June 30, 2004 was as follows:

	<u>Balance at</u> <u>June 30, 2003</u>	<u>Borrowings</u> <u>or Additions</u>	<u>Payments or</u> <u>Deductions</u>	<u>Other net</u> <u>changes</u>	<u>Balance at</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
Bonds payables	\$ 2,940,000	-	(168,000)	-	\$ 2,772,000	\$ 120,000
Notes payable to GDB	425,803	-	(108,401)	-	317,402	100,600
Compensated absences	1,173,820	-	-	109,703	1,283,523	626,092
Obligation under capital leases	25,816	-	(10,588)	-	15,228	5,143
Total	<u>\$ 4,565,439</u>	<u>-</u>	<u>(286,989)</u>	<u>109,703</u>	<u>\$ 4,388,153</u>	<u>\$ 851,835</u>

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of major capital facilities and equipment, as well as, to cover certain operating needs. Bonds and notes payable at June 30, 2004 is composed of the following debts:

General Obligation Bonds:

Outstanding
Amount

2000 serial bonds due in annual principal installments ranging from \$30,000 to \$140,000; plus interests due in semiannually installments at variable rates (2.80% at June 30, 2004) through July, 1, 2019

\$ 1,375,000

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2000 serial bonds due in annual principal installments ranging from \$30,000 to \$45,000; plus interests due in semiannually installments at variable rates (2.80% at June 30, 2004) through July, 1, 2004 45,000

2002 serial bonds due in annual principal installments ranging from \$5,000 to \$80,000; plus interests due in semiannually installments at variable rates (2.80% at June 30, 2004) through July, 1, 2026 895,000

Total general obligation bonds \$ 2,315,000

Public Improvement Bonds:

1983 serial bonds due in annual principal installments ranging from \$4,000 to \$9,000; plus interests due in semiannually installments at 5.00% through January 1, 2007 \$ 27,000

1995 serial bonds due in annual principal installments ranging from 5,000 to \$45,000; plus interests due in semiannually installments at variable rates (7.21% at June 30, 2004) through July 1, 2019 430,000

Total public improvement bonds \$ 457,000

Notes Payable to GDB:

1987 operating loan with GDB due in annual principal installments of \$98,000; plus interests due in semiannually installments at variable rates (5.00% at June 30, 2004) through July 1, 2006 294,000

1987 operating loan with GDB due in quarterly principal installments of \$2,600; plus interests due in semiannually installments at 8% through July 1, 2006 23,402

Total notes payable to GDB \$ 317,402

Total bonds and notes payable \$ 3,089,402

These bonds are payable from the ad valorem property tax of 1.67% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements of maturity for bonds payable are as follows:

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<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	237,401	152,878	390,279
2006	197,401	143,639	341,040
2007	194,600	135,375	329,975
2008	100,000	129,119	229,119
2009	105,000	124,543	229,543
2010-2014	645,000	536,078	1,181,078
2015-2019	925,000	330,367	1,255,367
2020-2024	460,000	109,145	569,145
2025-2028	225,000	19,460	244,460
Totals	<u>3,089,402</u>	<u>1,680,604</u>	<u>4,770,006</u>

As described in Note 5, the Municipality levies an annual additional special tax of 1.75% of the assessed value of personal and real property. The proceeds of this additional special tax are required to be credited to the debt service fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected by CRIM as agent of the Municipality (see note 5).

10. CAPITAL LEASES

The Municipality has entered into various capital lease agreements to finance the acquisition of office equipment will expire at different years until 2008. These lease agreements qualify as capital leases for financial accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. At June 30, 2004, the capitalized assets amounting to approximately \$47,444 are reported as equipment in the statement of net assets.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004 is as follows:

<u>Year ending June, 30</u>	<u>Principal</u>
2005	6,127
2006	5,506
2007	3,643
2008	1,822
2008	17,098
Total minimum lease payments schedule under agreements	<u>17,098</u>
Less: Amount representing future interest payments	<u>(1,870)</u>
Present value of minimum lease payments	15,228
Less:	
Current portion obligation under capital leases	<u>(5,143)</u>
Obligation under capital leases, excluding current portion	<u>\$ 10,085</u>

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June 30, 2004

11. COMMITMENTS AND CONTINGENCIES

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

With respects to pending or threatened litigation, the Municipality has reported no liabilities for awarded and anticipated unfavorable judgments as of June 30, 2004.

12. ACCOUNTING CHANGES AND RESTATEMENTS

The following schedule reconciles the June 30, 2003 fund balances as previously reported by the Municipality to the beginning fund balances, as restated:

	<u>June 30, 2003, fund balance as previously reported</u>	<u>Correction of accounting errors</u>	<u>June 30, 2003, fund balance as restated</u>
Major funds:			
General fund	3,893,716	(365,457)	3,528,259
	<u>3,893,716</u>	<u>(365,457)</u>	<u>3,528,259</u>
Nonmajor funds:			
Special revenue funds	86,362	9,942	96,304
Capital project funds	152,374	15,219	167,593
Totals	<u>\$4,132,452</u>	<u>(340,296)</u>	<u>3,792,156</u>

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BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u> <u>(See Note 1)</u>	<u>Variance</u> <u>with</u> <u>Final</u> <u>Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 1,130,656	\$ 1,872,386	\$ 1,814,354	\$ (58,032)
Municipal license taxes	553,000	620,127	629,045	8,918
Construction excise taxes	60,000	134,213	134,213	
Charges for services and rents	111,000	255,790	256,790	1,000
Intergovernmental contributions and reimbursements	4,876,703	5,458,310	5,615,442	157,132
Interests, fines and penalties	71,000	45,356	45,621	265
Readjustment cash balance June 30, 2003		1,160,353		(1,160,353)
Other	31,500	486,717	555,974	69,257
	<u>\$ 6,833,859</u>	<u>\$ 10,033,252</u>	<u>\$ 9,051,439</u>	<u>\$ (981,813)</u>
Expenditures:				
General government	\$ 3,073,401	\$ 4,322,177	\$ 4,052,397	\$ 269,780
Urban and economic development	1,910,728	4,013,842	3,547,322	466,520
Public safety	519,971	393,649	346,555	47,094
Public housing and welfare	486,185	501,681	469,604	32,077
Health and sanitation	843,574	801,903	774,894	27,009
	<u>\$ 6,833,859</u>	<u>\$ 10,033,252</u>	<u>\$ 9,190,772</u>	<u>\$ 842,480</u>

Explanation of Differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 9,051,439
Differences - budget basis to GAAP:	
Differences in assets and liabilities resulting from modified accrual basis of accounting in comparison with budgetary basis	72,484
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(33,972)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 9,089,951</u></u>

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 9,190,772
Differences - budget basis to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(125,285)
Differences in assets and liabilities resulting from modified accrual basis of accounting in comparison with budgetary basis	336,457
Current-year encumbrances recorded as expenditures for budgetary purposes	(1,436,140)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 7,965,804</u></u>

The accompanying notes to the basic financial statements are an integral part of this schedule.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2004

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Lower Income Housing Program (Section 8 Voucher)	14.856	RQ-060-VO	\$310,700
Pass-through State-Office of the Municipal Affairs Commissioner of Municipal Affairs-State Block Grant Program	14.219	* All Program Years	<u>1,079,816</u>
Total U.S. Department of Housing and Urban Development			<u>1,390,516</u>
U.S. Department of Agriculture			
Pass-through the Puerto Rico Elderly Commission Food Distribution	10.558	N/A	<u>81,959</u>
Total U.S. Department of Agriculture			<u>81,959</u>
U.S. Department of Justice			
Pass-through the Puerto Rico Department of Justice Public Safety Partnership and Community Policing Grant (COPS)	16.710	98UMWX2448	<u>42,905</u>
Total Department of Justice			<u>42,905</u>
Passed through Governor's Office for FEMA Project Impact	N/A		175,050
1396	N/A		12,110
1247	N/A		<u>1,395</u>
Total FEMA			<u>188,555</u>
Total Federal Financial Assistance			<u>\$1,703,935</u>

* Major Programs

N/A - Information not available

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Barranquitas of the Commonwealth of Puerto Rico and is presented on the accrual basis of accounting. The Municipality of Barranquitas reporting entity is defined in Note 1 to the Municipality's general purpose financial statements. 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, therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE 2 - RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Expenditures of the federal awards as reported in the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds, are included within the Nonmajor Governmental Funds. The reconciliation between the expenditures in the basic financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Expenditures in the Basic Financial Statements	
Nonmajor Governmental Funds	\$2,076,551
Less non-federal expenditures	<u>372,616</u>
Expenditures in the Schedule of Expenditures of Federal Awards	<u>\$1,703,935</u>

BENÍTEZ-JAIME, CPA - PSC

Certified Public Accountants and Business Consultants

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

To the Honorable Mayor
and the Municipal Legislature
Municipality of Barranquitas
Barranquitas, Puerto Rico

We have audited the financial statements of the Municipality of Barranquitas of the Commonwealth of Puerto Rico (the "Municipality") as of and for the year ended June 30, 2004, and have issued our report thereon dated December 15, 2004, which was qualified for the effects of the adjustments if any, as might have been determined to be necessary had we been able to audit the landfill closure and post closure costs. Except as discussed in the preceding sentence, 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.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Barranquitas of the Commonwealth of Puerto Rico financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 04-11 thru 04-14.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Municipality's ability to record, process, summarize, and report financial data consistent with the assertions of

management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-01 thru 04-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 04-1 to be material weakness.

This report is intended solely for the information and use of the municipality's management, municipal legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Toa Alta, Puerto Rico
December 15, 2004

Stamp No. 1934156
was affixed to the
original report.

A handwritten signature in black ink, appearing to be 'Benitez-Jaime', followed by the initials 'CPA-PSC' written in a similar style.

BENÍTEZ-JAIME, CPA - PSC

BENÍTEZ-JAIME, CPA - PSC

Certified Public Accountants and Business Consultants

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

To the Honorable Mayor
and the Municipal Legislature
Municipality of Barranquitas
Barranquitas, Puerto Rico

Compliance

We have audited the compliance of the Municipality of Barranquitas of the Commonwealth of Puerto Rico (the "Municipality") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality's management. Our responsibility is to express an opinion on Municipality's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that 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 Municipality's compliance with those requirements and performing such other 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 Municipality's compliance with those requirements.

In our opinion, except for the instances of noncompliance disclosed below the Municipality of Barranquitas, Commonwealth of Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures also disclosed other 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 costs as items 04-11 thru 04-14.

Internal Control Over Compliance

The management of Municipality of Barranquitas, Commonwealth of Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1 thru 04-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions describe above, we consider item 04-1 to be material weakness.

This report is intended solely for the information and use of the Municipality's management, Municipal Legislature, 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.

Toa Alta, Puerto Rico
December 15, 2004

Stamp No. 1934157
was affixed to the
original report.

A handwritten signature in black ink, appearing to be 'Benitez-Jaime', is written over a large, stylized 'S' or similar symbol. To the right of the signature, the text 'CPA - PSC' is written in a similar handwritten style.

BENÍTEZ-JAIME, CPA - PSC

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2004

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Qualified
Internal control over financial reporting:
Material weakness(es) identified? X yes no
Reportable condition(s) identified
not considered to be material weakness? X yes none reported
Noncompliance material to financial statements
noted? X yes no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? X yes no
Reportable condition(s) identified
not considered to be material weaknesses? X yes none reported
Type of auditor's report issued on compliance
For major programs: Qualified
Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.219	Pass-through State-State Block Grant Program

Dollar threshold used to distinguish
Between Type A and Type B programs: \$500,000

Auditee qualified as low-risk auditee? yes X no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

Section II - Financial Statement Findings

The current year findings and questioned costs were discussed with the Municipality's management which generally concurred with our comments and recommendations. The Municipality of Barranquitas of the Commonwealth of Puerto Rico will respond to the following findings through the issuance of a separate letter addressed to the Cognizant Agency.

04-1 ACCOUNTING SYSTEM

The Municipality's current accounting system does not comply with requirements established in the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico and Law 81 of August 30, 1991. Such regulations provide, among other things that the municipal accounting shall be based on generally accepted accounting principles.

Also, the computerized accounting system should provide for financial information that will serve as the basis for the effective control of revenues, expenditures, property and investments, since this information is necessary for the preparation of reliable financial statements in accordance to generally accepted accounting principles. Finally, the Municipality is responsible for designing fiscal procedures for the system's operations and establishing proper internal controls for the purpose of preventing or minimizing irregularities.

The Municipality's accounting system only provides for the recording of revenues and expenditures and other limited transactions. In addition, the accounting records are not integrated, and a double entry system (debits and credits) is not used. Accounting records were maintained on a cash basis during the year and at end of year the corresponding adjustments were made to convert the records to the modified accrual basis. The conversion to the modified accrual basis requires a

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

significant effort because the information has to be gathered from different informal accounting records. The system lacks the necessary supporting records for the preparation of financial statements in accordance with generally accepted accounting principles. Additionally, we noted that certain records in use were not adequately maintained or posted on a timely basis.

Due to the deficiencies above mentioned, the examination of the financial statements for the year ended June 30, 2004, was more difficult and less efficient than would have been in ordinary circumstances. A significant amount of adjusting entries had to be made in order to account for unrecorded transactions, or to correct transactions recorded in the wrong accounting period. Since the accounts and other records are not designed to provide the information as is presented in financial statements, it was necessary to obtain such information from various departments and persons within the Municipality and from numerous accounting records which are not integrated.

04-2 CASH AND BANK ACCOUNTS

The Municipality has not established sufficient controls in the handling of bank accounts to prevent errors and irregularities from being timely detected. The following control deficiencies were noted during our examination:

- a) The cash balance shown by the Municipality's Treasury Department for the Debt Service Fund as of June 30, 2004, did not agree with the notification of the Account Activity of the Municipal Revenues Collection Center, known by its Spanish acronym as CRIM. This is due to transactions for the fiscal year which were not recorded for in the Municipality's books. Although such information was received late from the CRIM, the Municipality had not closed the books at that date and such transactions could have been properly recorded.

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

RECOMMENDATION:

We recommend that transactions affecting funds held by the CRIM for the Municipality's Debt Service Fund should be recorded on a timely basis and balances reconciled periodically, especially at year end.

- b) Checks totaling \$1,905, as of June 30, 2004, have been outstanding for more than one year. The bank reconciliation are the following:

	<u>Account Name</u>	<u>Amount</u>
-	Cuenta Corriente	\$1,206
-	Housing Vouchers	14
-	Cuenta Nómina	<u>685</u>
		<u>\$1,905</u>

- c) Reconciling items or differences have been outstanding for more than one year without adequate explanation. The bank reconciliations are the following:

-	Cuenta corriente
---	------------------

RECOMMENDATION:

The Municipality should improve its control procedures over bank reconciliations to record the necessary adjustments when there are outstanding checks for more than one year. Stop payments should be issued to cancel checks outstanding over twelve months. Such checks should be substituted with new checks and deposited in the appropriate accounts in order to make the funds available to the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

All bank accounts shall be reconciled every month and all reconciling differences, if any, must be investigated and adjusted, accordingly.

04-3 LONG-TERM DEBT

The Municipality does not maintain adequate records of its outstanding long-term obligations, and consequently, solely relies on the notifications from the Government Development Bank for Puerto Rico to acknowledge and record the balance of the outstanding debt and the amounts needed to fund its debt service.

RECOMMENDATION:

The Municipality should design a system and establish adequate procedures to maintain accounting records of its outstanding long-term obligations. These records will be used to verify the correctness of the amounts informed by the CRIM for the Municipality's Debt Service Fund under the custody of the Government Development Bank for Puerto Rico and the outstanding balance of the long-term debt.

04-4 INTERFUND TRANSACTIONS

The Municipality does not maintain adequate control over interfund transactions. Cash transferred between funds is recorded as revenue in the receiving fund and as an expenditure in the disbursing fund. Several adjustments were made to reconcile such interfund transactions and properly account for these transfers as interfund receivables or payables.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

RECOMMENDATION:

We recommend that adequate control procedures be established to assure proper accountability of interfund transactions. These procedures should be designed to properly segregate cash transferred on a loan basis from cash which represents revenue to the program since these transactions have different accounting treatment for financial statement presentation.

04-5 ACCOUNTS PAYABLE AND ENCUMBRANCES

Under the Municipality's current accounting system, there is no adequate segregation between items representing actual accounts payable and those representing encumbrances because the liability is recognized when the purchase order is issued.

RECOMMENDATION:

The Municipality should establish procedures to clearly distinguish between encumbrances and amounts actually owed for goods and services received at year end. Governmental generally accepted accounting principles required that purchase orders issued for which the goods or services have not been received at year end be reported as an encumbrance, while the goods or services received but not paid at year end be recorded as a liability.

04-6 CASH MANAGEMENT

The OMB Common Rule requires that grantees' cash management system includes administrative procedures to minimize the time elapsing between the transfer of federal funds and

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

the disbursement of these by the grantee. When advances of funds are made by the letter of credit method, funds shall be disbursed not later than three days after the date of the drawdown.

Although the Municipality has established procedures to ensure compliance with the above requirement, our disbursement test revealed instances in which disbursements were made several weeks after the funds were received.

RECOMMENDATION:

We recommend that the Municipality's management to instruct the Federal Programs personnel to strictly follow the established procedures regarding cash management requirements.

04-7 PERSONNEL FILES AND RELATED PAYROLL PROCEDURES

The Municipality does not have an effective system to ensure the completeness and accuracy of the employee files in the personnel department. During our audit, we tested a sample of 40 employee files and noted that several files lacked nonstatutory deduction authorizations and other documentation supporting the employee's salary. The following exceptions were noted during our examination:

Seminars and training records	5 files	13%
Negative penal record certification	1 file	2%
Copy of social security card	4 files	10%
Job description	2 files	5%
Birth certificate	1 file	2%
Medical examination	5 files	13%
Employee evaluations	9 files	23%

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

Employee' changes report OCAP-15	1 file	2%
Oath designation OCAP - 11	1 file	2%
Evidence of the inclusion in the eligibility register	27 files	68%

RECOMMENDATION:

The Personnel Department should review each employee file and ascertain their completeness. Management could design a standard checklist where the file reviewer could determine if documents are missing from each file. Signed exemptions certificates and authorizations for non -statutory withholdings should always support the amounts withheld from employees.

04-8 MUNICIPAL LICENSE TAX

During our municipal license tax tests, we selected a sample of 40 municipal license taxpayers files, amounting to approximately \$12,700, of current year's tax liabilities and the following exceptions were noted.

- In 5 (13%) out of the 40 files selected for examination amounting to \$1,045, the Municipal License Register for Industry and Business, Model 5, were not available for examination.

- In 7 (18%) out of the 40 files selected for examination amounting to \$245, we noted that the gross volume of business reported in the tax return did not include any supporting documentation.

COMMONWEALTH OF PUERTO RICO
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Year ended June 30, 2004

- 8 (20%) municipal taxpayer files included a temporary municipal license issued covering the semester ended December 31, 2003, and no other documentation exists on file evidencing the volume of business, payment of municipal license or any collection efforts.

- In one (2%) out of 40 items selected, the municipal taxpayer file was not available for examination.

RECOMMENDATION:

According to Regulations on Basic Standards for the Municipalities, Section 1 Subpart (1) the "Modelo Núm. 5 Registro de Patentes de Industria y Comercio" must include the following information:

- a. Taxpayer name and address
 - b. Business name and location
 - c. Social security number
 - d. Type of industry
 - e. Registration date
 - f. Fiscal year
 - g. Volume of business
 - h. Annual tax liability
 - i. Municipal receipt number
 - j. Amount paid for each semester, including interest and penalties
 - k. Payment date
-
- According to Sec. 651i (a) (F) (i) Law No. 113 of July 10, 1974 as amended, for a volume of business less than \$1,000,000 the taxpayer

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

must include a copy of the income section of the income tax return submitted to Puerto Rico Treasury Department. This document must be accompanied by a certification indicating that it is an exact copy of the documents submitted to the Treasury Department of the income tax return. All tax declarations without this certification will be considered not filed by the taxpayer.

- According to Regulations on Basic Standards for the Municipalities, Section 6 Subpart 4, if any person required by law does not file a tax declaration upon the required date, the Finance Director has the authority to prepare an Official Tax Declaration based on previous declarations or on any business investigation.

The Municipality should improve the existing procedures related to the municipal license taxpayer files, to ascertain its completeness and accuracy. Also, the Municipality should implement a checklist to be used for each taxpayer to assure completeness of the required documentation.

04-9 DISBURSEMENT TEST

As part of our test of cash disbursements during the year (amounting to approximately \$11 million), we selected 40 disbursement vouchers amounting to \$165,393. The following deficiencies were noted during our examination:

- In 3 (7%) disbursement vouchers amounting to \$32,226, the disbursements lack adequate supporting documentation.
- One (2%) disbursement voucher amounting to \$325, was performed without the required purchasing procedures.

COMMONWEALTH OF PUERTO RICO
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- For 2 (5%) of the disbursement vouchers selected for examination amounting to \$3,940, the canceled checks were not available for examination.

According to the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico, the pre-auditing unit or person in charge of pre-auditing the documents shall keep a record of the authorized signatures of the Municipality. He shall check against such record to ascertain that the officers certifying the documents are so authorized. He shall check the documents correctness in all of its parts and that the transactions in order to pursuant the correct legislation, ordinances, resolutions, contracts and regulations. Once everything is found to be in order, the document shall be certified as preaudited and shall be sent for the approval of the Finance Director. In addition, of the aforementioned regulation, the vouchers, all canceled checks and any other document, that justifies a payment, shall be filed by the Finance Director to be audited by the Puerto Rico Comptroller's Office or any other agency as required by law.

RECOMMENDATION:

The Municipality should enforce strict compliance with the procedures prescribed by the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico during the process of acquisition of materials and supplies, equipment, and construction and service contracts.

04-10 INACTIVE AND UNNECESSARY FUNDS AND INACTIVE BANK ACCOUNTS

The Municipality is maintaining an excessive number of funds and bank accounts that have been inactive for a long period. The accounting records include over 10 different funds, many of which have been inactive or had insignificant movement or operations during the year under audit.

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

This situation results from the need to analyze and close inactive funds and basic accounts when the fund's objective has been achieved or are no longer of significance. The internal control structure should provide for the accurate maintenance of the books, records, funds and accounts necessary to carry out the Municipality's operations.

RECOMMENDATION:

The Municipality should close all unnecessary and inactive funds or accounts. Budgetary balances or deficits remaining in those funds should be investigated and properly closed or established by law.

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Cost</u>
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Section III - Federal Award Findings and Questioned Costs

All Federal Programs

04-11 FEDERAL FINANCIAL REPORTS

The accounting records maintained by the Federal Programs Office are not reconciled with the accounting records maintained by the Municipality's central accounting department records. The Municipality has not established procedures for the reconciliation of the transactions recorded in the Program's accounting records with those recorded in the Municipality's central accounting department records. As a result, this condition may lead to inaccurate reporting of programs supported activities.

NONE

OMB Circular A-102, 20 (b) (2) requires recipient of federal funds to have a financial management system that provides for the maintenance of accurate, current and complete records of the financial results of federally assisted activities in accordance with the financial reporting requirements of the Federal Program. The Municipality should prepare federal financial reports based on the Program's underlying accounting records.

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Cost</u>
Section 8-Voucher CFDA No. 14.156 RQ-46-V060-001-003	<p>04-12 CASH MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$124,542, during the fiscal year. There were months which reported balances as high as \$118,260 at the end of the month.</p> <p>Criteria:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from federal agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>Recommendation:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of federal funds as closely as possible to the actual disbursements.</p>	NONE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Cost</u>
SBGP CFDA No. 14.219 Program year 2001	<p>04-13 CASH MANAGEMENT SYSTEM</p> <p>Statement of Condition</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$40,506, during the fiscal year. There were months which reported balances as high as \$62,702 at the end of the month.</p> <p>Criteria:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>Recommendation:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.</p>	<p>NONE</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2004

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Cost</u>
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SBGP
CFDA No. 14.219
All Program Years

04-14 QUARTERLY REPORTS
Our review of the quarterly financial reports submitted to Office of the Commissioner of Municipal Affairs, disclosed that they were submitted after the (OCAM)required submission date, as detailed below.

<u>Quarter ended</u>	<u>Due Date</u>	<u>Date Submitted</u>	<u>Past Due Days</u>
September 30, 2003	November 9, 2003	November 14, 2003	6 days

Criteria:

According to OCAM Circular 94-09, quarterly reports, must be submitted at least 40 days after the close of each quarter.

Recommendation:

The Municipality should improve existing procedures to ensure the timely submission of the Quarterly Reports, in order to comply with Federal regulation.

Total questioned costs

\$

Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Barranquitas

December 15, 2003

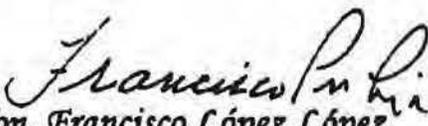
Benítez, Jaime, CPA-PSC
Certified Public Accountants and
Business Consultants
P.O. Box 191503
San Juan, P. R. 00919-1503

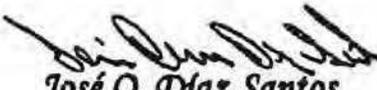
Dear Auditors:

We have received the Schedule of Findings and Questioned Costs, included in the Single Audit Report of the Municipality of Barranquitas for the year ended June 30, 2004.

Although we have already discussed the above mentioned findings. (Financial Statements and Federal Awards Findings) we are in the process of gathering all the relevant information and preparing the related responses. In order to comply with OMB Circular A-133 after completing this task we are going to issue our corrective actions taken on all prior audit findings and our responses to the current findings directly to the grantors and required government agencies.

Cordially,


Hon. Francisco López López
Mayor


José O. Díaz Santos
Finance Director

mdc

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR 2002-2003

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2003. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2003-2004).
- NR - Not resolved yet. Finding repeated in fiscal year 2003-2004.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
03-01	Accounting system	NR
03-02	Long term debt	NR
03-03	Interfund transactions	NR
03-04	Accounts payable and encumbrances	NR
03-05	Cash management	NR
03-06	Personnel files and payroll related procedures	NR
03-07	Municipal license tax	NR
03-08	Disbursement test	NR
03-09	Bidding procedures	FR
03-10	Inactive and unnecessary funds and inactive bank accounts	NR
03-11	Interest and overdraft charges incurred	FR

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR 2002-2003

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2003. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2003-04).
- NR - Not resolved yet. Finding repeated in fiscal year 2003-04.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
03-12	Federal financial reports	NR
03-13	Inadequate documentation of participant's files	FR
03-14	Cash management system	NR
03-15	Cash management system	NR
03-16	Cash management system	NR
03-17	Davis-Bacon Act	FR
03-18	Davis-Bacon Act	FR
03-19	Davis-Bacon Act	FR
03-20	Davis-Bacon Act	FR

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR 2001-2002

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2002. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2002-2003).
- NR - Not resolved yet. Finding repeated in fiscal year 2002-2003.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
02-01	Accounting system	NR
02-02	Fixed assets	FR
02-03	Long term debt	NR
02-04	Interfund transactions	NR
02-05	Accounts payable and encumbrances	NR
02-06	Cash management	NR
02-07	Personnel files and payroll related procedures	NR
02-08	Municipal license tax	NR
02-09	Disbursement test	NR
02-10	Bidding procedures	NR

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR 2001-2002

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2002. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2002-03).
- NR - Not resolved yet. Finding repeated in fiscal year 2002-03.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
02-11	Inadequate property records	PR
02-12	Federal financial reports	NR
02-13	Inadequate documentation of participant's files	FR
02-14	Voucher for payment of annual contributions and operating statements	FR
02-15	Cash management system	NR
02-16	Cash management system	NR
02-17	Cash management system	NR
02-18	Cash management system	NR
02-19	Cash management system	FR
02-20	Davis-Bacon Act	NR

BENÍTEZ-JAIME, CPA - PSC

Certified Public Accountants and Business Consultants

**Independent Auditors' Report on Basic Financial Statements
and Supplementary Schedule of Expenditures of Federal Awards**

The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Barranquitas
Barranquitas, 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 Barranquitas of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, 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.

As described in Note 8, the Municipality of Barranquitas has not maintained complete and adequate records of its estimated liability for landfill closure and postclosure costs and, accordingly we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's estimated liability for landfill closure and postclosure maintenance care costs at June 30, 2004. The Municipality had not performed a study of activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable State and Federal regulations, and had not estimated the obligation for landfill closure and postclosure costs. Governmental Accounting Standard Board Statement 18 requires among other things, that the Municipality estimates and recognizes the municipal solid waste landfill closure and postclosure costs.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the estimated liability for landfill closure and postclosure costs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Barranquitas of the Commonwealth of Puerto Rico, as of June 30, 2004, and the respective changes in financial

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

In accordance with Government Auditing Standards we have also issued our report dated December 15, 2004, on our consideration of the Municipality of Barranquitas of the Commonwealth of Puerto Rico internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not required parts of the basic financial statements referred to above, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Municipality. The schedule of expenditures and federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 15, 2004
Toa Alta, Puerto Rico

Stamp No. 1934155
was affixed to the
original report.

BENÍTEZ-JAIME, CPA - PSC

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2004

	Major Funds				Total Governmental Funds
	General Fund	State Legislative Joint Resolutions	Debt Service	Other Governmental Funds	
REVENUES:					
Taxes:					
Property taxes	\$ 1,566,000	\$	\$ 361,188	\$	\$ 1,927,188
Municipal license taxes	571,790				571,790
Construction excise taxes	134,213				134,213
Total taxes	2,272,003		361,188		2,633,191
Charges for services and rents	260,085				260,085
Intergovernmental contributions and reimbursements:					
Federal grants and contributions				1,663,240	1,663,240
State grants and contributions	5,988,475	131,476		126,165	6,246,116
Interest, fines and penalties	17,064	14,383	10,799	8,830	51,276
Other revenues	552,324				552,324
Total revenues	9,089,951	146,059	371,987	1,798,235	11,406,232
EXPENDITURES:					
Current:					
General government	2,358,503			683,945	3,042,448
Urban and economic development	2,202,957				2,202,957
Public Safety	340,827			126,165	466,992
Public housing and welfare	824,600	61,577		394,919	1,281,096
Health and Sanitation	1,101,178				1,101,178
Capital Outlays	1,125,302	69,899		871,522	2,066,723
Debt service:					
Principal	10,588		236,401		246,989
Interest on bonds and notes	1,849		160,273		162,122
Total expenditures	7,965,804	131,476	396,674	2,076,351	10,570,505
Excess (deficiency) of revenues over (under) expenditures	1,124,147	14,383	(24,687)	(278,316)	835,727
OTHER FINANCING SOURCES (USES):					
Operating transfer-in from other funds	33,972		125,285		159,257
Operating transfer-out to other funds	(125,285)	(14,583)	(10,834)	(8,555)	(159,257)
Total other financing sources (uses)	(91,313)	(14,583)	114,451	(8,555)	
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES AND OTHER FINANCING USES	1,032,834		89,764	(286,871)	835,727
FUND BALANCES AT BEGINNING OF YEAR	3,528,259		1,167,422	763,897	4,959,578
FUND BALANCES AT END OF YEAR	\$ 4,561,093		\$ 1,257,186	\$ (22,974)	\$ 5,795,305

The accompanying notes to the basic financial statements are an integral part of this statement.

TRANSACTION REPORT

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