

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

**MUNICIPIO DE BARCELONETA**  
**AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
SINGLE AUDIT REPORT  
JUNE 30, 2015  
(INDEPENDENT AUDITOR'S REPORT)**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
SINGLE AUDIT REPORT  
JUNE 30, 2015**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Barceloneta of the Commonwealth of Puerto Rico ("the Municipality"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the governmental activities, the business type activities, each major fund , and the aggregate remaining fund information of the Municipality of Barceloneta as of June 30, 2015, and the respective changes in its net position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 14 to the financial statements the Municipality implemented the GASB68, during the year audited related to Pension Plan that incremented the liability in the Wide Financial Statement by \$59.2 million.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4–13 and 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Also the *U.S. Department of Housing and Urban Development, Real State Assessment Center (REAC)* is presented (separate report) for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

### ***Other Information***

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The *combining and individual non-major fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the other information, such as the introductory and statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

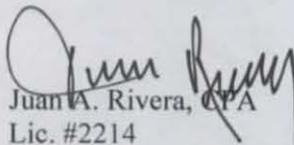
The *management's discussion and analysis and budgetary comparison information* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In my opinion, the *management's discussion and analysis and budgetary comparison information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The *combining and individual non-major fund financial statements and schedule of expenditures of federal awards* has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated May 17, 2016 on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.

  
Juan A. Rivera, CPA  
Lic. #2214

Toa Baja, Puerto Rico  
May 17, 2016



Stamp No. **02726730** of Puerto Rico Society of Certified Public Accountants was affixed to the original report.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Puerto Rico, Municipality of Barceloneta (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2015. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended June 30, 2015. This MD & A is prepared in order to comply with such pronouncement and, to provide the financial statements users with major information.

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 issued,
- 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.

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

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

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

#### *General Fund*

In spite of the difficult economic situation during fiscal year 2014-2015 and the budgetary deficit that the island of Puerto Rico has run through, our administration has worked very responsibly by paying attention to most urgent requests but without overlooking what is important and necessary. To that effect we have promoted and completed several projects related to permanent improvements in various areas that will provide qualify facilities to the citizens of the Municipality.

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The property tax revenue represents 23% of total revenues of the municipality during the last five years. The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality of Barceloneta and for the levy, administration and collection of the corresponding taxes.

However, we deal with a deficit situation in the general fund of approximately \$4.6 million at June 30, 2015. The decrease in the deficit during fiscal year 2014-2015 is due mainly to revenue receipts from income of Government redemption fund of sales and use taxes. Construction projects in our Municipality have not been accomplished due to local banks inability to finance projects due to economic hardships. In addition, one industry company did not obtain their expected volume of business and, accordingly, this affected our revenue estimates. Therefore, we expect that during fiscal year 2014-2015 the construction projects receive final endorsement from the appropriate authorities and, accordingly, our Municipality's Management will continue correcting the deficit in the general fund with 2014-2015 revenue sources.

**FINANCIAL HIGHLIGHTS**

- The Net position of the Municipality present deficit at the close of the current fiscal year by \$28.4 million net position increase by \$2 million when compared with prior year. Municipality implemented GASB statement No. 68 for the fiscal year June 30, 2015.
- Revenues were \$7.5 million more than last year; expenditures were \$7.1 million more than last year as reported in the Statement of Activities.
- The Municipality had reported in the General Fund a deficiency of revenues over expenditures amounting to \$4.6 million in the accompanying statement of revenues, expenditures and changes in fund balances.
- Loans principal payments were \$3.8 million during fiscal year 2014-15.
- The actual revenues were \$2.5 less and the expenditures were \$603,137 more creating a deficiency of \$3.1 million over the revenues in the Budgetary Schedule mainly due to unfavorable variances in revenues, (Volume of business tax and Excise tax).
- The Municipality government funds reported combined deficit ending fund balances of \$1.3 million in the accompanying statement of revenues, expenditures and changes in fund balances.
- The Municipality has reported a net unassigned fund balance deficit for the general fund amounting to \$4.6 million.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Financial Statements Components*

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

Governmental-wide financial statements - The government-wide financial statements which begin on page 16 of this report are designed to provide users with a broad overview of the Municipality's finances, in a manner similar to a private-sector business. The government wide statements provide short and long term information about the municipality's status as a whole.

The Statement of Net position reflects information of the Municipality as whole. Increase or decrease of net position may serve as an indicator of whether the municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Net position and the statement of activities, on page 14-15 report the Municipality net position and changes in them. One can analyze of the Municipality's net position, as the difference between assets, liabilities and deferred inflows or resources, as one way to measure the Municipality's financial position. The increases or decreases in the Municipality's net position are one of the indicators of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered, such as changes in the Municipality's property tax base, and the condition of roads, to assess the overall health of the Municipality's of Barceloneta.

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

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MANAGEMENT'S DISCUSSION AND**

the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements.

The Municipality will use June 30, 2014 as both the measurement date and the actuarial valuation date for purposes of implementing GASB 68 for both the Defined Benefit Pension Plan and Defined Contribution Hybrid Program. In future years, the calculation of the Net Pension Liability and Pension Expense will always be one year behind the most current fiscal year. For example, actuarial valuations with measurement date as of June 30, 2014 will be used to report the Net Pension Liability on the Municipality's Fiscal Year 2014-2015 financial statements.

**Analysis**

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

**Infrastructure Assets**

The Municipality implemented the major model portions of GASB statement 34 during the prior years. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statements. The new statement required that this asset be valued and reported within the Governmental column of the Governmental Wide Statement.

Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets management system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

**Government-Wide Financial Analysis**  
*Statement of Net Position*

The Statement of Net Position reports information of the municipality as a whole. Increase or decrease of net position may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government liabilities exceeded assets by \$28.4 million at the close of the recent fiscal year compared to \$30.4 million at the end of previous year, as restated and showed in the following condensed statement of net position of the primary government.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Net Position  
As of June 30, 2015 and 2014**

	2015	2014	Changes	%
Current and other assets	\$ 11,801,195	\$ 14,425,084	\$ (2,623,889)	-18%
Capital assets net	92,436,097	92,313,690	122,407	0%
Deferred Outflow of Resources	2,023,988	2,023,988	-	0%
<b>Total assets</b>	<b>106,261,280</b>	<b>108,762,762</b>	<b>(2,501,482)</b>	<b>-2%</b>
			-	
Current and other liabilities	12,838,403	9,264,995	3,573,408	39%
Long-term liabilities	56,551,291	62,424,771	(5,873,480)	-9%
Net Pension Liability	59,297,671	59,297,671	-	0%
<b>Total liabilities</b>	<b>128,687,365</b>	<b>130,987,437</b>	<b>(2,300,072)</b>	<b>-2%</b>
Deferred inflows of resources	8,002,774	8,241,491	(238,717)	-3%
Net Position:			-	
Invested in capital assets,	59,608,225	52,708,656	6,899,569	13%
Restricted	2,112,570	861,754	1,250,816	145%
Committed	-	1,723,448	(1,723,448)	0%
Unrestricted (deficit)	(90,125,666)	(85,760,024)	(4,365,642)	5%
<b>Total net position</b>	<b>\$ (28,404,871)</b>	<b>\$ (30,466,166)</b>	<b>\$ 2,061,295</b>	<b>7%</b>

The decrease of \$37,307 million in current net position was mainly due to decrease in Long-term liabilities of general fund. The net capital investment in asset increase by \$6.8 million. At the same time created a decreased in the net invested in capital asset by \$1.8. Long-term liabilities decreased by \$1.8 million are reflected principally in the bonds payable.

	6/30/2015	%	6/30/2014	%	Change
Land	\$ 7,600,472	8%	\$ 7,410,473	8%	\$ 189,999
Construction in progress	28,963,026	31%	28,963,026	31%	-
Building and improvements, net	44,780,495	47%	44,146,288	47%	634,207
Infrastructure	6,679,036	9%	8,799,048	9%	(2,120,012)
Equipment, net	1,581,766	2%	2,241,481	2%	(659,715)
Motor vehicles	2,831,302	3%	2,753,077	3%	78,225
<b>Total Net Capital Asset</b>	<b>\$ 92,436,097</b>		<b>\$ 94,313,393</b>		<b>\$ (1,877,296)</b>

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

The net building improvements net represent 42% and 48% of total asset and net capital assets respectively. Construction in progress represents 27% of total asset and 31% and net capital asset. The building and improvements increase by \$634,207 and infrastructure when compare to prior year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Statements of Activities  
For the year ended June 30, 2015 and 2014  
Changes in Net Position**

	2015	2014	Changes	%
General Revenues				
Property tax	\$ 9,856,890	\$ 9,683,139	\$ 173,751	2%
Volume of Business Tax	8,583,368	7,497,746	1,085,622	14%
Intergovernmental revenue	6,601,017	8,945,410	(2,344,393)	-26%
Rent	1,642,237	1,884,347	(242,110)	-13%
Interest	217,579	221,848	(4,269)	-2%
Other revenue	887,182	2,109,779	(1,222,597)	-58%
Municipal sales tax	5,116,564	4,743,625	372,939	8%
Program revenues:				
Capital grant	1,318,863	1,304,852	14,011	1%
Operating grant	15,654,227	5,978,553	9,675,674	162%
<b>Total Revenues</b>	<b>49,877,927</b>	<b>42,369,299</b>	<b>7,508,628</b>	<b>18%</b>
Expenditures				
General government	18,685,694	20,756,814	(2,071,120)	-10%
Public safety	2,751,519	2,895,460	(143,941)	-5%
Public wok	8,804,711	8,518,260	286,451	3%
Health	1,921,650	1,957,836	(36,186)	-2%
Education and training	13,290,754	3,971,233	9,319,521	235%
Culture and recreation	3,222,733	3,989,394	(766,661)	-19%
Other expenditures	331,106	22,632	308,474	1363%
Interest and fiscal charges	2,650,923	2,514,271	136,652	5%
Charges for services	(154,393)	(187,174)	32,781	-18%
<b>Total Expenditures</b>	<b>51,504,697</b>	<b>44,438,726</b>	<b>7,065,971</b>	<b>16%</b>
<b>Changes in net position</b>	<b>\$ (1,626,770)</b>	<b>\$ (2,069,427)</b>	<b>\$ 442,657</b>	<b>-21%</b>

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Statement of Activities reflects for fiscal year 2015, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to increase of \$1.6 million in the Municipality's net position. Approximately 47% of the Municipality's total revenue came from taxes, while 34% resulted from Federal grants and 13% resulted from Intergovernmental Revenues. The Municipality's expenses cover a range of services like health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and improvements. The largest expenses were for general government, public works, education and training and culture and recreation. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

A brief review of the Statements of Activities of the Municipality at June 30, 2015, shows that total expenses incurred to afford the cost of all functions and programs amounted to \$51 million. Upon examining the sources of revenues for the financing of the programs, the Statement reflects the following; \$154,393 for charges for service, \$15 million from operating grants and contributions; and \$1.3 million from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$32.9 million. Expenses increased by \$7.1 million.

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

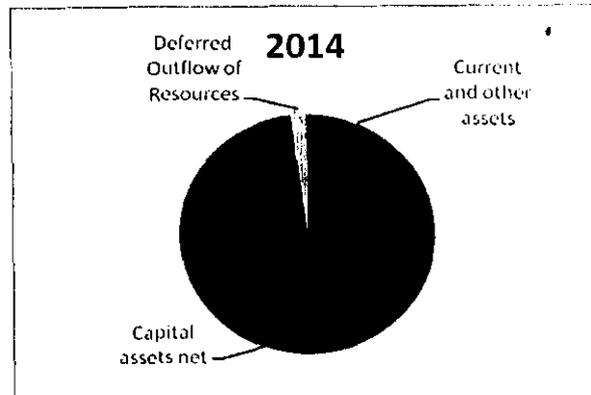
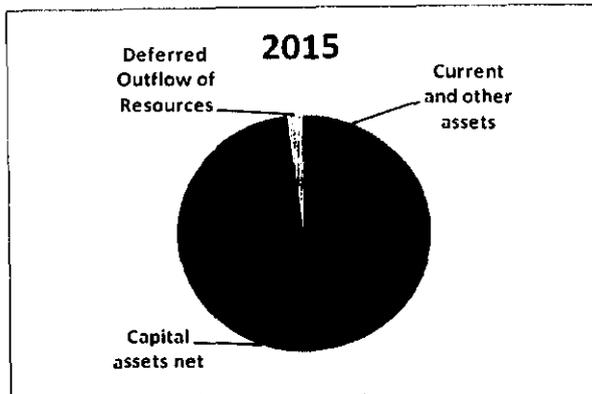
*The following reflects the condensed Balance Sheets of the Governmental Funds:*

**Governmental Funds  
Balance Sheets  
June 30, 2015 and 2014**

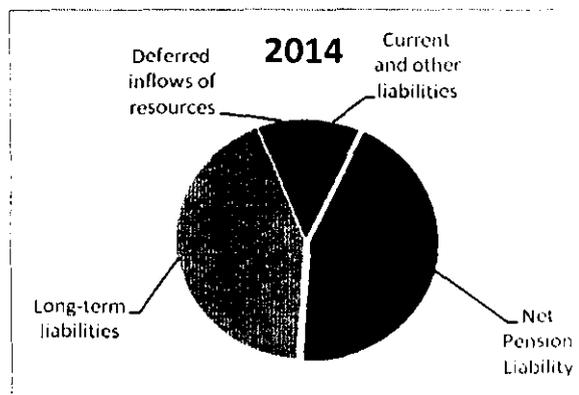
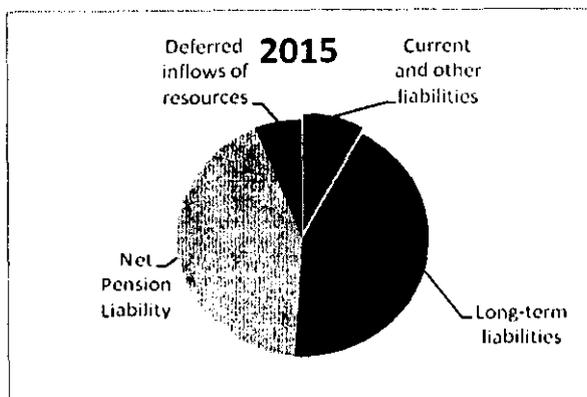
	2015	2014	Changes	%
<b>Assets:</b>				
Cash	\$ 4,754,198	\$ 5,454,614	\$ (700,416)	-13%
Restricted Cash	7,334,615	6,833,834	500,781	7%
Accounts Receivables	3,319,608	2,797,298	522,310	19%
<b>Total Assets</b>	<b>\$ 15,408,421</b>	<b>\$ 15,085,746</b>	<b>\$ 322,675</b>	<b>2%</b>
Liabilities and Fund Balance				
<b>Liabilities:</b>				
Accounts payable and due to other funds	\$ 10,401,803	\$ 10,168,763	\$ 233,040	2%
Deferred inflows of resources	7,528,249	7,766,966	(238,717)	-3%
<b>Total Liabilities</b>	<b>17,930,052</b>	<b>17,935,729</b>	<b>\$ (5,677)</b>	<b>0%</b>
Funds Balances	(1,330,108)	(2,849,983)	1,519,875	-53%
<b>Total liabilities and Fund Balances</b>	<b>\$ 16,599,944</b>	<b>\$ 15,085,746</b>	<b>\$ 1,514,198</b>	<b>10%</b>

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Net Position**



**Liabilities**



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

During 2015 the municipality had \$7.3 million of cash restricted, in the bond issued fund \$493,717. The debt service was obligated by \$3.7 million. Cash in the Special Revenue Funds is obligated for \$527,723 in accounts payable. The accounts payable increased by \$547,090. Deferred inflow of resources decreased by \$238,717.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2015 and 2014**

The most significant changes of this statement were as follows:

- Revenues from property tax increased by \$173,751 due to a decrease in property tax collection. The decrease in Intergovernmental revenues of \$2.3 million was the result of decrease in funds received from central government. Revenue from volume business tax declaration were increase by \$1 million when compared with prior year, reflected in sales reported in the municipal tax declaration, was reduced approximately by 18% in many taxpayer, the sales for Prime Outlet increased by 3% but the industries that reflect an increase in exempt sales (sales outside the United States of America) present a decrease of 35% of the tax paid which is 30% of tax paid. Other revenues increase by \$256,405, principally for eventual income.
- Expenditures were increased by approximately \$7.9 million reflected by an increase in Capital outlays, Public works and other expense when compared the prior year. The Education and Training Federal grant revenues increase by \$9.2 million when compare to prior year, by the new Head Start Program obtained. Including \$3.4 million for pension expense.

	2015	2014	Changes	%
<b>Revenues:</b>				
Property taxes	\$ 9,856,890	\$ 9,683,139	\$ 173,751	2%
Volume of business tax	8,583,368	7,497,746	1,085,622	14%
Intergovernmental revenue	6,601,017	8,945,410	(2,344,393)	-26%
Federal grants	16,973,090	7,277,062	9,696,028	133%
Municipal Sales Tax	5,116,564	4,743,625	372,939	8%
Other	2,901,391	2,814,869	86,522	3%
<b>Total Revenues</b>	<b>\$ 50,032,320</b>	<b>\$ 40,961,851</b>	<b>\$ 9,070,469</b>	<b>22%</b>
<b>Expenditures and Fund Balance</b>				
<b>Expenditures:</b>				
General Government	\$ 14,145,806	\$ 17,231,630	\$ (3,085,824)	-18%
Public works	6,902,527	6,519,867	382,660	6%
Public safety	2,662,354	2,795,510	(133,156)	-5%
Health	1,148,888	1,148,888	-	0%
Capital outlays	3,113,290	1,315,869	1,797,421	137%
Culture and recreation	3,218,413	3,985,658	(767,245)	-19%
Bonds (principal and interest)	6,525,923	6,434,271	91,652	1%
Education and training	13,182,131	3,893,078	9,289,053	239%
Other expenditures	331,106	22,632	308,474	1363%
<b>Total Expenditures</b>	<b>\$ 51,230,438</b>	<b>\$ 43,347,403</b>	<b>\$ 7,883,035</b>	<b>18%</b>
Excess of revenues (expenditures)				
under expenditures (revenues)	(1,198,118)	(2,385,552)	1,187,434	-50%
<b>Fund Balance, ending</b>	<b>\$ (1,330,108)</b>	<b>\$ (2,185,723)</b>	<b>\$ 855,615</b>	<b>-39%</b>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Economic Factors and Next Year Budget**

The Municipality is a political legal entity with full legislative and administrative powers in every area of the municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which has 13 members, exercises the legislative power.

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Federal and State grant revenues may vary if new grants are available. Those factors were considered when preparing the Municipality's budget for the fiscal year 2014-2015.

The Budget for Revenues and expenditures were under \$3.1 million for the general fund, total revenues decreased \$2.5 million when comparing the budgeted revenues with the actual revenue. The volume business tax revenues decrease by \$433,370. The actual expenditures were \$603,137 more than budgeted expenditures. Excess of revenues under expenditures reflect under of \$3.1 million. The Budget for next fiscal year was for the amount of \$27.3 million, approximately \$600,000 more than this current year, for the general fund.

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

The Municipality's management is committed to a continued improvement in the confection of a budget that wills response to the need of the public and private sectors in accordance with its permissible revenues levels. Such has been the case of the financial operation corresponding to fiscal year 2015. It further contemplates to improve its current figure of net position, which has been identified as one of the main short and long-term objectives of the Municipality.

### **Contacting the Municipality's Financial Management**

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 4,754,198
Cash with fiscal agent	7,334,615
Accounts receivable from government	199,425
Accounts receivable (Sales Tax)	507,442
Other accounts receivable	146,211
Accounts receivable from government	883,292
Capital Assets, net of accumulated depreciation	92,436,097
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Contributions made at the measurement date	2,023,988
<b>Total assets</b>	<b>\$ 108,285,268</b>
 <b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u></b>	
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	\$ 2,153,243
Accrued interest	1,205,000
Due to government entities	2,034,626
Non-current liabilities:	
Due within one year	7,445,534
Due in more than one year	56,551,291
Net pension liability	59,297,671
<b>Total liabilities</b>	<b>128,687,365</b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable Revenue-Tax Volume of Business	\$ 6,565,758
Unavailable Revenue-Federal Programs	962,491
Additional liability as of measurement date	474,525
	8,002,774
 <b><u>Net Position</u></b>	
Invested in capital assets	59,608,225
Restricted for:	
Debt service	1,818,060
Capital project activity	294,510
Unrestricted (deficit)	(90,125,666)
<b>Total Net Position</b>	<b>(28,404,871)</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 108,285,268</b>

*See accompanying notes to basic financial statements.*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues		Net (expense) revenue and change in Net Position	
		Charges for Services	Capital Grants and Contributions		Operating Grants and Contributions
				Governmental Activities	
<b><u>EXPENDITURES:</u></b>					
General government	\$ 18,685,694	\$ -	\$ (1,318,863)	\$ (2,517,757)	\$ 14,849,074
Public works	8,804,711	(154,393)	-	-	8,650,318
Public safety	2,751,519	-	-	-	2,751,519
Health	1,921,650	-	-	-	1,921,650
Culture and recreation	3,222,733	-	-	-	3,222,733
Education and training	13,290,754	-	-	(13,136,470)	154,284
Other expenditures	331,106	-	-	-	331,106
Interest on long-term debt	2,650,923	-	-	-	2,650,923
Total governmental activities	<u>\$ 51,659,089</u>	<u>\$ (154,393)</u>	<u>\$ (1,318,863)</u>	<u>\$ (15,654,227)</u>	<u>\$ 34,531,607</u>
<b><u>GENERAL REVENUES:</u></b>					
Property taxes					\$ 9,856,890
Licenses, permits, fines and sales tax					326,526
Volume of Business Taxes					8,583,368
Intergovernmental revenues					6,601,017
Rent of properties					1,642,237
Interests income					217,579
Other Revenues					362,997
Municipal sales tax					5,166,564
Municipal development fund					147,660
Total general revenues					<u>32,904,837</u>
Change in net assets					(1,626,770)
Net assets at beginning of year					25,362,420
Prior period adjustments (note 18)					<u>(52,140,521)</u>
Beginning balance restated					<u>(26,778,101)</u>
Net position at end of year					<u><u>\$ (28,404,871)</u></u>

*See accompanying notes to basic financial statements.*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2015**

<b>ASSETS</b>	<b>General Fund</b>	<b>Bond Issue Fund</b>	<b>HUD Programs</b>	<b>Head Start Programs</b>	<b>Debt Service Fund</b>	<b>Other Funds</b>	<b>Total Governmental Funds</b>
Cash and investments	\$ 2,005,109	\$ -	\$ 74,165	\$ 606,973	\$ -	\$ 2,067,951	\$ 4,754,198
Cash with fiscal agent and other	127,838	493,717	-	-	6,713,060	-	7,334,615
Accounts receivable from Federal government	-	-	112,274	-	-	87,151	199,425
Accounts receivable (Sales Tax)	507,442	-	-	-	-	-	507,442
Other accounts receivable	120,258	-	5,918	20,035	-	-	146,211
Accounts receivable from government	883,292	-	-	-	-	-	883,292
Accounts receivable due from	1,302,659	-	-	10,079	-	270,500	1,583,238
<b>Total assets and other debits</b>	<b>\$ 4,946,597</b>	<b>\$ 493,717</b>	<b>\$ 192,357</b>	<b>\$ 637,087</b>	<b>\$ 6,713,060</b>	<b>\$ 2,425,602</b>	<b>\$ 15,408,421</b>
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 1,033,887	\$ 199,207	\$ 92,557	\$ 174,516	\$ -	\$ 527,723	\$ 2,027,890
Bond payable	-	-	-	-	3,690,000	-	3,690,000
Accrued interest payable	-	-	-	-	1,205,000	-	1,205,000
Deposit received in advance	125,353	-	-	-	-	-	125,353
Due to governmental entities	1,770,321	-	-	-	-	-	1,770,321
Due to other funds	85,479	-	99,800	42,767	-	1,355,192	1,583,238
<b>Total liabilities</b>	<b>3,015,040</b>	<b>199,207</b>	<b>192,357</b>	<b>217,283</b>	<b>4,895,000</b>	<b>1,882,915</b>	<b>10,401,803</b>
Deferred inflows of Resources							
Unavailable Revenue - Volume of Business Tax	6,565,758	-	-	-	-	-	6,565,758
Federal Funds	-	-	-	419,804	-	542,687	962,491
<b>Total deferred Inflows of Resources</b>	<b>6,565,758</b>	<b>-</b>	<b>-</b>	<b>419,804</b>	<b>-</b>	<b>542,687</b>	<b>7,528,249</b>
Debt service	-	-	-	-	1,818,060	-	1,818,060
Assigned	-	294,510	-	-	-	-	294,510
Unassigned	(4,634,201)	-	-	-	-	-	(4,634,201)
<b>Total fund balances</b>	<b>(4,634,201)</b>	<b>294,510</b>	<b>-</b>	<b>-</b>	<b>1,818,060</b>	<b>-</b>	<b>(2,521,631)</b>
<b>Total liabilities and fund balance</b>	<b>\$ 4,946,597</b>	<b>\$ 493,717</b>	<b>\$ 192,357</b>	<b>\$ 637,087</b>	<b>\$ 6,713,060</b>	<b>\$ 2,425,602</b>	<b>\$ 15,408,421</b>

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

**TOTAL FUND BALANCE - GOVERNMENTAL FUNDS**

\$ (2,521,631)

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

92,436,097

Net pension liability

\$ 57,748,208

Accrued expenses

264,305

Legal cases

233,686

Accrued compensated absences

2,451,989

Bonds payable

56,275,000

Municipal solid waste landfill post-closure cost

1,346,149

**Total long-term liabilities**

**\$ 118,319,337 (118,319,337)**

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES**

**\$ (28,404,871)**

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BARCELONETA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>							
Property taxes	\$ 6,174,784	\$ -	\$ -	\$ -	\$ 3,682,106	\$ -	\$ 9,856,890
Volume of Business Taxes	8,583,368	-	-	-	-	-	8,583,368
Licenses, permits, fines and sales tax	326,526	-	-	-	-	-	326,526
Intergovernmental revenues	5,670,452	53,425	-	-	-	877,140	6,601,017
Rent of properties	175,956	-	-	-	-	1,466,281	1,642,237
Interest income	214,013	-	-	-	3,566	-	217,579
Other revenues	517,390	-	-	-	-	-	517,390
Municipal sales tax	4,285,557	-	-	-	881,007	-	5,166,564
Municipal development fund	147,660	-	-	-	-	-	147,660
Federal financial award	-	-	1,318,863	13,136,470	-	2,517,757	16,973,090
<b>Total revenues</b>	<b>26,095,705</b>	<b>53,425</b>	<b>1,318,863</b>	<b>13,136,470</b>	<b>4,566,678</b>	<b>4,861,178</b>	<b>50,032,320</b>
<b>EXPENDITURES:</b>							
Current:							
General government	11,708,719	-	839,877	-	-	1,597,210	14,145,806
Public woks	6,902,527	-	-	-	-	-	6,902,527
Public safety	2,662,354	-	-	-	-	-	2,662,354
Health	1,148,888	-	-	-	-	-	1,148,888
Capital outlays	-	790,841	532,676	-	-	1,789,774	3,113,290
Culture and recreation	3,218,413	-	-	-	-	-	3,218,413
Education and training	-	-	-	13,182,131	-	-	13,182,131
Other expenditures	331,106	-	-	-	-	-	331,106
Debt service:							
Principal retirement	-	-	-	-	3,875,000	-	3,875,000
Interest and fiscal charges	-	-	-	-	2,650,923	-	2,650,923
<b>Total expenditures</b>	<b>25,972,006</b>	<b>790,841</b>	<b>1,372,553</b>	<b>13,182,131</b>	<b>6,525,923</b>	<b>3,386,984</b>	<b>51,230,438</b>
Excess of revenues over (under) expenditures	123,699	(737,415)	(53,690)	(45,661)	(1,959,245)	1,474,195	(1,198,118)
Other financing sources (uses):							
Transfer to debt service fund and other fund	(1,358,814)	-	-	-	1,306,965	51,849	-
Transfer from other fund	1,288,180	-	-	-	501,266	1,789,446	-
Transfer from other fund	2,903	-	-	-	(2,903)	-	-
<b>Total other financing sources (uses)</b>	<b>(67,731)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,805,328</b>	<b>(1,737,597)</b>	<b>-</b>
Excess of revenues and other sources over (under) expenditures and other uses	55,968	(737,415)	(53,690)	(45,661)	(153,917)	(263,402)	(1,198,118)
Net change in fund balances	55,968	(737,415)	(53,690)	(45,661)	(153,917)	(263,402)	(1,198,118)
Fund balance June 30, 2014(deficit)	(4,770,925)	1,110,178	53,690	51,163	861,754	508,417	(2,185,723)
Prior period adjustments (note 19)	80,756	(78,253)	-	(5,502)	1,110,223	(245,015)	862,209
Beginning Balance Restated	(4,690,169)	1,031,925	53,690	45,661	1,971,977	263,402	(1,323,514)
<b>Fund balance June 30, 2015 (deficit)</b>	<b>\$ (4,634,201)</b>	<b>\$ 294,510</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,818,060</b>	<b>\$ -</b>	<b>\$ (2,521,631)</b>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

Net change in fund balance - total governmental funds \$ (1,198,118)

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

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

Expenditures for capital assets	3,113,290	
Less: current year depreciation	<u>(2,972,163)</u>	141,127

The issuance of long-term debt (e.g., bonds, leases) provides current  
financial resources to governmental funds, while the repayment of the  
principal of long-term debt consumes the current financial resources  
of governmental funds. Neither transaction, however, has any effect  
on net assets.

Principal payments	3,875,000	
Accrued expense for Wide financial statements	(4,444,779)	

**Change in net position of governmental activities \$ (1,626,770)**

*See accompanying notes to basic financial statements.*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGET BASIS)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Budget Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 401,613	\$ 401,613	\$ 401,613	\$ -
Volume of Business Taxes	8,500,000	8,500,000	8,066,630	(433,370)
Intergovernmental revenues	5,412,428	5,412,428	5,512,084	99,656
Licenses, permits and fines	1,770,116	1,770,116	406,764	(1,363,352)
Rent of properties	100,000	100,000	175,955.64	75,956
Interest income	180,000	180,000	199,185	19,185
Other revenues	216,000	216,000	425,932	209,932
Municipal Sales Tax	4,200,000	4,200,000	3,512,061	(687,939)
Municipal development fund	200,000	200,000	147,660	(52,340)
Other financial sources	5,670,420	5,670,420	5,268,806	(401,614)
<b>Total revenues</b>	<b>\$ 26,650,577</b>	<b>\$ 26,650,577</b>	<b>\$ 24,116,691</b>	<b>\$ (2,533,886)</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	12,100,444	12,307,013	12,763,995	(456,982)
Public safety	2,710,779	2,672,017	2,671,895	122
Public Works	6,043,949	5,893,221	6,280,427	(387,206)
Health	1,148,888	1,148,887	1,148,887	-
Culture and Recreation	3,287,703	3,270,625	3,270,590	35
Transfer out to debt service	1,358,814	1,358,814	1,117,920	240,894
<b>Total expenditures</b>	<b>\$ 26,650,577</b>	<b>\$ 26,650,577</b>	<b>\$ 27,253,714</b>	<b>\$ (603,137)</b>
<b>Excess of revenues over (under) expenditures</b>				<b>\$ (3,137,023)</b>
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 24,116,691
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				1,979,014
<b>Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances</b>				<b>\$ 26,095,705</b>
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 27,253,714
Differences - budget to GAAP:				
Non budgeted expenditures				317,571
Transfer from general fund for budgetary purposes only				(481,359)
Appropriations for budgeted purposes only				(1,117,920)
<b>Total expenditures as reported on the statement of revenue, expenditures and change in fund balances</b>				<b>\$ 25,972,006</b>

See notes to budgetary comparison schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**GENERAL ORGANIZATION**

The **Municipality of Barceloneta (The Municipality)** was founded in 1881. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of thirteen (13) assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of **the Municipality** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) constitute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

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

**In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34. The Municipality implemented statement No. 37 for the fiscal year ended June 30, 2003.**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BARCELONETA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

**b. Financial Reporting Entity**

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of the **Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality's** may be such that exclusion of their financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 61, - *The Financial Reporting Entity (Omnibus and amendment to GASB No. 14) and GASB Statement No. 34*.

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

**The Municipality's** management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of **the Municipality** as of June 30, 2015 nor for the year then ended.

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BARCELONETA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

The Government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the sustainability of **the Municipality's** as an entity and the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the sources and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

**d. Basis of Presentation**

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. **The Municipality** reports the following major funds on **Fund Financial Statements**:

**Major and Non-Major Funds**

Under the provisions of GASB 34, the Municipality is required to segregate funds among major and non-major categories within the fund financial statements. Major individual governmental funds are reported as separate columns in the accompanying fund financial statements, while data from all non-major governmental funds are aggregated into a single

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BARCELONETA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

column, regardless of fund type. At minimum a fund is considered major if: (1) it is the primary operating fund of the Municipality (i.e. the general fund) or; (2) meets both of the following criteria:

- a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b) Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

In addition, funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund

*Major Funds*

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in another fund.

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

HUD Programs Fund – This fund accounts for revenues sources for the development of viable urban communities, decent housing suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

Debt Service Fund – Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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

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

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

*Other Funds (non major funds)* – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements, which are not financed by other funds.

**e. Basis of Accounting**

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds account for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

***Measurement Focus, Basis of Accounting and Financial Statement presentation***

*Government-wide Financial Statements* – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Funds Financial Statement* – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Available" means collectible within the current period or 90 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

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

Governmental Fund Types/Governmental Activities – Governmental funds are those through which most governmental functions of **the Municipality** are financed. The acquisition, use, and balances of **the Municipality's** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

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

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2015.

**f. Budgetary Control**

**The Municipality** follows the following procedures, which are in accordance with the municipal law; in establishing the annual budget as reflected in the basic financial statements.

- (1) On or prior to May 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.

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

- (3) Prior to July 1st. the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances, as described below:

The actual results of operations, presented in the Statement of Revenues, Expenditures and changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year.

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

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

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

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

Legal Compliance

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

**g. Deposits**

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

Investments consist of short-term certificates and are stated at cost, which approximates fair value.

**h. Inventories**

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

**i. Capital Assets**

Fund Financial Statements

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

Government Wide Financial Statements

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value as of the time they are received by **the Municipality** and are capitalized in the Statement of net position. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

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

**j. Vacation and Sick Leave and Other Compensated Absences**

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation leave may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31, of prior year. Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, is accounted for in the Statement of Net Position.

**k. Insurance**

**The Municipality** has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. Also, principal officials of **the Municipality** are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance coverage for **the Municipality**.

**l. Accounting for Pension Costs**

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 67, Financial Reporting for Pension Plans an amendment of GASB Statement No. 25, replaces the requirements of GASB Statement Nos. 25 and 50 for plans administered by pension systems through trusts or equivalent arrangements, and was implemented by the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) as of June 30, 2014.

In addition, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, effective for the Municipality's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position.

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

The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are not available. This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB 68, is required to be implemented simultaneously with the provisions of GASB 68.

The Municipality implemented both GASB Statement Nos. 68 and 71 for the fiscal year ending June 30, 2015 and the financial statements of the Municipality for the year ended June 30, 2014 were restated accordingly.

**Measurement Frequency and Valuation Requirements**

As mentioned, GASB Statement No. 68 is effective for financial statements for fiscal years beginning after June 15, 2014. Under GASB 68, there are two key dates – the measurement date and the actuarial valuation date. The Net Pension Liability should be measured as of a date no earlier than the end of the employer's prior fiscal year, consistently applied from period to period (measurement date). The Net Pension Liability can be measured from an actuarial valuation as of the measurement date or roll forward amounts from an actuarial valuation as of a date no more than 30 months plus 1 day prior to the employer's most recent fiscal year-end. The actuarial valuation should be performed at least biennially.

The Municipality will use June 30, 2014 as both the measurement date and the actuarial valuation date for purposes of implementing GASB 68 for both the Defined Benefit Pension Plan and Defined Contribution Hybrid Program. In future years, the calculation of the Net Pension Liability and Pension Expense will measurement date as of June 30, 2014 will be used to report the Net Pension Liability on the Municipality's Fiscal Year 2014-2015 financial statements.

**Impact on the Financial Statements – Change in Accounting Principles**

Changes resulting from GASB 68 requirements apply only to the government-wide financial statements. GASB 68 does not apply to governmental funds; they will continue to report pension expenditures based on contributions made during the year.

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

There is no change in cash flow, contribution rates or General Fund budgeted expenditures associated with implementation of GASB 68. In addition, the new measure used to recognize pension expense and pension liability eliminated the ARC concept for recognizing pension expense, resulting in the separation of accounting from funding.

For illustrative purposes, the Finance Department calculated certain line item in the financial statements affected by the New Pension Standards using the actuarial valuation reports as of June 30, 2014 and the highlights of the impact to the government-wide financial statements would have been on the June 30, 2014 financial statements.

**Restatement of Beginning Position and Allocation of Pension Expense Among Municipality Funds**

Methodology Implementation of the New Pension Standards is a change in accounting principle and will require recognition of a one-time prior period adjustment to restate the beginning net position. The total prior period adjustment on a government-wide basis is estimated to be \$54.5 million for governmental activities; business-type activities funds were not affected because employees do not participate in the retirement systems.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. During the current fiscal year, the Municipality implemented the second pronouncement issued, GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27. This statement establishes accounting and financial reporting for pensions provided to the employees of state and local government employers through pension plans that are administered through trusts that have the following characteristics:

- contributions from employers and nonemployee contributing entities to the pension plan and earnings on those contributions are irrevocable;
- pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms;
- pension plan assets are legally protected from the creditors of employers, nonemployee contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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

For the purpose of applying the requirements of GASB No. 68, amended, the state government of the Commonwealth is considered to be the sponsor of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing Defined Benefit Pension Plan and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act. No. 3 was enacted on April 4, 2013, amended the Act. No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (See Note 14).

For purpose of measuring the Net Pension Liability and Deferred Outflows/Inflows of Resources related to pensions, and pensions expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS fiduciary net position have been determined on the same basis as they are reported by Commonwealth of Puerto Rico. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**m. Restricted Assets**

*Investments and Certificates*

Certain proceeds of the Municipality revenue bonds as well as certain resources set aside for their repayment are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account".

*Cash with fiscal agent*

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund. In debt service fund are unsecured and collateralized, as no collateral is required by governmental banks.

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

**n. Fund Balance**

During year ended June 30, 2014, **the Municipality** implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Type Definitions (“GASB 54”). The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The implementation of this statement had no impact on the total fund balances for **the Municipality’s** governmental funds.

**The Municipality** classifies governmental fund balances as follows:

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

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

- **Encumbrances** – Encumbrances should not be displayed as a separate classification of fund balance on the face of the balance sheet. For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and non-major funds in the aggregate in conjunction with required disclosures about other significant commitments.

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

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net Position. (See notes contingencies)

**o. Use of Estimates**

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

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

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

**2. PROPERTY TAXES**

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

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

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**2. PROPERTY TAXES (Continuation)**

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The tax rate per annum is 10.33% for real property and 8.33% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.25% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.25% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service, which is accounted for through the debt service fund (See note 2). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax exemption is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer became the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded in the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$276,573 during 2015.

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**2. PROPERTY TAXES (Continuation)**

The following is a summary of the property tax advances that resulted in an accounts receivable, for the year ended June 30, 2015. The resulting receivable is presented as an increase in the general fund and the Government Wide Financial Statements.

Account receivable

Amortization through collections of property taxes by the CRIM	
07-01-14 - 06-30-15	\$ 9,447,863
Advance received, 07-01-14 - 06-30-15	(8,943,501)
<b>Due to Municipality - 2015</b>	<b>\$ 504,362</b>

**3. DEPOSITS**

The Municipality's cash and investments at June 30, 2015, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

**4. CONCENTRATION OF CREDIT RISK**

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest-bearing bank accounts, and short-term certificates of deposit if due date is not more than 90 days, the certificate considered as cash equivalents.

**Custodial Credit Risk**

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2015:

**Credit risk** - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the Government Development Bank for Puerto Rico. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB.

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**4. CONCENTRATION OF CREDIT RISK (Continuation)**

According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2014 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt or equity securities were made during the fiscal year ended June 30, 2015. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

**Interest rate risk** - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the Government Development Bank for Puerto Rico (the adopted policy of the Municipality). At June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

**Custodial credit risk** — In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB are uninsured and **uncollateralized**. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

Therefore, the Municipality's management has concluded that at June 30, 2015, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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**Foreign exchange risk** -This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015.

**5. MUNICIPAL LICENSE TAXES**

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

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

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, 2015 but pertaining to the next fiscal year is recorded as deferred inflows of resources.

**6. INTERFUND TRANSACTIONS**

Due From/To Other Funds (Fund Financial Statement)

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balances of internal transactions of June 30, 2015 are as follows:

Funds	Due From	Due To
General	\$ 1,302,659	\$ 85,479
Head Start Programs	-	42,767
HUD Programs	-	99,800
Other Funds	280,579	1,355,192
<b>TOTAL</b>	<b>\$ 1,583,238</b>	<b>\$ 1,583,238</b>

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

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**7. INTERGOVERNMENTAL REVENUES**

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and in lieu of tax” payments from certain “quasipublic” corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

**8. DUE TO GOVERNMENTAL ENTITIES**

As of June 30, 2015 balances due to governmental entities of the general fund consists of the following:

Name	Current Portion	Wide Financial Statement
Puerto Rico Retirement System	\$ 382,474	\$ 382,474
General Administration Services	543,416	632,809
Puerto Rico Water and Server Authority	717,831	892,743
Puerto Rico Employee Asociation System	39,794	39,794
Puerto Rico Department of Treasury	86,806	86,806
<b>TOTAL</b>	<b>\$ 1,770,321</b>	<b>\$ 2,034,626</b>

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**9. CAPITAL ASSETS**

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

**Capital assets activity for the year ended June 30, 2015 was as follows:**

	Balance 6/30/2015	Additions	Retirements and transfers dispositions	Balance 12/31/2015
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,410,472	\$ 190,000	\$ -	\$ 7,600,472
Construction in progress	28,963,026	-	-	28,963,026
Total capital assets not being depreciated	<u>36,373,498</u>	<u>190,000</u>	<u>-</u>	<u>36,563,498</u>
Capital assets, being depreciated				
Buildings and building improvements	60,354,723	1,713,096	-	62,067,819
Infraestructure	16,715,949	-	-	16,715,949
Vehicles	8,856,744	590,926	11,398	9,436,272
Equipment	9,829,653	600,548	83,726	10,346,475
Total capital assets being depreciated	<u>95,757,069</u>	<u>2,904,570</u>	<u>95,124</u>	<u>98,566,515</u>
Less: accumulated depreciation for:				
Buildings and building improvements	16,208,435	1,078,889	-	17,287,324
Infraestructure	9,916,901	120,010	-	10,036,911
Equipment	7,587,872	1,260,564	83,726	8,764,710
Vehicles	6,103,669	512,700	11,398	6,604,971
Total accumulated depreciation	<u>39,816,877</u>	<u>2,972,163</u>	<u>95,124</u>	<u>42,693,916</u>
Total capital assets being depreciated, net	<u>55,940,192</u>	<u>(67,593)</u>	<u>-</u>	<u>55,872,599</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 92,313,690</u></b>	<b><u>\$ 122,407</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 92,436,097</u></b>

<b>Governmental activities:</b>	
General government	\$ 95,109
Public safety	89,165
Public works	1,902,184
Culture and recreation	4,320
Health	772,762
Educational and training	108,623
<b>Total depreciation expense governmental activities:</b>	<b>\$ 2,972,163</b>

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**9. CAPITAL ASSETS (continued)**

**Government Wide Financial Statements**

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

Description	Years
Vehicles, Heavy Equipment	5-25
Furniture and Fixture	5-10
Computer and Electronic Equipment	5
Buildings	50
Infrastructure	60
Improvements	20-40

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

**Fund Financial Statements**

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

**10. LONG-TERM DEBT INFORMATION**

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

The following is a summary of Bonds Activities during Fiscal Year 2015:

Description	Beginning Balance	Additions and Adjustments	Reductios	Ending Balance
General Obligations Bonds	\$ 63,960,000	\$ -	\$ 3,995,000	\$ 59,965,000

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**11. LONG-TERM DEBT INFORMATION (Continuation)**

**General Obligation Bonds:**

Description	Balance 06-30-2015	Due within One Year
Series 1992, \$229,000 payable in annual installments of \$4,000 to \$17,000 until 2016; with interest of 5.75%.	\$ 17,000	\$ -
Series 1992, \$257,000 payable in annual installments of \$6,000 to \$19,000 until 2016; with interest of 5.75%.	19,000	-
Series 1992, \$600,000 payable in annual installments of \$13,000 to \$44,000 until 2016; with interest of 5.75%.	44,000	-
Series 1993, \$277,000 payable in annual installments of \$6,000 to \$21,000 until 2016; with interest of 5.75%.	21,000	-
Series 1993, \$833,000 payable in annual installments of \$18,000 to \$65,000 until 2016; with interest of 5.25%.	65,000	-
Series 1995, \$411,000 payable in annual installments of \$9,000 to \$29,000 until 2018; with interest of 5.0%.	82,000	-
Series 1997, \$5,875,000 payable in annual installments of \$80,000 to \$515,000 until 2021; with interest ranging from 4.87% to 6.75%.	2,865,000	320,000
Series 1998, \$1,380,000 payable in annual installments of \$15,000 to \$120,000 until 2022; with interest ranging from 4.87% to 6.71%.	745,000	70,000
Series 1998, \$105,000 payable in annual installments of \$2,000 to \$7,000 until 2023; with interest of 4.5%.	46,000	-
Series 2006, \$10,940,000 payable in annual installments of \$210,000 to \$775,000 until 2030; with interest ranging from 4.17% to 5.31%.	8,535,000	345,000
Series 2006, \$3,695,000 payable in annual installments of \$70,000 to \$265,000 until 2030; with interest ranging from 4.17% to 5.33%.	2,885,000	115,000
Series 2007, \$120,000 payable in annual installments of \$10,000 to \$15,000 until 2016; with interest ranging from 1.50% to 6.60%.	30,000	15,000
Series 2007, \$2,010,000 payable in annual installments of \$30,000 to \$165,000 until 2031; with interest ranging from 1.50% to 7%	1,685,000	55,000
Series 2007, \$5,630,000 payable in annual installments of \$90,000 to \$450,000 until 2031; with interest ranging from 1.50 to 6.60%.	4,715,000	155,000
Series 2005, \$5,500,000 payable in annual installments of 200,000 to \$375,000 until 2022; with interest ranging from 1.3%	2,950,000	325,000
<b>SUB-TOTAL</b>	<b>\$ 24,704,000</b>	<b>\$ 1,400,000</b>

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**11. LONG-TERM DEBT INFORMATION (Continuation)**

**General Obligations Bonds:**

Description	Balance 06-30-2015	Due within One Year
Serie 2008, \$1,840,000 payable in annual installments of \$70,000 to \$195,000 until 2022; with interest ranging from 1.5% to 6%	1,220,000	115,000
Serie 2008, \$1,205,000 payable in annual installments of \$20,000 to \$105,000 until 2032; with interest ranging from 1.5% to 7%	1,050,000	30,000
Serie 2008, \$860,000 payable in annual installments of \$15,000 to \$70,000 until 2032; with interest ranging from 1.5% to 7.5%	745,000	20,000
Serie 2008, \$3,555,000 payable in annual installments of \$50,000 to \$300,000 until 2032; with interest ranging from 1.53% to 7%	3,180,000	95,000
Serie 2010, \$1,595,000 payable in annual installments of \$25,000 to \$135,000 until 2034; with interest ranging from 5% to 7%	1,460,000	35,000
Serie 2010, \$1,827,000 payable in annual installments of \$25,000 to \$152,000 until 2034; with interest ranging from 5% to 6.5%	1,672,000	40,000
Serie 2010, \$605,000 payable in annual installments of \$70,000 to \$105,000 until 2016; with interest ranging from 5% to 6%	205,000	100,000
Serie 2010, \$345,000 payable in annual installments of \$40,000 to \$65,000 until 2016; with interest ranging from 5% to 6%	120,000	55,000
Serie 2011, \$4,900,000 payable in annual installments of \$555,000 to \$860,000 until 2017; with interest ranging from 6%	2,405,000	745,000
Serie 2011, \$1,104,000 payable in annual installments of \$15,000 to \$89,000 until 2035; with interest ranging from 6% to 7.30%	1,029,000	20,000
Serie 2011, \$1,181,000 payable in annual installments of \$25,000 to \$116,000 until 2030; with interest ranging from 6% to 7.5%	1,061,000	35,000
Serie 2011, \$81,000 payable in annual installments of \$10,000 to \$16,000 until 2017; with interest ranging from 6% to 7%	41,000	10,000
Serie 2012, \$740,000 payable in annual installments of \$85,000 to \$130,000 until 2018; with interest ranging from 6% to 7%	465,000	105,000
Serie 2011, \$159,000 payable in annual installments of \$19,000 to \$30,000 until 2018; with interest ranging from 6% to 7%	100,000	20,000
Serie 2011, \$133,000 payable in annual installments of \$5,000 to \$19,000 until 2026; with interest ranging from 6% to 7.5%	118,000	5,000
Serie 2011, \$380,000 payable in annual installments of \$5,000 to \$35,000 until 2036; with interest ranging from 6% to 7.5%	365,000	5,000
Serie 2012, \$4,315,000 payable in annual installments of \$60,000 to \$360,000 until 2036; with interest ranging from 6% to 7.5%	4,110,000	80,000
<b>SUB-TOTAL</b>	<b>\$ 19,346,000</b>	<b>\$ 1,515,000</b>

**COMMONWEALTH OF PUERTO RICO  
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**11. LONG-TERM DEBT INFORMATION (Continuation)**

**Special Revenue Bonds:**

Description	Balance 06-30-2015	Due within One Year
Serie 1997, 400,000 payable in annual installments of \$10,000 to \$40,000 until 2016; with interest ranging from 1.53% to 7.5%	\$ 70,000	\$ 30,000
Serie 2005, \$5,020,000 payable in annual installments of \$95,000 to \$380,000 until 2028; with interest ranging from 4.5% to 6%	3,720,000	180,000
Serie 2011, \$1,510,000 payable in annual installments of \$25,000 to \$130,000 until 2034; with interest ranging from 6% to 7.5%	1,400,000	30,000
Serie 2010, \$5,265,000 payable in annual installments of \$370,000 to \$720,000 until 2019; with interest ranging from 5% to 6%	3,110,000	535,000
Serie 2012, \$390,000 payable in annual installments of \$40,000 to \$70,000 until 2019; with interest ranging from 6% to 7.5%	300,000	50,000
Serie 2013, \$260,000 payable in annual installments of \$30,000 to \$50,000 until 2019; with interest ranging from 6% to 7.5%	200,000	35,000
Serie 2013, \$905,000 payable in annual installments of \$100,000 to \$160,000 until 2019; with interest ranging from 6% to 7.5%	700,000	120,000
Serie 2014, \$6,525,000 payable in annual installments of \$110,000 to \$500,000 until 2038; with interest ranging from 6% to 6.5%	6,415,000	120,000
<b>SUB-TOTAL</b>	<b>\$ 15,915,000</b>	<b>\$ 1,100,000</b>
<b>TOTAL</b>	<b>\$ 59,965,000</b>	<b>\$ 4,015,000</b>

*The annual debt service requirements for the bonded debt outstanding as June 30, 2015 are as follows:*

Year Ending	Principal	Interest	Total
2016	\$ 4,262,000	\$ 2,705,063	\$ 6,967,063
2017	4,377,000	2,942,270	7,319,270
2018	4,425,000	2,906,378	7,331,378
2019	3,741,000	2,653,848	6,394,848
2020	3,826,000	2,449,155	6,275,155
Subsequent years	39,334,000	18,533,931	57,867,931
<b>TOTAL</b>	<b>\$ 59,965,000</b>	<b>\$ 32,190,645</b>	<b>\$ 92,155,645</b>

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

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**12. DEBT SERVICE FUND**

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and reported by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality used. Interest income is used for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the general obligations bonds and notes.

The Government Development Bank pays principal and interest on these obligations for Puerto Rico from funds obtained from the Following sources:

Property taxes	\$ 3,682,106
General funds	1,306,965
Special funds Transferir	501,266
Municipal sales tax	881,007
<b>TOTAL</b>	<b>\$ 6,371,344</b>

*Expenditures for the year 2014-2015 were as follows:*

Principal	\$ 3,875,000
Interest	2,650,923
<b>TOTAL</b>	<b>\$ 6,525,923</b>

**13. RETIREMENT PLAN**

**Plan Description**

Regular full time employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, "Retirement Pensions, Disability and Death Benefits", as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at GPO Box 42005, San Juan, Puerto Rico 00940.

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**13. RETIREMENT PLAN (Continuation)**

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

**OLD PLAN (LAW 447)**

Eligibility

Pension Benefits

Age 55 and 30 years  
Of service

5% of average highest compensation  
during any years of credited service

Under 55 and 30 years  
Of service

65% of average highest compensation  
during any 3 years of credit service

Participants in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

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

**NEW PLAN (REFORMA 2000)**

Eligibility

Pension Benefits

Age 65 with 10 years  
of service

.5% of average compensation during  
the final 5 years of credited services  
multiplies by the numbers of years  
credited service

For both plans, the employees are vested when attaining ten years of plan participation. Disability and death benefits are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

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**13. RETIREMENT PLAN (Continuation)**

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

**Defined Contribution Hybrid Program** – On April 4, 2013 the Legislature enacted Act No. 3 which amended Act No. 447 and Act. No. 305 to establish, among other things, a defined contribution hybrid program (the "Hybrid Program") to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2014 were participants of previous plans will become part of the Defined Contribution Hybrid Program.

Participants in the defined benefit pension plan who as of June 3, 2015, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants who as of June 30, 2015, have not reach the age of 58 and completed 10 years of service or have not reach the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Participants in the defined contribution plan who as of June 30, 2015, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2015, have not reach the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Act. No. 3 requires employees to contribute ten percent (10%) of their monthly gross salary to the Hybrid Program

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**Defined Contribution Hybrid Program (continuation)** - Employee contributions are credited to individual accounts established under the Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty-five percent (.25%) is required for the purchase of disability insurance.

The Municipality is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1<sup>st</sup> by one point twenty-five percent (1.25%).

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than \$10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract

**Funding Policy**

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known.

**Contribution Requirements**

The Municipality's total payroll for the fiscal year 2015 amounted to approximately \$18.2 million. The Puerto Rico Commonwealth legislation requires employees to contribute 5.775% of gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600. The Municipality is required to contribute 9.275% of gross salary annually during year 2015. The Municipality actual contribution under Act 447 and Reform 2000 during year ended on June 30, 2015 was \$1.5 million.

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**13. RETIREMENT PLAN (Continuation)**

**Actuarial Valuation**

As of June 30, 2014, the ERS has an unfunded accrual liability of approximately \$59.2 million, representing a 19% funding ratio. This information is available by each participating government agency or municipalities.

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

- |                                    |  |
|------------------------------------|--|
| a) Interest rate                   | 6.4% a year  |
| b) Salary increases                | 3.0% year  |
| c) Pre-retirement Mortality        | For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. |
| Post-retirement Health Mortality   | Gender-specific mortality rates were developed based on a study of plan's experience from 2003 to 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA.   |
| Post-retirement Disabled Mortality | RP 2000 Disabled Annuitant Mortality Rates, without projection.  |
| d) Termination                     | Withdrawal rates vary by employee category. The annual rate of termination is as follows:  |
|                                    | For general employees      2.0%  |
|                                    | For police and fire        1.6%  |
|                                    | For Mayors                    3.0%   |

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14. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

e) Disability

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

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

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

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**13. RETIREMENT PLAN (Continuation)**

**Actuarial Valuation (Continued)**

f) Retirement

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

<b>Act 447 General Employees (Eligible to retire as of June 30, 2013 or attained 30 years of creditable service by December 31, 2013)</b>			
	<b>Service Condition</b>		
<b>Age</b>	<b>10 years</b>	<b>25 years</b>	<b>30 years</b>
45 to 49			10.0%
50 to 53			15.0
54			20.0
55 to 57		10.0%	20.0
58	5.0%	10.0	20.0
59 to 64	10.0	15.0	20.0
65 to 69	15.0	15.0	20.0
70	100.0	100.0	100.0

<b>Act 1 General Employees (Eligible to Retire as of June 30, 2013)</b>		
	<b>Service Condition</b>	
<b>Age</b>	<b>10 years</b>	<b>25 years</b>
55 to 57		4.5%
58		4.5
59		8.0
60		9.0
61		10.0
62		13.0
63-64		14.0
65	15.0%	50.0
66	15.0	15.0
67	100.0	100.0

<b>System 2000 General Employees</b>		
<b>Age</b>	<b>Eligible to retire as of June 30, 2013</b>	<b>Not Eligible retire as of June 30, 2013</b>
60	15%	-
61-64	15%	10%
65	15%	40%
66	15%	20%
67	100%	100%

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**13. RETIREMENT PLAN (Continuation)**

**Actuarial Valuation (Continued)**

<b>Act 447 (Police officer in high risk positions who were eligible to retire as of June 30,2013)</b>			
	<b>Service Condition</b>		
<b>Age</b>	<b>10 years</b>	<b>25 years</b>	<b>30 years</b>
45 to 48			10.0%
49			15.0
50		7.0%	15.0
51 to 56		15.0	20.0
57		20.0	30.0
58	2.5%	20.0	100.0
59 to 64	10.0	25.0	100.0
65 to 69	10.0	30.0	100.0
70	100.0	100.0	100.0

<b>System 2000 (Public officers in high risk positions)</b>	
<b>Age</b>	<b>Any Service</b>
55	25.0%
56 to 64	20.0%
64 to 66	25.0%
67	100.0%

<b>Act 447 and Act 1 Mayors</b>			
	<b>Service Condition</b>		
<b>Age</b>	<b>8 years</b>	<b>25 years</b>	<b>30 years</b>
45 to 49			10.0%
50 to 53	5.0%		15.0
54	10.0		20.0
55 to 56	10.0	10.0%	20.0
57 to 58	15.0	15.0	20.0
59 to 69	20.0	20.0	20.0
70	100.0	100.0	100.0

<b>System 2000 Mayors</b>	
<b>Age</b>	<b>Any Service</b>
60 to 66	15.0%
67	100.0%

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**13. RETIREMENT PLAN (Continuation)**

- |                                      |   |
|--------------------------------------|---|
| g) Marriage                          | 70% of current active members are assumed to be married at retirement with males 4 years older than females. 100% of current active members covered under Act 127 who die service ob become disabled are assumed to have qualifying beneficiaries, which are approximately by a spouse with males 4 years older than females. |
| h) Number of employees electing high | 15% of retiring employees assumed to pay contributions retroactive contributions at retirement.   |
| i) Cost-of-living adjustments        | 3% every third year   |

Accordingly, the pension expense for fiscal year 2014 was approximately \$3.4 million that represented 100% of the contributions required by funding policies of the Plan.

**Additional information of ERS is provided in its financial statements for the year ended June 30, 2015 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.**

**14. PENSION PLAN**

**Description of the Plan**

As further described in Note 2 D 10), the Municipality implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension, during fiscal year 2015, and a new Required Supplementary Information schedules are included herein. Also, GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB No. 68, is implemented simultaneously with the provisions of GASB No. 68.

Employees of the Municipality participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended (Act No. 447) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced.

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**14. PENSION PLAN** (Continuation)

Act No. 1 of February 16, 1990 (Act No. 1) and Act No. 305 of September 24, 1999 (Act No. 305 or Hybrid Program) establish, among other things, a defined contribution program. The ERS is a pension trust of the Commonwealth. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems are eligible to participate in the ERS. As of June 30, 2015, there were 215 participating employers (73 Commonwealth agencies, 78 municipalities, and 64 public corporations, including the ERS). The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

ERS is a mature retirement system with a significant retiree population. Based on the statutory funding requirements prior to Act No. 3, enacted on April 4, 2013, the annual benefit payments and administrative expenses paid by the system were significantly larger than the member and employer contributions made to the system. Thus investment income must have been used to cover this negative cash flow and assets were projected to become exhausted by the end of this decade. Act No. 3 and Act No. 32 of 2014 (as amended by Act No. 244 of 2014) provided for significant pension reforms and additional contributions to the ERS to counter the imminent expected asset exhaustion.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990(Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Contribution Program)
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contribution Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age

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**14. PENSION PLAN (Continuation)**

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the Define Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Define Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Define Contribution Hybrid Program. Each member has a no forfeitable right to the value of his/her contributions to the Define Contribution Hybrid Program. The assets of the Define Benefit Program, the Define Contribution Program and the Define Contribution Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by the ERS to reduce the unfunded status of the Define Benefit Program.

As of June 30, 2014, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately \$30,220 million, representing a 3.10% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in \$120.0 million for fiscal year 2014 and \$352.0 million annually through fiscal year 2032, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions (Additional Uniform Contribution) of \$120.0 million from the Commonwealth General Fund, public corporations and municipalities beginning in fiscal year 2014 and from all employers \$352.0 million annually through fiscal year 2032. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. The 2014 budgetary appropriation for such additional contribution of approximately \$120.0 million was included in the Commonwealth, public corporations and municipalities for the fiscal year 2014.

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**14. PENSION PLAN (Continuation)**

However, as a result of budgetary constraints at the present time only \$14.9 million was paid by the Commonwealth and 20.5 million paid by public corporations and municipalities during fiscal year 2014. The additional contribution for the fiscal year 2015 was \$27.0 million paid by the Commonwealth and \$27.0 million paid by public corporations and municipalities.

The projected Additional Uniform Contribution for fiscal year 2016 and subsequent years has increased to approximately \$352.0 million (of which approximately \$216.0 million corresponds to the Commonwealth's central government, to be funded from the General Fund and the remaining portion corresponds to the participating public corporations and municipalities). The ERS's actuaries are currently updating the projected Additional Uniform Contribution for fiscal year 2017 and beyond.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment.

The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately \$16 million for its responsibility as an employer under Act No. 70. Furthermore, Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013.

**COMMONWEALTH OF PUERTO RICO  
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**14. PENSION PLAN (Continuation)**

Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the System 2000 to Chapter 5 of the ERS.

Act No. 3 is a dynamic 50-year plan that is designed to provide enough cash for ERS to be able to make full Basic System Benefit payments as they come due, to pay the new lower System Administered Benefits, and to pay debt service on the pension obligation. The reforms enacted through Act No. 3, by design, is a very long term plan, and constant monitoring will be needed to make sure the ERS stays on track. Actual experience may turn out better or worse than expected, thus future adjustments may be needed. Receipt of the Additional Uniform Contribution under Act No. 32 (as amended by Act No. 244) is critical to the ERS's ability to make payments as they come due.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

(a) General Rule — The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.

(b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)

(c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013 -The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for where it shall be fifty-eight (58) years.

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**14. PENSION PLAN (Continuation)**

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars (\$10,000).

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**14. PENSION PLAN (Continuation)**

In the event the annuitant worked five (5) years or more and contributed ten thousand dollars (\$10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from

*Annuity for Years of Service*

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars (\$500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars (\$500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars (\$500).

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty years and have completed at least twenty-five (25) years of creditable service. Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity.

Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty-eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

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**14. PENSION PLAN (Continuation)**

Benefits Provided

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years.

Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity (as of June 30, 2013) for the participants shall be seventy-five percent (75%) of the average compensation.

Merit Annuity— Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, effective July 1, 2013, merit annuities will no longer be available to participants who joined the ERS after April 1, 1990.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus

For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

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**14. PENSION PLAN (Continuation)**

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

- (1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.
- (2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.
- (3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 447 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

- (1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:
  - (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years. of age and has completed at least 10 years of service

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**14. PENSION PLAN (Continuation)**

- (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.
  - (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.
- (2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 — For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.
- (3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service. For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (4) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:
- (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.
  - (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

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**14. PENSION PLAN (Continuation)**

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

- (i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.
- (ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.
- (iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.
- (i) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.
- (ii) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.
- (iii) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

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**14. PENSION PLAN (Continuation)**

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

- (i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.
- (ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.
- (iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.
- (iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.
- (v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

**Funding Policy**

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

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**14. PENSION PLAN (Continuation)**

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

Coordinated Plan - Prior to July 1, 2013 on the coordinated plan, the participating employee contributes 5.775% for the first \$6,600 of salary plus 8.275% for the excess over \$6,600. For fiscal 2013-2014 the contribution was 7.00% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. For fiscal 2014-2015 the contribution was 8.50% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. After July 1, 2015 the contribution was 10.00% of salary. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- \$165 per month if retired with 55 years of age and 30 years of credited service.
- \$110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between \$82 and \$100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

Non-Coordinated Plan (Supplementation Plan) — Prior to July 1, 2013 on the non-coordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits. After July 1, 2015 the contribution was 10.00% of salary.

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

- (a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.
- (b) Contributions under the Plan of Coordination with Social Security benefits — The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid

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**14. PENSION PLAN (Continuation)**

Program:

(1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.

(2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.

(3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

(c) Mandatory Contribution for the Purchase of Disability Insurance — Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

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**14. PENSION PLAN (Continuation)**

Employer Contributions to the System (ERS and Hybrid Program)

On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant
July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant
July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each Participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

As mentioned above, the Municipality is required to an Additional Uniform Contribution as per Act No. 32.

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**14. PENSION PLAN (Continuation)**

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability.

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**14. PENSION PLAN (Continuation)**

Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2014-2015 the disability insurance amounted to \$28,076.

**Additional Benefits Program**

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

(a) A Medication Bonus equal to one hundred (\$100), which shall be paid no later than July 15 of each year;

(b) A Christmas Bonus equal to two hundred dollars (\$200), which shall be paid no later than December 20 of each year; and

(c) A Government contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars (\$100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars (\$2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

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**14. PENSION PLAN** (Continuation)

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as 'Retirement Savings Accounts Program', and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability. The Net Pension Liability of each of the plan program is measured as of June 30, 2014, and the Total Pension Liability for each plan program used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined.

As June 30, 2015, the Municipality reported \$59.2 million as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS.

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability but the information for each program are not available. The Net Pension Liability is measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined.

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**14. PENSION PLAN (Continuation)**

At June 30, 2014, the Municipality's proportionate share was 0.19705%. The Municipality's proportionate share of the Net Pension Liability as of June 30, 2015 was as follows:

**The detail of the following table was not provided by the actuarial report.**

<i>Information was not available</i>	<u>Proportionate Share of Net Pension Liability</u>
Act Number 447	\$ -
Act Number 1	-
Act Number 305	-
Total Net Pension Liability	<u>\$ 59,297,671</u>

For the fiscal year ended June 30, 2015, the Municipality recognized pension expense of \$3.4 million. As of June 30, 2015, the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

**The detail of the following table was not provided by the actuarial report.**

<i>Information was not available</i>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributors subsequent to in measurement date		
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributors	-	-
Net differences between projected and actual earnings on plan investments	<u>\$ 2,023,988</u>	<u>\$ 474,525</u>

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**14. PENSION PLAN (Continuation)**

\$2,023,988 reported as Deferred Outflows of Resources related to contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as Deferred Inflows of Resources related to pensions will be recognized as pension expense as follows:

**The detail of the following table was not provided by the actuarial report.**

<b>Fiscal Year Ended June 30</b>	
2016	\$ -
2017	-
2018	-
2019	-
2020	-

**Actuarial Assumptions**

Actuarial valuations of ERS involve estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was conducted in 2011 and the next experience study is scheduled for 2016.

The long-term expected rate of return on pension plan investments (6.75%) was determined using the non-loan portion of the portfolio that was adopted by the Board during December 31, 2013 as shown below and Milliman's capital market assumptions as of June 30, 2014. In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, as provided by the ERS, have an approximate return of 10.0% with no volatility.

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**COMMONWEALTH OF PUERTO RICO  
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**14. PENSION PLAN (Continuation)**

Asset Class	Target Allocation
Domestic Equity	25%
International Equity	10%
Fixed Income	64%
Cash	1%

Note that this new interest rate assumption of 6.75% per year is just slightly higher than the debt service on some of the Pension Obligation Bonds. The debt service on the Pension Obligation Bonds ranges from 5.85% to 6.55%.

Under GABS No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. As a result of the increase in the investment return assumption, the assumed investment returns on the Defined Contribution Hybrid Contribution Accounts program (80% of the net investment return assumption) was increased from 5.12% to 5.40%. The Total Pension Liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2014
Amortization	18 years closed (beginning July 1, 2014), level dollar
Method Actuarial	Entry-Age Normal Cost Method
Cost Method	18 years
Remaining Amortization	
Period Actuarial Assumptions:	4.29%
Discount Rate	N/A
Inflation	N/A
Payroll Growth	N/A
Projected Salary Increase	3.10%
Investment Rate of Return	For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates from the blue collar adjustments for males and females, projected on a generational basis using Scale AA, as generational tables, they reject mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

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**14. PENSION PLAN (Continuation)**

This valuation also reflects a salary freeze until July 1, 2017 due to Act No. 66 of 2014. While the Act No. 66 salary freeze only applies to Central Government employees, public corporations are mandated to achieve savings under Act No. 66, and actuaries have assumed that they will meet this mandate by freezing salaries. Also, while municipalities are not impacted by Act No. 66, the actuaries have also assumed the salary freeze for these employees due to the current economic conditions in Puerto Rico.

The Act No. 32 (as amended by Act 244) Additional Uniform Contribution that will be received each fiscal year from 2013-2033 is defined in Act No. 244 as follows:

“Additional Uniform Contribution (AUC) - shall mean, (a) for purposes of fiscal year 2013-2014, one hundred and twenty million dollars (\$120 million) and (b) for purposes of each fiscal year between 2014-2015 and 2032-2033, the uniform contribution certified by the external actuary of the ERS at least one hundred and twenty (120) days prior to the start of such fiscal year as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below one billion dollars (\$1.0 billion).”

As previously mentioned, because of the budgetary constraints at the present time approximately \$90.0 million of this amount were not collected as expected during fiscal year 2014. Further, this additional contribution was reduced to \$28.2 million for the Commonwealth's proposed budget for the fiscal year 2014. Similar situation occurred during present fiscal year 2015.

ERS net assets have been exhausted in the 2014-2015 fiscal year. If the increasing Act No. 116 employer contributions, the Supplemental Contribution under Act No. 3, and the Additional Uniform Contribution under Act No. 32 are not paid in full on an annual basis, ERS will continue being rapidly defunded and gross assets will be exhausted.

The approximate actual rate of return since the prior valuation was 88.15% for 2013-2014. This rate of return is determined on a net asset basis. Because of the significant amount of Pension Obligation Bond proceeds that are currently invested (approximately \$3.0 billion), the net asset returns of 88.15% is significant larger than the 8.35% return on the gross asset basis.

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**14. PENSION PLAN (Continuation)**

The actuarial cost method was revised from projected unit credit to the entry age normal method to comply with the requirements of GASB No. 67. Due to the switchover from end-of-year to beginning-of-year census data for fiscal year 2013-2014, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations. During 2013-2014 this difference resulted in a gain of \$62 million.

**Liquid Assets**

The Act No. 32 AUC calculation is based on the objective of maintaining a \$1.0 billion gross asset buffer at all times. It is important to note that a material portion of ERS assets are illiquid in nature. Thus if the Act No. 32 AUC is not paid in full and the \$1.0 billion buffer is not maintained, the ERS will run into liquidity issues and may be forced to sell illiquid assets, potentially at significant loss to the further detriment of the ERS. As of December 31, 2014, ERS had approximately \$764 million in illiquid assets, comprised primarily of loans to ERS members and the COFINA investment. This projection assumes that these illiquid assets will be converted to liquid assets when needed. The AUC has increased markedly from the initial \$140 million estimate prepared in 2013.

As of July 1, 2013, the first year of GASB No. 67 accounting, a projection to determine the GASB No. 67 date of depletion, if any, should be performed as of June 30, 2013 to determine the single equivalent discount rate as of June 30, 2013 used for the Total Pension Liability as of the beginning of the fiscal year. However, as directed by the ERS, the asset bases are exhausted in the 2014-2015 fiscal year and no projection needed to be performed. The tax free municipal bond index of 4.63% as of June 30, 2013 was used as the discount rate in the determination of the Total Pension Liability as of June 30, 2014.

<b>Net Pension Liability</b>	<b>June 30, 2015</b>	
	<b>Total</b>	<b>Proportional Share</b>
Total Pension Liability	\$ 30,219,517,000	\$ 59,548,888
Fiduciary Net Position	127,488,000	251,215
Net Pension Liability	30,092,029,000	59,297,673
Fiduciary Net Position as a % of Total Pension	42%	19.71%
Covered Payroll	\$ 3,489,096,000	\$ 6,875,264
Net Pension Liability as a % of	99.60%	99.60%

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**14. PENSION PLAN (Continuation)**

The Total Pension Liability was determined by an actuarial valuation as of July 1, 2013, calculated based on the discount rate and actuarial assumptions, and was then projected forward to June 30, 2014. There have been no significant changes between the valuation date of July 1, 2013 and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB No. 67. Covered Payroll is as of July 1, 2013.

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 4.29% for each plan as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Municipality will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund's fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability. The plan's Fiduciary Net Position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total Pension Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's Fiduciary Net Position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's Fiduciary Net Position is not projected to be sufficient.

	June 30.	June 30.
Discount Rate	4.63%	4.29%
Long-term expected rate of return net of	6.40%	6.75% <sup>o/»</sup>
Municipal bond rate *	4.63%	4.29%
* Bond Buyer General Obligation 20-Bond Municipal Bond Index		

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability.

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**14. PENSION PLAN (Continuation)**

Changes in Net Pension Liability	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Proportional Share
Balance as June 30, 2014	\$ 28,941,368,000	\$ 701,361,000	\$ 28,240,007,000	\$ 55,646,933
Changes for the year:				826,000
Service Cost	419,183,000	-	419,183,000	2,603,973
Interest on Total Pension Liability	1,321,478,000	-	1,321,478,000	-
Effect of Plan Changes	-	-	-	-
Effect of Economic/Demographic (Gains) of Losses	(61,855,000)	-	(61,855,000)	(21,885)
Effect of Assumptions Changes or Inputs	1,198,308,000	-	1,198,308,000	2,361,266
Benefit Payments	(1,598,965,000)	(1,598,965,000)	-	-
Administrative Expenses	-	(29,530,000)	29,530,000	58,189
Other Expenses	-	(25,875,000)	25,875,000	1,724
Costs of Bonds	-	(192,947,000)	192,947,000	380,202
Member Contributions	-	359,862,000	(359,862,000)	(709,108)
Net Investment Income	-	253,558,000	(253,558,000)	(499,636)
Employer Contributions	-	660,024,000	(660,024,000)	(1,300,578)
Balance as June 30, 2015	\$ 30,219,517,000	\$ 127,488,000	\$ 30,092,029,000	\$ 59,297,671

ERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in September 2016. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, ERS expects to continue using a discount rate net of administrative expenses for GASBS's No. 67 and 68 calculations through at least the 2016-2017 fiscal year. ERS will continue to check the materiality of the difference in calculation until such time as actuarial have changed his methodology.

**Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate**

The following presents the Municipality's proportionate share of the Net Pension Liability, calculated using the discount rate, as well as what the Municipality's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1 — percentage point lower or 1 — percentage point higher than the current rate:

	1% Decrease 3.29%	Current Discount Rate 4.29%	1% Increase 5.29%
Total Pension Liability	\$ 58,704,694	\$ 59,297,671	\$ 59,890,648
Fiduciary Net Position	\$ 1,368,212	\$ 1,382,032	\$ 1,395,852
Net Pension Liability	\$ 57,336,483	\$ 57,915,639	\$ 58,494,796

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**14. PENSION PLAN (Continuation)**

Pension Plan Fiduciary Net Position

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

**15. LONG TERM LIABILITIES**

**Compensated Absences**

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

The changes in Compensated absences for the year ended June 30, 2015 are as follows:

Governmental activity	June 30, 2014	Net Decrease	June 30, 2015	Due within One year
Compensated Absences	\$2,863,245	\$411,256	\$2,4451,989	\$450,000

**16. LEASES**

**Operating Leases**

**The Municipality** has several short-term operating lease agreements covering some of **the Municipality's** premises and equipment. Most of the agreements are renewed annually. Total rental expenditures for the year ended June 30, 2015, were approximately \$64,800 included in all funds.

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**17. CLAIMS AND CONTINGENCIES**

*Contingencies*

As per Act No. 72 of September 7, 1993, Act of the Health Insurance of PR Administration”, (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. The Municipality paid \$1,148,888 during the year to Health Insurance of PR Administration.

On July 1, 1997, there was an amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 would be earned from the additional lottery games.

*Federal Programs*

The Municipality participates in a number of federal financial assistance programs. Although the Municipality’s grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse the grantor agency. Accordingly, the Administrations compliance with applicable grant requirements will be established at some future date.

*Comptroller’s Office Audits*

The Municipality of Barceloneta, Puerto Rico, has been audited by the Comptroller’s Office of the Commonwealth of Puerto Rico. The Comptroller’s Office has issued a final report on February 25, 2014 related to the financial operations of the Municipality covering on January 1, 2010 until February 15, 2012. These audit reports do not cover any findings subsequently disclosed to Municipality operations by the Comptrollers’ Office.

*Contingencies and claims and judgments against the Municipality*

The **Municipality** is a defendant in a number of lawsuits arising principally from claims against the **Municipality** for alleged improper actions. It is management’s opinion, based on the advice of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are not determined at June 30, 2015.

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**18. MUNICIPAL SALES TAX**

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

The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by Treasury Department. The Act provides and optional surtax on the un-processed food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create the Municipal Development Fund (.02%), the Municipal Redemption Fund (.02%) and the Municipal Improvements Fund (.01%) with the remaining 0.5%. The Municipality collected \$4,285,557 during the year ended June 30, 2015.

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

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

The Municipality of Barceloneta discontinued the landfill operation on December 31, 1998, allowing the United States Environmental Protection Agency (EPA) by the Consent Decree (CERLA-00304). State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance function at the landfill for 30 years after closure.

During fiscal year-2005-2006 the U.S. Environmental protection Agency presented the first five – year review (the report) for Barceloneta Landfill site and found that the remedy was constructed according with the requirements of the Record of Decision and that the remedy is functioning as designed according to the report and that the immediate threats have been addressed and the remedy is protective in the short-term.

The Municipality implemented controls in order for the remedy to be protective in the long-term. During this year the Municipality provided maintenance and monitoring to the landfill super fund site with the employees of public work department.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

The estimated annual Post-closure applicable to entire landfill is as follows: Maintenance of final covers \$10,000. Ground water monitoring \$5,200, total landfill cost \$15,200. Accordingly the total landfill costs for the next sixteen years are estimated for \$1,346,149 and are included in the wide financial statements.

**20. RESTATEMENT OF 2014 FINANCIAL STATEMENTS**

During the fiscal year ended June 30, 2015 **the Municipality** noted that certain assets were reclassified and liabilities had been overstated or understated as well as other differences related with adjustments to capital assets and reclassification of certain fund balances. As a result the funds at June 30, 2014, as previously reported. The general fund deficit decrease by \$80,756, and due to the implementation of GASB 68 required recognition of liability of \$52,140,521 in Wide Financial Statement.

	<u>General Fund</u>	<u>Bond issued fund</u>	<u>Debt Service</u>	<u>Other funds</u>	<u>Net position</u>
Beginning balance at June 30, 2014	\$(4,770,925)	\$1,110,178	\$ 861,754	\$ 508,417	\$ 25,362,420
Implementation GASB No. 68					
Resources not recognized Prior Year	-	-	1,110,223	-	(52,140,521)
Accounts payable over (under) recorded	80,756	(78,253)	-	(245,015)	-
Beginning balance, as restated June 30, 2014	\$(4,690,169)	\$1,031,925	\$ 1,971,977	\$ 263,402	\$ (26,778,101)

**21. SUBSEQUENT EVENTS**

In preparing these financial statements, the Municipality evaluated events and transactions that occurred often the financial statements date for potential recognition or disclosure through May 17, 2016, the date on which the financial statements were issued.

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**MUNICIPALITY OF BARCELONETA, PUERTO RICO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<i>Passed-through State Commissioner of Municipal Affairs</i>			
Community Planning and Development Community Development Block Grant (State Program) CDBG	14.218	2011-2014	* \$ 515,768
Direct Program: Section 8- Housing Choice Voucher	14.871	RQ-46-V-054-002/004	* 769,757
<i>Passed-through Commonwealth of P.R.</i>			
Department of Families Emergency Shelter Grant Program	14.231	272-1220000-14F-2013	52,829
<i>Passed-through Municipality of San Juan, Puerto Rico</i>			
Housing Opportunities for People with AIDS	14.241	N/A	34,199
<b>Total U.S. Department of Housing and Urban Development</b>			<u>1,372,553</u>
<b><u>U.S. Department of Health and Human Services:</u></b>			
Administration for Children and Families Direct Program: Early Head Start	93.600	02-CH-9892-03	* 1,046,198
<i>Passed-through the Commonwealth of Puerto Rico Governors Office for the:</i>			
Care and Integral Development of Children: Head Start	93.600	02-CH-0483	* 12,028,529
<i>Passed-through the Commonwealth of Puerto Rico Governors Office for the:</i>			
Administration on Aging Special Program for the Aging - Title III, Part B Grant for Supportive Service and Senior Center	93.044	N/A	70,830
<i>Passed-through Administration of Families and Children</i>			
Promoting safe and stable families	93.556	N/A	36,574
<b>Total U.S. Department of Health and Human Services</b>			<u>13,182,131</u>
<b><u>U.S. Department of Agriculture:</u></b>			
<i>Passed-through the Commonwealth of P.R. Governors Office for the:</i>			
Department of Education Child Care Food Program	10.558	N/A	1,883,960
Direct Program: Rural Business Enterprise Grant	10.769	FY2011	50,121
<b>Total U.S. Department of Agriculture</b>			<u>1,934,081</u>
<b><u>U.S. Department of Transportation Federal Transit Administration</u></b>			
Direct Program: Federal Transit - Capital Investment Grants	20.500	N/A	* 777,422
Traffic Safety Commission	20.500	N/A	124,983
<b>Total U.S. Department of Transportation Federal Transit Administration</b>			902,405
<b>TOTAL EXPENDITURE FEDERAL AWARDS</b>			<u><u>\$ 17,391,170</u></u>

See notes to the schedule of expenditures of federal awards.

\*Major programs

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BARCELONETA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Barceloneta, Puerto Rico and is presented on the modified accrual basis of accounting. The reporting entity is defined in Note 1 to the financial statements of the Municipality. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) MAJOR FEDERAL AWARDS

The Community Development Block Grants, Housing Assistance Payments Programs, U.S. Department of Health and Human Services Programs, Department of Agriculture Programs, Department of Transportation and Federal Transit Administration Programs and represents the major federal financial awards of the Municipality. Major federal awards represent of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

**Pass-Through Grantor's Number**

State or local government and private entities includes within their federal proposal award the related amount of federal awards granted to SIM, also known as "pass-through awards". SIM should consider these federal funds as though they were received directly from the federal government. OMB Circular A-133 requires that the schedule should include the name and the identifying number assigned for federal awards received as subrecipient Numbers identified as N/A are not applicable or available.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Barceloneta, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follows:

<b>Description</b>	<b>Hud Programs</b>	<b>Head Start Programs</b>	<b>Other funds</b>	<b>Total</b>
Federal Programs Expenditures	\$ 1,372,553	\$ 13,182,131	\$ 2,836,486	\$ 17,391,170
State & Municipal Expenditures	-	-	550,498	550,498
<b>TOTAL</b>	<b>\$ 1,372,553</b>	<b>\$ 13,182,131</b>	<b>\$ 3,386,984</b>	<b>\$ 17,941,668</b>

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

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

I have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of Barceloneta, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Municipality of Barceloneta's basic financial statements, and have issued my report thereon dated May 17, 2016.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Municipality of Barceloneta's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Barceloneta's internal control. Accordingly, I do not express an opinion on the effectiveness of Municipality of Barceloneta's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

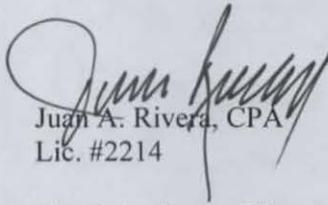
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Municipality of Barceloneta's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as mentioned in items 2015-01 and 2015-02.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Juan A. Rivera, CPA  
Lic. #2214

Toa Baja, Puerto Rico  
May 17, 2016



Stamp No. **02726731** of Puerto Rico Society of Certified Public Accountants was affixed to the original report.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

Honorable Major and Member  
Of the Municipal Legislature  
Municipality of Barceloneta  
Barceloneta, Puerto Rico

**Report on Compliance for Each Major Federal Program**

I have audited Municipality of Barceloneta's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality of Barceloneta's major federal programs for the year ended June 30, 2015. Municipality of Barceloneta's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

My responsibility is to express an opinion on compliance for each of Municipality of Barceloneta's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Barceloneta's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Municipality of Barceloneta's compliance.

### ***Opinion on Each Major Federal Program***

In my opinion, the Municipality of Barceloneta complied, in all material respects, with the types of compliance requirements, referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### **Other Matters**

The results of my auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 which are described in the accompanying schedule of findings and questioned costs as items 2015-02. My opinion on each major federal program is not modified with respect to these matters.

Municipality of Barceloneta's response to the noncompliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs.

### **Report on Internal Control over Compliance**

Management of Municipality of Barceloneta is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Municipality of Barceloneta's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Municipality of Barceloneta's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

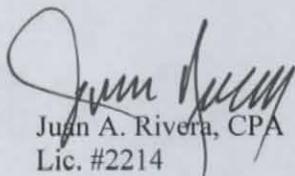
My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

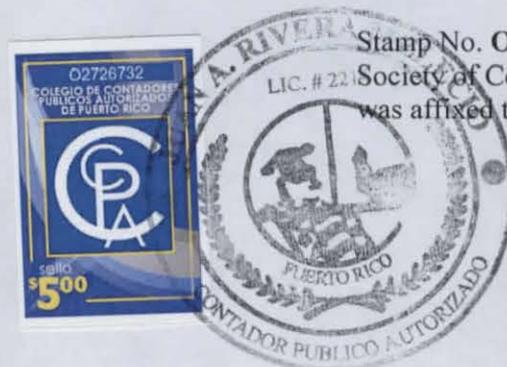
**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

I have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Barceloneta as of and for the year ended June 30, 2015, and the notes to the financial statements which collectively comprise Municipality of Barceloneta's basic financial statements. I issued my report thereon dated May 17, 2016, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

  
Juan A. Rivera, CPA  
Lic. #2214

Toa Baja, Puerto Rico  
May 17, 2016



Stamp No. **02726732** of Puerto Rico  
Society of Certified Public Accountants  
was affixed to the original report.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Part I - Financial Statements**

1. Type of auditor’s report issued: Unmodified
- j. Internal control over financial reporting:
- Material weakness (es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(s) identified not considered  
to be material weaknesses? \_  X  \_ Yes \_\_\_\_\_ No
- k. Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Part II - Federal Awards**

1. Internal control over major programs:
- Material weakness (es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(s) identified not  
Considered being material weaknesses? \_\_\_\_\_ Yes   X   No
2. Type of auditor’s report issued on compliance  
for major programs Unmodified
3. Any audit findings disclosed that are required to be  
Reported in accordance with Circular A-133,  
Section .510(a) are reported \_\_\_\_\_ Yes   X   No
- Dollar threshold used to distinguish  
Between type A and type B Programs \$521,735
- Auditee qualified as low-risk audit \_\_\_\_\_ Yes   X   No

**B - Financial Statements Findings**

No matters were reported regarding reportable conditions, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of Governmental Auditing Standards.

**C – Federal Award Findings and Questioned Costs**

Federal Program Information

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Program: Accounting and Finance Department  
General Fund – Deficit  
Year ended June 30, 2015**

Ref. No.	Finding / Noncompliance	Questioned Cost
2015-01	<u>Statement of Condition and Criteria</u>	-0-

It was noted in my test of balance of accounts that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems for Regulations for Municipal Administration that maintain deficit in the General Fund Operations.

Cause

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

Effect

This condition does not permit the Municipality to:

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

Auditors Recommendation

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

Municipality Response

The Municipality management indicated that they have taken serious measures to minimize the impact of this condition and expects to continue correcting them in the near future.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Program: All Programs  
Accounting and Reporting System  
Year ended June 30, 2015**

Ref. No. / Finding / Noncompliance	Questioned Cost
2015-02 <u>Statement of Condition</u>	-0-

During the performance of our audit procedures the following exceptions were noted:

The Municipality's accounting is under the transition of a new system; therefore, it records revenues and expenditures in an imprecise form, since the new program does not generate closing entries for the year. In addition, the accounting records are not integrated and do not provide for, a self-balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities and residual equities or balances, and changes therein.

**Criteria**

A municipality's accounting system must make it possible to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with accounting principles generally accepted in the United States of America and determine and demonstrate compliance with finance, legal and contractual provisions as established in the Autonomous Municipalities' Law Chapter 215§ 4360 and the OMB Circular A-133.

**Cause**

The Municipality of Barceloneta has not established the accounting procedures, controls and records necessary to provide accurate information to prepare the financial statements and federal reports in conformity with accounting principles generally accepted in the United States of America, the governmental accounting, the financial reporting principles issued by the Governmental Accounting Standards Board (GASB), and the OMB Circular A-133.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Effect**

Due to the deficiencies mentioned above, the examination of the general-purpose financial statements for the year ended June 30, 2015, was more difficult and less efficient than would have been in ordinary circumstances. Since the accounts and other records are not designed to provide the information as it is presented in the financial statements, was necessary to obtain such information from various departments and persons within the Municipality and from numerous accounting records, which are not integrated. This situation can cause the financial statements not to present all the assets, liabilities, revenues and expenditures of the Municipality.

**Recommendation**

In order to streamline the accounting and reporting systems and provide proper closing of records and adequate and timely information, we recommend the Municipality to consider hiring a programmer to fix all the shortcomings of the system. The Municipality should implement the accounting system that allows the preparation of monthly and year-end financial statements in accordance with Accounting Principles Generally accepted in the United States of America applicable to government entities.

This plan should provide for the following:

**Accounting and Reporting System**

- Adequate training to all accounting personnel in order to improve the understanding of the system.
- The preparation of periodic financial reports to be submitted to the Finance Director, the Mayor and the Municipal Assembly.
- Reconciliation of financial with the reports prepared and submitted to the Federal government, and the preparation of the general purpose financial statements in accordance to Accounting principles generally accepted in the United State of America.

**Municipality Response**

The Municipality management indicated that they have taken serious measures to minimize the impact of this condition and expects to continue correcting them in the near future.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARCELONETA  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

2014– Finding No. 1: Accounting and Finance Department  
General Fund Deficit  
Year ended June 30, 2015

**Status still prevails**

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2015  
(CONTINUE)**

Ref. No. <u>Finding /Corrective Action</u> 2015-01 <u>Planned/Person Responsible:</u>	Anticipated <u>Completion Date</u>
--	---------------------------------------

Statement of Condition:

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

On or before  
end of 2015-16  
fiscal year

Corrective Action Planned:

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

Ref. No. <u>Finding /Corrective Action</u> 2015-02 <u>Planned/Person Responsible:</u>	Anticipated <u>Completion Date</u>
--	---------------------------------------

Statement of Condition:

The Municipality's accounting is under the transition of a New System; therefore, it records revenues and expenditures in an imprecise form, since the new program does not generate closing entries for the year. In addition, the accounting records are not integrated and do not provide for, a self-balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities and residual equities or balances, and changes therein.

On or before  
end of 2015-16  
fiscal year

Corrective Action Planned:

The Finance Director will coordinated with the accounting Programmer to require implementing the computer system To provide self balancing for each fund operated.

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Person Responsible:  
Noel Gutiérrez  
Finance Director