

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

**MUNICIPIO DE BARRANQUITAS
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS**

**SINGLE AUDIT REPORT
Fiscal Year Ended
June 30, 2015**

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE**

Oficina del Comisionado
de Asuntos Municipales
16 APR - 1 AM 10: 48

O.C.A.M.
AREA DE ASESORAMIENTO
GERENCIAL Y FISCAL
16 APR - 1 AM 11: 18

With Independent Auditors' Report Thereon
June 30, 2015

Commonwealth of Puerto Rico
Municipality of Barranquitas
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BENITEZ-JAIME, CPA-PSC

Certified Public Accountants and Business Consultants

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Barranquitas of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the fiscal 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 accompanying 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions

As discussed in note 13 to the basic financial statements, the Municipality has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. Accordingly,

1. The Municipality has not been able to determine and account for its proportionate share of net pension obligation, deferred inflow of resources and deferred outflow of resources related to pension costs and,
2. The Municipality has not recognized the effect of current period changes in net pension obligation, deferred outflow of resources and deferred inflow of resources as these relate to pension costs.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of the amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, decrease net position and change the pension expenses of the governmental activities. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, and expenses of the governmental activities has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter described above in the Basis for Qualified Opinion on Government Activities and Note Disclosure Regarding Pension paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Municipality as of June 30, 2015 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Barranquitas of the Commonwealth of Puerto Rico, as of June 30, 2015, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information Omitted

The Municipality has omitted the *Schedule of the Municipality's Proportionate Share of the Net Pension Liability*, and the *Schedule of Municipality's Contributions to the Employees' Pension Plan*, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 5 through 29 and 81, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The Schedule of Expenditures and Federal Awards 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 our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2016, on our consideration of the Municipality of Barranquitas of the Commonwealth of Puerto Rico internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality of Barranquitas of the Commonwealth of Puerto Rico internal control over financial reporting and compliance.



CPA - PSC

March 8, 2016
Toa Alta, Puerto Rico

Stamp No. O2708932
was affixed to the
original report.

COMMONWEALTH OF PUERTO RICO
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Management's Discussion and Analysis
June 30, 2015

As management of the Municipality of Barranquitas (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the Municipality's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's assets exceeded its liabilities (net position) by \$38,541,521 at June 30, 2015. The Municipality's net position increased by \$1,887,545 during the fiscal year ended June 30, 2015.
- The Municipality's assets increased from \$62,949,328 at June 30, 2014 to \$63,651,313 at June 30, 2015, for an increase of \$701,985 (1% increase), due to an increase in cash in banks.
- The liabilities of the Municipality decreased from \$22,769,361 at June 30, 2014 to \$22,086,965 at June 30, 2015, for a decrease of \$682,396 (3% decrease), due to a decrease in the municipal waste landfill closure and post-closure care costs debt.
- The revenues of the Municipality decreased from \$14,660,962 for the fiscal year ended June 30, 2014 to \$14,261,640 for the fiscal year ended June 30, 2015, for a decrease of \$399,322 (3% decrease), due to a decrease in the collection of municipal taxes and interests on deposits.
- The Municipality's expenses decreased from \$12,824,912 for the fiscal year ended June 30, 2014 to \$12,374,095 for the fiscal year ended June 30, 2015, for a decrease of \$450,817 (4% decrease).

Governmental Funds' Highlights:

- The total fund balances of governmental funds amounted to \$14,630,698 at June 30, 2015, which increased by \$310,714 during fiscal year ended June 30, 2015.
- The total assets of governmental funds increased from \$21,330,749 at June 30, 2014 to \$21,548,371 at June 30, 2015, for an increase of \$217,622 (1% increase), due to an increase in cash in banks.
- The governmental fund's total liabilities increased from \$3,420,122 at June 30, 2014 to \$3,833,414 at June 30, 2015, for an increase of \$413,292 (12% increase).
- The total revenues of governmental funds decreased from \$15,484,161 for the fiscal year ended June 30, 2014 to \$14,264,860 for the fiscal year ended June 30, 2015, for a decrease of \$1,219,301 (8% decrease), as the pattern in intergovernmental grants and contributions revenues changed during the fiscal year 2014-2015, mainly due to the economic conditions environment.
- The governmental fund's total expenditures increased from \$12,913,408 for the fiscal year ended June 30, 2014 to \$14,764,146 for the fiscal year ended June 30, 2015, for an increase of \$1,850,738 (14.3% increase), due to the increase in general government expenditures.

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OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), and (3) notes to the basic financial statements (NBFS). This report also contains additional required and other supplementary information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

a) Government-wide Financial Statements

The GWFS are composed of: (1) the statements of net position (SNP) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2015. The GWFS are prepared using methods that are similar to those used by most private businesses.

1. Statement of Net Position

The purpose of SNP is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality.

On the other hand, the Municipality reports liabilities, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets, total liabilities and deferred inflows of resources reported in SNP is presented as *net position*, which is similar to the total owners' equity

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reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net position, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

2. Statement of Activities

The SA presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2015, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although SA looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as *net change in net position*, which is essentially the same concept.

The focus of SA is on the *net cost* of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

GWFS and GFFS present all of the Municipality's governmental activities, which are supported mostly by taxes and intergovernmental revenues (such as federal and state grants and contributions). All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

b) *Governmental Fund Financial Statements*

The Municipality's GFFS consist of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds. These financial statements also present the budgetary results of the general fund for the current fiscal year.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal

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

Governmental funds are used to account for all of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of GFFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, GFFS report the Municipality's operations in more detail than the GWFS.

GFFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, and (4) capital projects funds.

GFFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, GFFS focus on near-term inflows and outflows of expendable financial resources, consequently, generally measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

Because the focus of GFFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

The Municipality has five (5) major governmental funds. Each major fund is presented in a separate column in the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances. The five (5) major governmental funds are: (1) general fund, (2) capital improvements bond fund, (3) legislative joint resolutions fund, (4) debt service fund, and (5) community development block grant fund.

c) *Notes to Basic Financial Statements*

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and GFFS. The NBFS can be found immediately following the basic financial statements.

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d) Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of: (1) budgetary comparison schedule – general fund and, (2) notes to budgetary comparison schedule –general fund, (3) schedule of expenditures of federal awards, and (4), notes to schedule of expenditures of federal awards, as detailed in the accompanying table of contents.

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Municipality's overall financial position, for the last two fiscal years are summarized as follows, based on the information included in the accompanying GWFS:

**Comparative Statement of Net Position
Governmental Activities (condensed)
June 30, 2015 and 2014**

Assets:	<u>2015</u>	<u>2014</u>
Current assets	\$ 20,710,777	\$ 20,728,585
Non-current assets:		
Capital assets, net	42,900,472	42,181,125
Other non-current assets	40,064	39,618
Total assets	<u>\$ 63,651,313</u>	<u>\$ 62,949,328</u>
 Liabilities:		
Current liabilities	\$ 2,533,325	\$ 2,269,602
Long-term obligations due within one year	1,290,193	1,241,068
Long-term obligations due after one year	18,263,447	19,258,691
Total liabilities	<u>22,086,965</u>	<u>22,769,361</u>
 Deferred inflows of resources	<u>3,022,827</u>	<u>3,525,991</u>
 Net position:		
Net investment in capital assets	37,221,510	36,011,749
Restricted for debt service and others	1,776,681	1,886,298
Unrestricted	(456,670)	(1,244,071)
	<u>\$ 38,541,521</u>	<u>\$ 36,653,976</u>

At June 30, 2015, the Municipality's current assets, amounting to \$20,710,777, are mainly composed of cash in commercial banks and fiscal agent (\$17,840,515), property taxes receivable of \$1,312,135, and intergovernmental grants and contributions receivables of \$1,476,256.

The cash balances include restricted cash of \$7,690,677 which is legally designated for: (1) the payment of debt service, (2) the acquisition, construction and improvement of major capital assets, and (3) the

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operations of federally and state funded grant award programs. A portion of property taxes receivable, amounting to \$5,742, represents restricted resources set aside to redeem the bonds of the Municipality in minimum annual or biannual principal and interest payments.

The Municipality's non-current assets, amounting to \$42,940,536 at June 30, 2015, are substantially composed of capital assets, with a carrying balance of \$42,900,472, net of accumulated depreciation.

During the fiscal year ended June 30, 2015, the assets of the Municipality increased by \$701,985 in comparison with the prior fiscal year, principally for the increase of \$719,347 in capital assets that resulted from the current year additions of \$2.5 million and depreciation expenses of \$1.8 million. The principal additions to capital assets for the current fiscal year were related to construction in progress (\$698,932), infrastructure (\$1,347,640), buildings, structures and improvements (\$224,505), machinery and equipment, and furniture and fixtures (\$173,687), and licensed vehicles (\$123,471).

At June 30, 2015, the Municipality's current liabilities amounting to \$3,823,518 are mainly composed of accounts payable and accrued liabilities (\$2,533,325), and the portions due within one year of compensated absences (\$780,793) and bonds payable (\$509,400).

Deferred inflows of resources consist of unearned revenues associated with municipal license taxes (\$477,309) and intergovernmental grants and contributions related to state and federally funded programs (\$2,545,518). As noted in the condensed statement of net position, the Municipality's current assets exceeded current liabilities and deferred inflows of resources by \$13,864,432, for a current ratio of 5.42 to 1.00.

The Municipality's non-current liabilities, amounting to \$18,263,447 at June 30, 2015, are composed of portions due after one year of bonds payable (\$7,445,500), compensated absences (\$648,021), and the estimated liability for municipal solid waste landfill closure and post-closure care costs (\$10,169,926).

At June 30, 2015, the total liabilities of the Municipality decreased by \$682,396 in comparison with the prior fiscal year, principally for the decrease of \$1,319,918 in long-term obligations due after one year, related to the municipal solid waste landfill closure and post-closure care costs, and an increase in the accounts payable and accrued liabilities.

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial statement position. The assets of the Municipality exceeded liabilities and deferred inflows of resources by \$38,541,521 at June 30, 2015. The most significant portion of net position (\$37,221,510) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses the capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, as capital assets cannot be used to liquidate these liabilities.

Another significant portion of net position at June 30, 2015, represents resources that are restricted for debt service payments (\$1,534,956) and the operations of state and federally funded grant award programs and capital projects (\$241,725). The remaining component of total net position consisting of unrestricted deficit of \$456,670 at June 30, 2015, is the consequence of previous budgets that did not provide sufficient funding for incurred long-term obligations, such as bonds payable, notes payable compensated absences, claims and judgments, obligations under capital leases, estimated liability for

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municipal solid waste landfill closure and post-closure care costs, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net position of the Municipality increased by \$1,887,545 for the fiscal year ended June 30, 2015. Such increase is due to the excess of total revenues (\$14,261,640) over expenses (\$12,374,095) for the fiscal year ended June 30, 2015.

For a detailed analysis of the most significant fluctuations in assets, liabilities and deferred inflows of resources, refer to the financial analysis of each major governmental fund included in this management discussion and analysis.

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The following is a comparative condensed presentation of the Municipality's results of operations as reported in the GWFS:

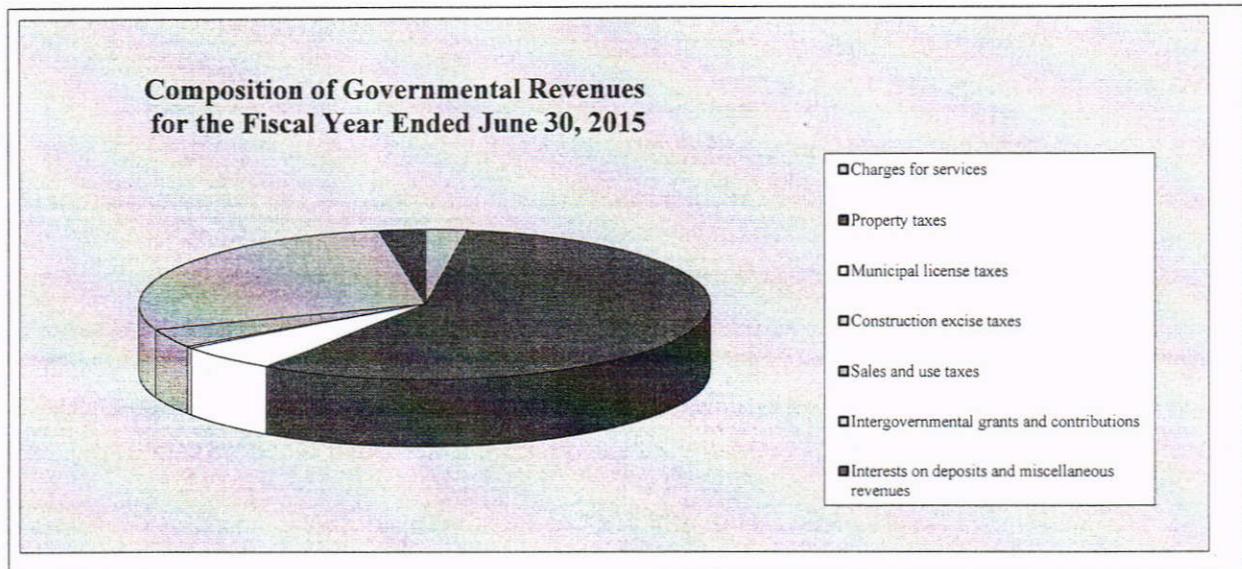
Comparative Statement of Activities
Governmental Activities (condensed)
Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
Program revenues:		
Program-specific operating grants and contributions	\$ 2,245,806	\$ 1,925,533
Program-specific capital grants and contributions	436,290	1,133,293
Charges for services	333,314	406,230
Total program revenues	3,015,410	3,465,056
General revenues:		
Property taxes	8,133,868	8,353,196
Municipal license taxes	834,086	829,982
Construction excise taxes	54,014	96,356
Sales and usage tax	554,634	572,788
Unrestricted grants and contributions	1,293,603	746,623
Interests on deposits and miscellaneous revenues	376,025	596,961
Total general revenues	11,246,230	11,195,906
Total revenues	14,261,640	14,660,962
Program expenses:		
General government	4,882,473	3,265,733
Public housing and welfare	1,593,945	1,884,014
Health and sanitation	1,039,356	2,753,584
Urban and economic development	3,168,774	2,890,241
Public safety	760,152	911,283
Culture, recreation and education	574,340	813,038
Interest on bonds	355,055	307,019
Total expenses	12,374,095	12,824,912
Net increase in net position	1,887,545	1,836,050
Net position at beginning of fiscal year	36,653,976	34,817,926
Net position at end of fiscal year	\$ 38,541,521	\$ 36,653,976

As previously mentioned, the Municipality's net position increased by \$1,887,545 during the current fiscal year. Approximately 67 percent (\$9,576,602) of the Municipality's total revenues for the current fiscal year came from taxes (property taxes, municipal license taxes, construction excise taxes and sales and use taxes), while 28 percent (\$3,975,699) resulted from intergovernmental grants and contributions.

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The following chart presents the composition of revenues for the fiscal year ended June 30, 2015:



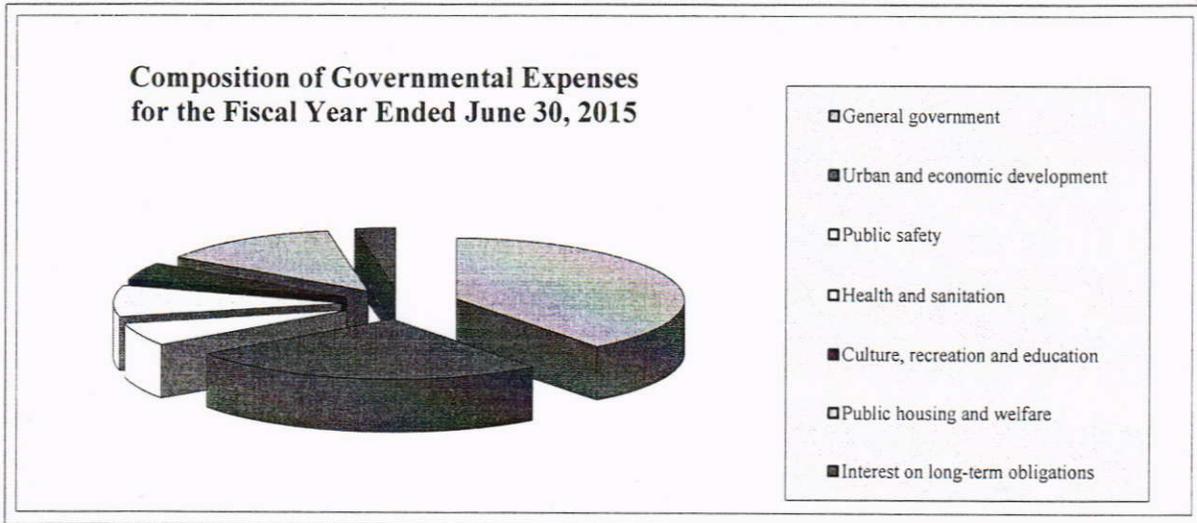
The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2015 were related to: (1) general administrating and operating costs (\$4,882,473), which were classified as "general government", (2) health and sanitation (\$1,039,356), (3) public housing and welfare (\$1,593,945), and (4) urban and economic development (\$3,168,774).

As previously mentioned, the Municipality's expenses decreased from \$12,824,912 for the fiscal year ended June 30, 2014 to \$12,374,095 for the fiscal year ended June 30, 2015, for a decrease of \$450,817. The most significant fluctuations between the current fiscal year's expenses and those of the prior fiscal year occurred in the general government expenses, which increased \$1,616,740 and health and sanitation expenses which decreased \$1,714,228 during current fiscal year.

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The following chart presents the composition of expenses for the fiscal year ended June 30, 2015:



**Condensed Balance Sheet - Governmental Funds
June 30, 2015 and 2014**

Assets:	<u>2015</u>	<u>2014</u>
Total assets - major governmental funds	\$ 19,501,422	\$ 18,909,563
Total assets - other governmental funds	2,046,949	2,421,186
Combined assets	<u>\$ 21,548,371</u>	<u>\$ 21,330,749</u>
Liabilities:		
Total liabilities - major governmental funds	\$ 3,233,592	\$ 3,025,227
Total liabilities - other governmental funds	599,822	394,895
Combined liabilities	<u>3,833,414</u>	<u>3,420,122</u>
Deferred inflows of resources	<u>3,084,259</u>	<u>3,590,643</u>
Fund balances:		
Non-spendable - general fund	88,675	88,675
Assigned - general fund	799,893	972,725
Restricted -other major governmental funds	3,002,647	2,212,728
Restricted - other governmental funds	241,725	378,427
Unassigned - general fund	10,497,758	10,667,429
Combined fund balances	<u>14,630,698</u>	<u>14,319,984</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 21,548,371</u>	<u>\$ 21,330,749</u>

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For a detailed analysis of the most significant fluctuations in revenues and expenses, refer to the financial analysis of each major governmental fund included in this management's discussion and analysis.

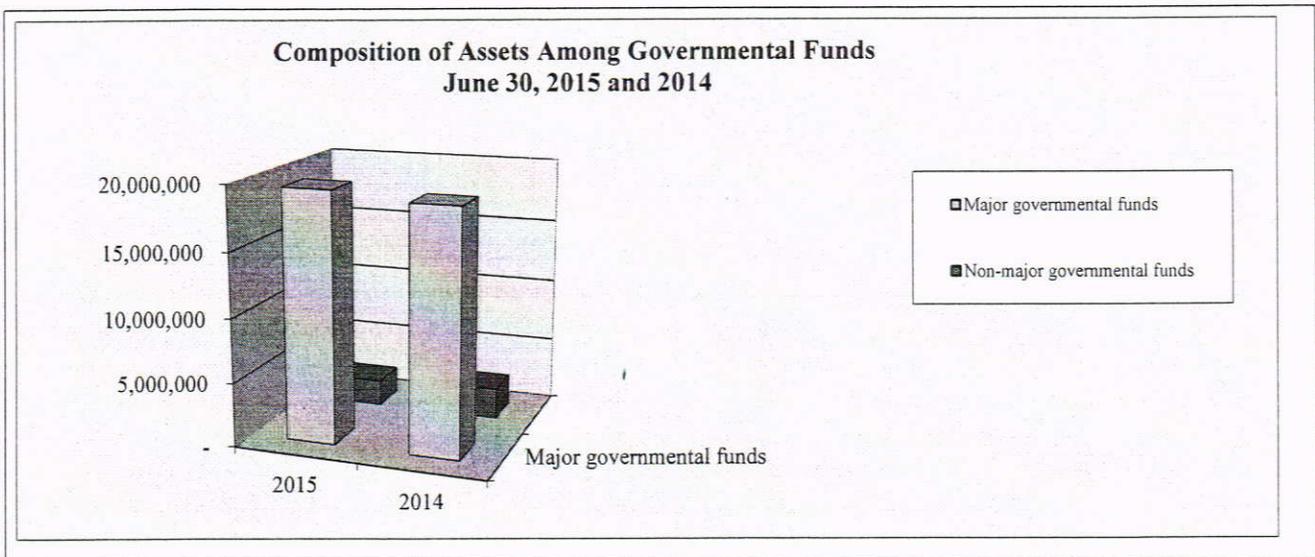
FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

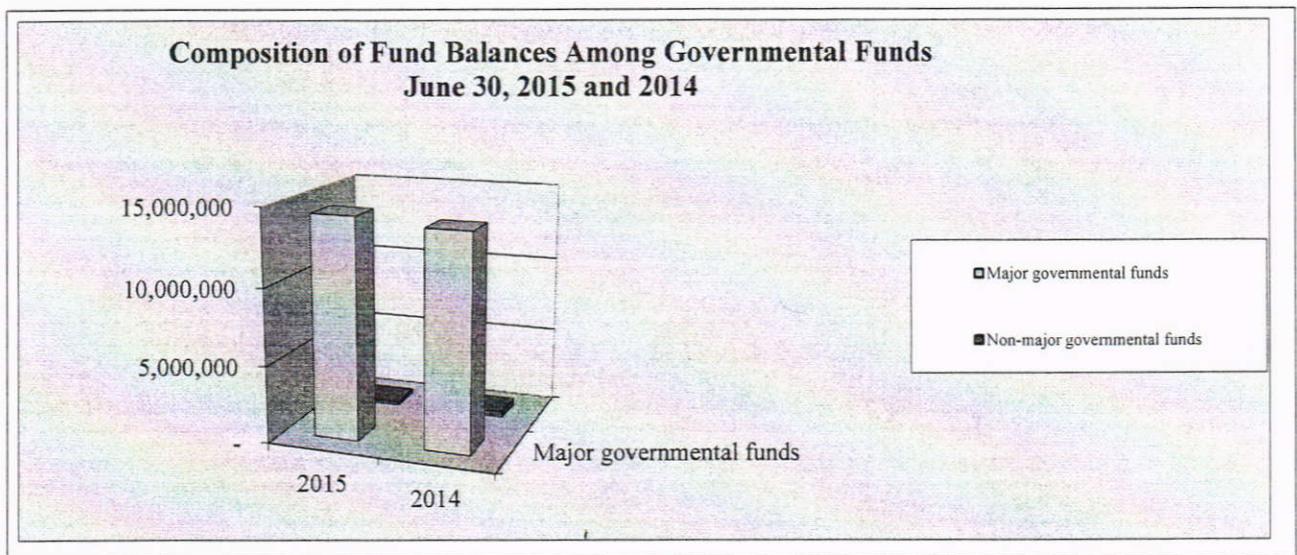
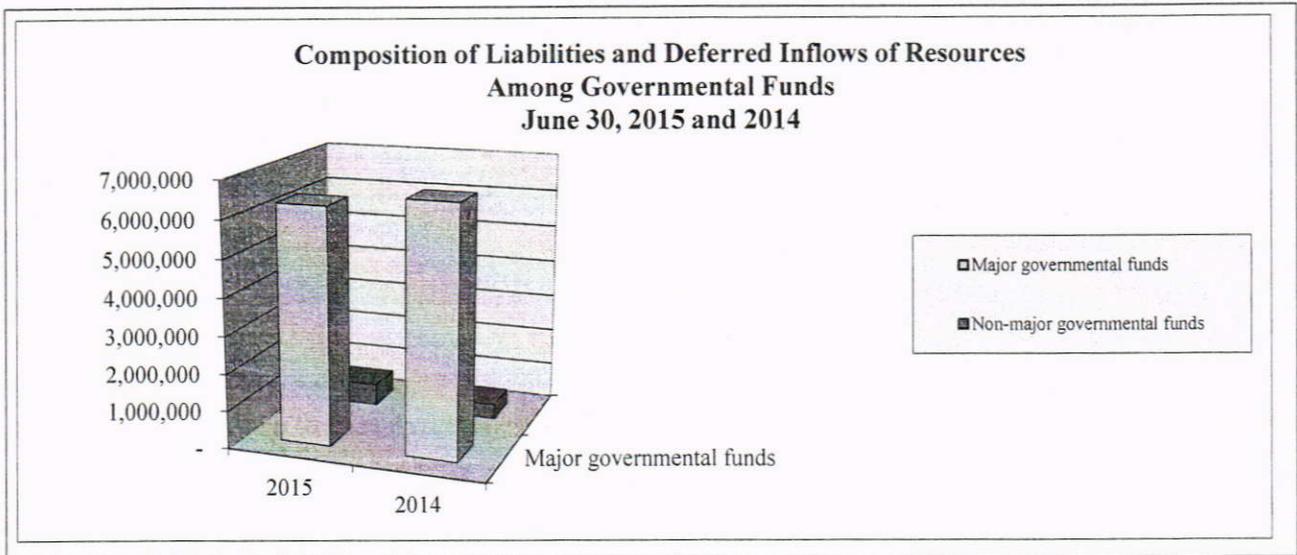
At June 30, 2015, the total assets of governmental funds increased by \$217,622 net, in comparison with the prior fiscal year, principally for the increase of \$645,254 in cash in fiscal agent.

At the end of the current fiscal year, total unassigned fund balances of governmental funds amounted to \$10,497,758, while total fund balances reached \$14,630,698. The total fund balances increased by \$310,714 during the current fiscal year. The following tables present the composition of assets, liabilities and fund balances among governmental funds at June 30, 2015 and 2014:



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The following is a detailed financial analysis of the Municipality's governmental funds:

General fund (GF) - The GF is the main operating fund used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund due to legal requirements, GAAP requirements or the demands of sound financial administration requiring the use of a governmental fund other than the general fund. The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$13,759,715 at June 30, 2015. Such assets consist principally of: (1) cash in commercial banks and fiscal agent (\$10,438,681), (2) intergovernmental grants and contributions receivable (\$1,102,547), and (3) tax receivables (\$1,306,393).

The GF's total liabilities amounted to \$1,832,203 at June 30, 2015. Such liabilities are composed of: (1) intergovernmental payables (\$1,109,871) and (2) accounts payable and accrued liabilities (\$722,332).

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At the end of the current fiscal year, unassigned fund balance of the GF's amounted to \$10,497,758, while total fund balance reached \$11,386,326. As a measure of the GF's liquidity it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 90 percent of the total GF's expenditures, while total fund balance represents 97 percent of that same amount.

The total assets of the general fund decreased \$217,021 in comparison with the prior fiscal year. Such decrease is mostly related to the decrease in cash in commercial bank of \$242,298 (2%). The total liabilities of the general fund increased only \$177,591 in comparison with the prior fiscal year, which is considered reasonable.

Capital improvements bond fund (CIBF) - The CIBF is a major capital projects fund used to account for the financial resources arising from bond issuance proceeds used in the acquisition or construction of major capital facilities, other assets and permanent improvements. The CIBF's total assets amounted to \$1,733,715 at June 30, 2015, which consists mainly of restricted cash in fiscal agent (unspent bond proceeds of \$1,726,474). The CIBF's total liabilities amounted to \$266,024 at June 30, 2015, which are mainly composed of: (1) accounts payable and accrued liabilities (\$86,462), and (2) amounts due to other funds (\$179,562). At the end of the current fiscal year, CIBF's total and restricted fund balance reached \$1,467,691.

The total assets of the capital improvements bond fund increased \$809,553 (88%) in comparison with the prior fiscal year. Such increase is mostly related to the increase in cash in fiscal agent of \$805,568 (87% increase) that resulted from current year net increase in fund balance of \$762,834. The total liabilities of the capital improvements bond fund increased \$46,719 (21% increase) due to the increase of \$42,734 (98% increase) in accounts payable and accrued liabilities.

The increase of \$762,834 in total fund balance of the capital improvements bond fund is mainly related to the proceeds from the issuance of bonds amounting to \$810,000. Those proceeds have been used to finance the construction and improvement of various general infrastructure assets.

Legislative joint resolutions fund (LJRF) - The LJRF is a major capital project fund used to account for the financial resources arising from program-specific capital grants and contributions awarded by the Legislature of the Commonwealth of Puerto Rico, which are principally used in the acquisition or construction of major capital facilities, other assets and permanent improvements. The LJRF's total assets amounted to \$1,509,891 at June 30, 2015, which consists of restricted cash in commercial banks (unspent grant awards and contributions) from the Legislature of the Commonwealth of Puerto Rico amounting to \$1,509,891. The LJRF's total liabilities amounted to \$172,220 at June 30, 2015, which are composed principally of due to other funds \$100,000 and accounts payable and accrued liabilities of \$72,220.

The total assets of the legislative joints resolutions fund increased \$6,187 in comparison with the prior fiscal year. Such increase is directly related to the increase in cash in commercial banks of \$6,187. The total liabilities of the legislative joints resolutions fund increased \$18,000 (12% increase) due to the increase of \$18,000 (33% increase) in accounts payable and accrued liabilities.

Debt service fund (DSF) - The DSF is a major fund used to account for the accumulation of resources for, and the payment of, principal and interest for bonds payable. The DSF's total assets amounted to \$2,218,420 at June 30, 2015, which consists mainly of restricted cash in fiscal agent (\$2,212,548). The DSF's total liabilities amounted to \$683,464 at June 30, 2015, which are mainly composed of: (1)

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matured bonds due and payable (\$509,400) and (2) accounts payable and accrued liabilities (\$174,008). At the end of the current fiscal year, DSF's total and restricted fund balance reached \$1,534,956.

The total assets of the debt service fund increase \$76,536 (4%) in comparison with the prior fiscal year. Such increase is mostly related to the increase in cash in fiscal agent of \$243,815 and the decrease of \$168,121 in intergovernmental grants and contributions receivable.

Community development block grant fund (CDBGF) - The CDBGF's is a major capital project fund used to account for the financial resources arising from program-specific capital grants and contributions awarded by the U.S. Department of Housing and Urban Development through the Puerto Rico Office of the Commissioner of Municipal Affairs (sub-grantor), which are principally used in the acquisition or construction of major capital facilities, other assets and permanent improvements. The CDBGF's total assets amounted to \$279,681 at June 30, 2015, which consists principally of restricted cash in commercial banks amounting to \$44,321 and grant awards receivable from the U.S. Department of Housing and Urban Development amounting to \$235,360. The CDBGF's total liabilities amounted to \$279,681 at June 30, 2015, which are composed of: (1) accounts payable and accrued liabilities (\$215,150) and (2) amounts due to other funds (\$64,531).

The total assets of the community development block grant fund decreased \$83,396 (23%) in comparison with the prior fiscal year. Such decrease is mostly related to the decrease in intergovernmental grants receivable from U.S. Department of Housing and Urban Development of \$95,908 which is directly affected by the discretionary budget of the United States of America. The total liabilities of the community development block grant fund decreased also \$83,396 due to the decrease of \$87,778 in accounts payable and accrued liabilities that resulted from accelerated payments to contractors on several projects completed in comparison with the prior fiscal year.

Other governmental funds (OGF) - The OGF's is a combination of non-major major capital project and special revenue funds principally used to account for the financial resources arising from program-specific capital and operating grants and contributions awarded by state and federal agencies. The OGF's total assets amounted to \$2,046,949 at June 30, 2015, which consist mainly of restricted cash in commercial banks and fiscal agent (\$1,908,600). The OGF's total liabilities amounted to \$599,822 at June 30, 2015, which are mainly composed of short-term and long-term amounts due to and advances from other funds (\$551,851).

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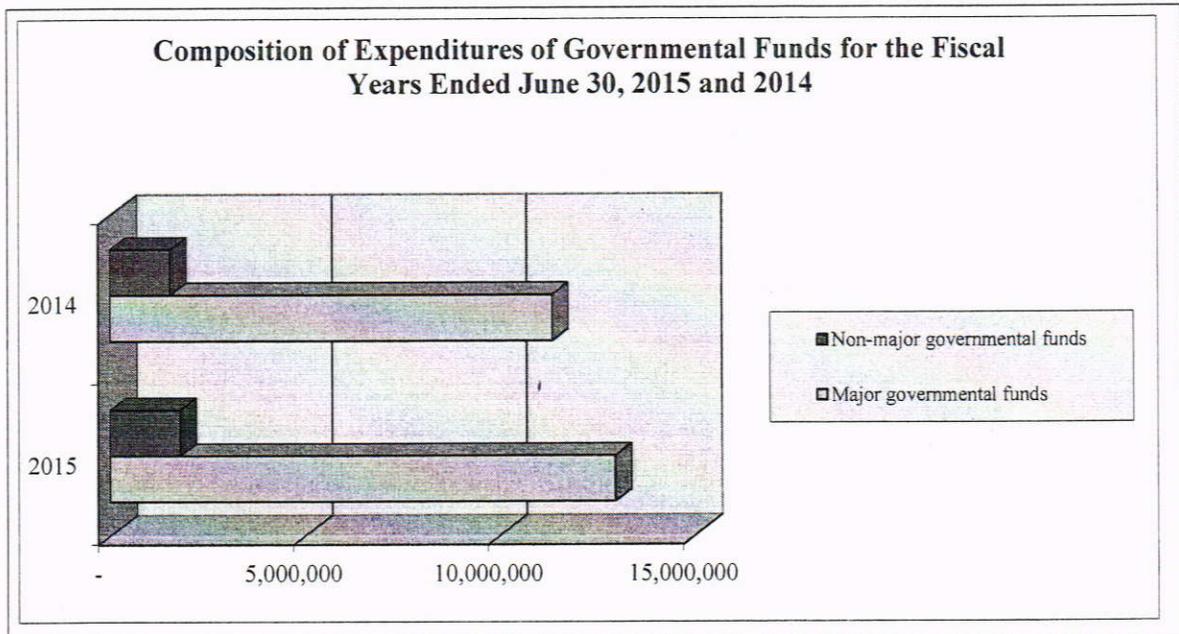
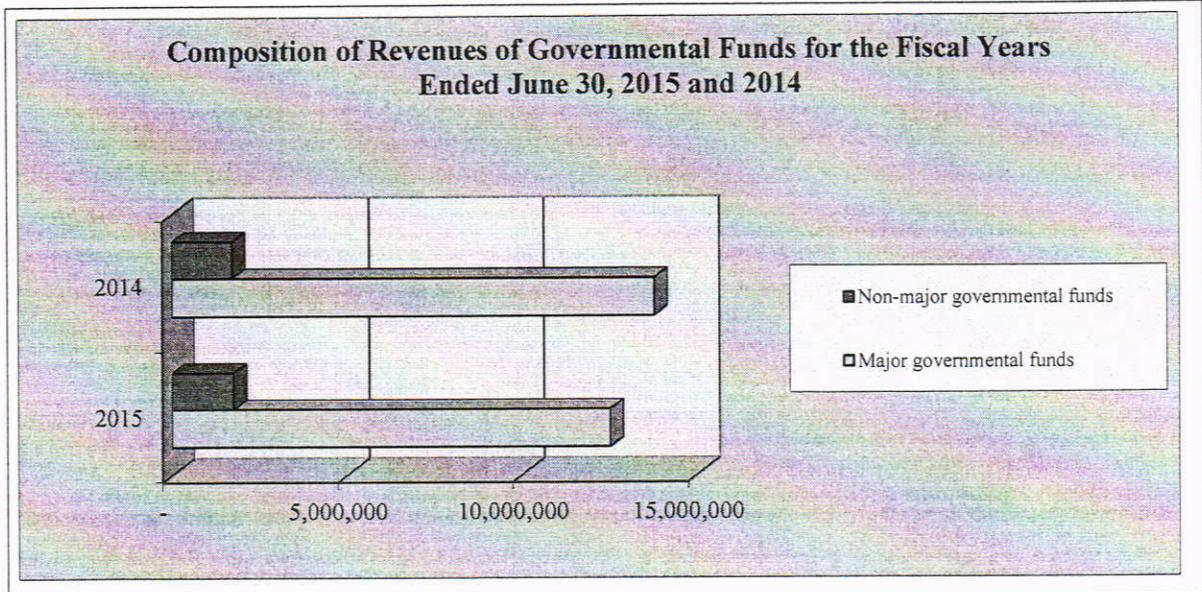
**Condensed Statement of Revenues, Expenditures and
Changes in Fund Balances -Governmental Funds (condensed)
Fiscal Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Revenues:		
Total revenues - major governmental funds	\$ 12,506,686	\$ 13,765,900
Total revenues - other governmental funds	1,758,174	1,718,261
Combined total revenues	<u>14,264,860</u>	<u>15,484,161</u>
Expenditures:		
Total expenditures - major governmental funds	12,956,996	11,353,052
Total expenditures - other governmental funds	1,807,150	1,560,356
Combined total expenditures	<u>14,764,146</u>	<u>12,913,408</u>
Excess (deficiency) of revenues over (under) expenditures:	<u>(499,286)</u>	<u>2,570,753</u>
Other financing sources (uses), net:		
Proceeds from issuance of bonds	810,000	198,000
Other financing sources, net - major governmental funds	171,018	1,445,619
Other financing uses, net - other governmental funds	<u>(171,018)</u>	<u>(1,445,619)</u>
Combined other financing sources, net	<u>810,000</u>	<u>198,000</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>310,714</u>	<u>2,768,753</u>
Fund balances at beginning of fiscal year	<u>14,319,984</u>	<u>11,551,231</u>
Fund balances at end of fiscal year	<u>\$ 14,630,698</u>	<u>\$ 14,319,984</u>

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Analysis of Operating Results of Governmental Funds



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The following is a detailed analysis of the results of operations of governmental funds for the fiscal year ended June 30, 2015:

General fund – The total fund balance of the GF decreased \$342,503 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$11,198,227, \$11,710,788 and \$170,058, respectively, for the fiscal year ended June 30, 2015.

Approximately 83 percent (\$9,277,245) of the GF's total revenues for the current fiscal year came from taxes (property taxes, municipal license taxes, construction excise taxes and sales and use taxes), while 12 percent (\$1,296,823) resulted from intergovernmental grants and contributions.

During the current fiscal year, there was a deficiency of revenues and other financing sources over expenditures and other financing uses of \$342,503, while in the prior fiscal there was an excess of revenues and other financing sources over expenditures and other financing uses of \$4,196,100.

The GF's most significant fluctuations among the current fiscal year revenues and those of the prior fiscal year were as follows:

- Total revenues decreased \$809,922 (7%).
- Total tax revenues decreased \$265,787 (2.8%).
- Intergovernmental grants and contributions decreased \$208,503 (14%).
- Interest on deposits increased \$6,905 (7%).
- Construction excise taxes decreased \$42,342 (44%).
- Sales and use tax decreased \$18,154 (3%).
- Miscellaneous income and charges for services decreased \$342,537 (40%).

The most significant fluctuation between the current fiscal year expenditures and those of the prior fiscal year occurred in the general government expenditures, which increased by \$1,502,095 (50%).

The decrease of \$342,503 in total fund balance of the general fund is due to the net effect of the decrease in total revenues and other financing sources of \$2,070,300 and the increase in total expenditures and other financing uses of \$2,412,803.

The total revenues of the general fund decreased \$809,922 (7%) and the total expenditures increased \$2,468,303 (27%). The most significant unfavorable fluctuations were related to general government, and urban and economic development.

Capital improvements bond fund (CIBF) – The most significant transaction of this fund for the current fiscal year is related to the proceeds on issuance of bonds (\$810,000). The total fund balance of the CIBF increased \$762,834 during current fiscal year. Total revenues, expenditures and other financing sources (net), amounted to \$81,983, \$47,166 and \$728,017, respectively, for the fiscal year ended June 30, 2015.

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Approximately 90.6 percent (\$42,734) of CIBF's total expenditures for the current fiscal year came from capital outlays. Although the total revenues of the capital improvements bond fund remained fairly online with the prior fiscal year, the total expenditures decreased \$678,537 (94%) because the number of projects carried out during the current fiscal year decreased.

Legislative joint resolutions fund (LJRF) – The most significant transactions of this fund for the current fiscal year are related to capital outlays (\$22,958) and intergovernmental grants and contributions revenues from the Legislature of the Commonwealth of Puerto Rico (\$21,813). Total revenues and expenditures amounted to \$22,958 and \$22,958, respectively, for the fiscal year ended June 30, 2015.

Approximately 95% percent (\$21,813) of LJRF's total revenues for the current fiscal year came from intergovernmental grants and contributions revenues from the Legislature of the Commonwealth of Puerto Rico. Approximately 100% of expenditures were related to capital outlays amounting to \$22,958 during the current fiscal year.

The total revenues of the legislative joint resolutions fund decreased \$7,314 (24%) due to the reduction of grants and contributions received from the Puerto Rico state legislature, which are subject to discretionary budgetary appropriations that were mostly reduced during the current fiscal year due to the current critical economic condition of the state government.

The total expenditures of the legislative joint resolutions fund decreased \$12,275 (35%) in comparison with the prior fiscal year is due to the decrease in the capital outlays of \$10,754 related to buildings, structures and general infrastructure assets. The decrease in the state legislative grants referred to above, decreased the amount of capital projects carried out during the current fiscal year and, consequently, the related capital outlays were reduced.

Debt service fund (DSF) – The total fund balance of the DSF increased \$27,085 during current fiscal year. Total revenues, expenditures and other financing uses (net) amounted to \$877,369, \$849,455 and (\$829), respectively, for the fiscal year ended June 30, 2015. Approximately 34 percent (\$299,357) of DSF's total revenues for the current fiscal year came from restricted property taxes, while 65 percent (\$576,208) came from intergovernmental grants and contributions. There was a decrease of 309,112 in the DSF's net change in revenue over expenditures when operations for the current fiscal year are compared to those of the prior fiscal year. This occurred because of the effects of the transfer to the general fund of \$1,287,324 during the prior fiscal year, pursuant to Acts No. 18 and No. 19.

All expenditures of the debt service fund were related to principal and interest expenditures on bonds payable amounting to \$849,455 during the current fiscal year.

Community development block grant fund (CDBGF) – The CDBGF's most significant transactions for the current fiscal year are related to program-specific capital grant revenues provided by the U.S. Department of Housing and Urban Development and capital outlays related to the acquisition or construction of major capital facilities, other assets and permanent improvements, incurred to develop viable communities and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

All CDBGF's revenues for the current fiscal year amounting to \$326,149 came from intergovernmental grants and contributions revenues from the U.S. Department of Housing and Urban Development. Approximately 60 percent (\$196,826) of CDBGF's total expenditures for the current fiscal year came from capital outlays.

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The total revenues of the community block grant fund decreased \$228,363 (41%) in comparison with the prior fiscal year due to the reduction in the capital grants and contributions received from the U.S. Department of Housing and Urban Development, which are subject to discretionary budgetary appropriations that were mostly reduced during the current fiscal year.

The total expenditures of the community block grant fund decreased \$227,883 (41%) in comparison with the prior fiscal year is due to the decrease in the capital outlays of \$220,043 related to buildings, structures and general infrastructure assets. The decrease in the grants referred to above decreased the amount of capital projects carried out during the current fiscal year; consequently, the related capital outlays were reduced.

Other governmental funds (OGF) – The total fund balance of the OGF decreased by \$136,702 during current fiscal year. Total revenues, expenditures and other financing uses (net) amounted to \$1,758,174, \$1,807,150 and \$87,726, respectively, for the fiscal year ended June 30, 2015.

One hundred percent (\$1,757,926) of OGF's total revenues for the current fiscal year came from intergovernmental grants and contributions. Approximately 35 percent (\$635,799) of OGF's total expenditures for the current fiscal year came from capital outlay, 50 percent (\$905,078) came from public housing and welfare, while 2 percent (\$44,975) came from urban and economic development.

BUDGETARY HIGHLIGHTS OF GENERAL FUND

The original and final budget of the general fund for the fiscal year ended June 30, 2015 amounted to \$10,273,932 and \$13,898,983 respectively.

The increase of \$3,625,051 or 35% between the originally approved budget and the final budget of the general fund is mainly due to the following facts:

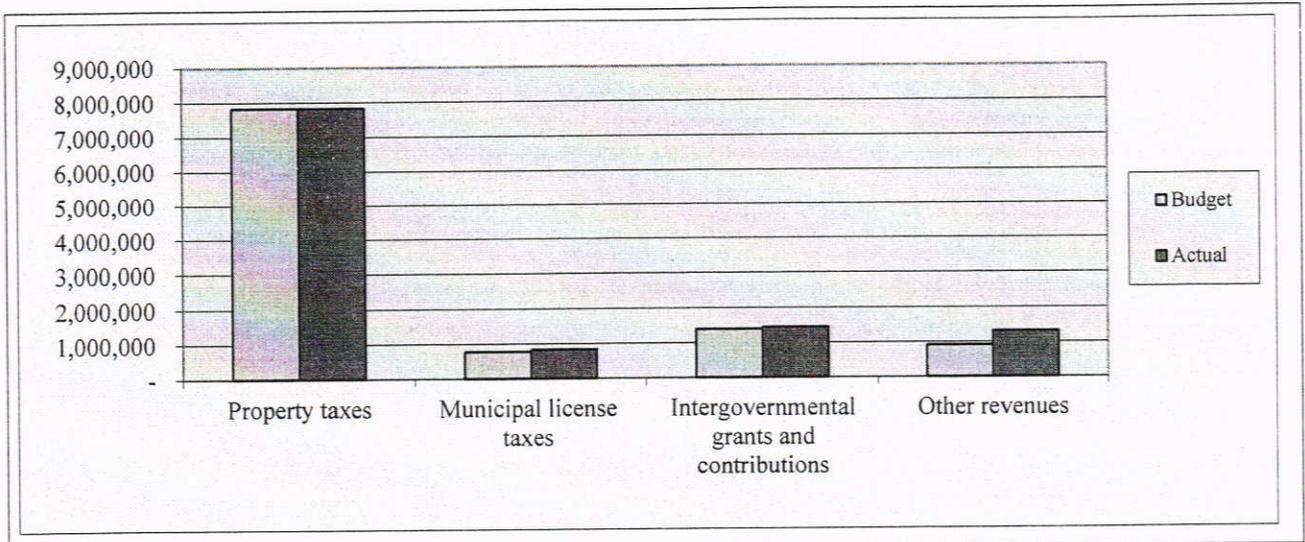
- The budgetary cash surplus of \$2,967,236 of fiscal year ended June 30, 2014 was readjusted and allocated as a budgetary financial resources as permitted by law during the current fiscal year.
- Increase in the final budgeted amounts for municipal license taxes revenues (\$274,536), sales and use taxes (\$122,549), miscellaneous revenues (\$19,545) and charges for services (\$81,238) in comparison with their respective originally budget amounts due to anticipated increased collection efforts made by management during the current fiscal year evidenced by a final favorable variance in actual amounts for this revenue source.

The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 amounted to \$11.4 million, which is \$1,162,472 (11%) more than the originally budgeted amount. The most significant favorable fluctuations were related to interests on deposits and charges for services which had favorable variances of \$113,262 and \$117,076, respectively.

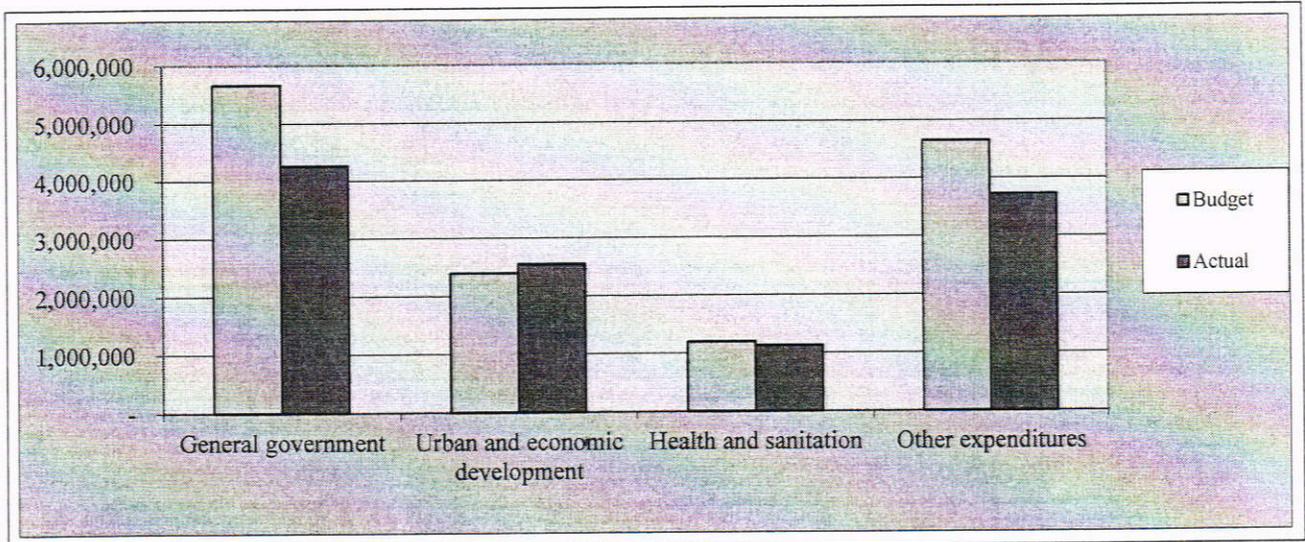
The total actual expenditures (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 amounted to \$11.7 million, which is \$1,382,273 (13%) more than the originally budgeted amount. The most significant fluctuation was related to general government expense which had a favorable variance of \$1,400,631 due to the aggressive cost reduction program implemented by the Municipality.

The following tables summarize the budgetary results of the revenues and expenditures of the general fund for the fiscal year ended June 30, 2015:

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Budgetary Results of Expenditures – General Fund



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality has invested \$67,560,307 in capital assets used in governmental activities, which have an accumulated depreciation of \$24,659,835 at June 30, 2015. Capital assets increased \$719,347 during the current fiscal year due to the excess of current year additions (\$2,568,235) over depreciation expense (\$1,848,888) for the fiscal year ended June 30, 2015. The principal additions to capital assets for the current fiscal year were related to construction in progress (\$698,932), and infrastructure (\$1,347,640). The capital additions to infrastructure were principally related to major improvements of streets and roads and the construction of recreational areas.

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We encourage readers to consider the information presented here in conjunction with more detailed capital assets information furnished in Note 9 to the accompanying notes to the financial statements.

Debt and Long-Term Obligations Administration

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

At June 30, 2015, the Municipality's total bonded debt amounted to \$7,954,900, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The Municipality's legal debt margin amounted to \$6,383,271 at the current fiscal year-end. The following is a summary of the principal debt and long-term obligations activity for the fiscal year ended June 30, 2015:

- Bonds payable decreased by \$336,900 (4.4%), due to the debt service payments (\$473,100) and a bond issuance amounting to \$810,000, made during the current fiscal year.
- The estimated liability for municipal solid waste landfill closure and post-closure care costs decreased by \$1,319,918 due to the current year provision of such amount credited to health and sanitation expenses.

We encourage readers to consider the information presented here in conjunction with more detailed long-term debt information furnished in Note 11 to the accompanying notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The territory of Barranquitas covers an area of approximately 34 square miles. Barranquitas is a municipality with a population of 30,318 and a population density of 884 habitants per square mile. Barranquitas is characterized by being one of the economic integration centers of the central region of Puerto Rico since it is considered one of the principal source of jobs and services of public administration, education, health, agriculture, manufacturing, food, retailing, construction and commercial industries in the central region of Puerto Rico.

According to the Puerto Rico Department of Labor and Human Resources, the labor force decreased from 1.19 million in 2014 to 1.14 million in 2015 for Puerto Rico as a whole; consequently, the average unemployment rate increased from 13.1% in 2014 to 14.3% in 2015. In the case of Barranquitas, those statistics indicate that during the fiscal year ended June 30, 2015, there were 438 employers that provided 6,400 jobs in Barranquitas, for an aggregate payroll cost (excluding marginal benefits) of approximately \$23.2 million during the fiscal year then ended.

The principal commercial industry in Barranquitas was the agriculture, which provided 251 jobs from 125 employers during the current fiscal year. However, the public sector provided the majority of jobs during the current fiscal year (41 percent of total jobs), amounting to 1,425 jobs provided by 19 public employers from the Municipality and the government of the Commonwealth of Puerto Rico. Within the public sector, the employees of the Puerto Rico Department of Education and certain private educational entities (including a private university), provided 1,211 jobs in the education industry during the current fiscal year.

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Other commercial industries that provided significant amounts of jobs in Barranquitas were the manufacturing and the retailing industries, which provided 252 and 428 jobs, respectively. The average salary per employee amounted to \$18,938 for the fiscal year ended June 30, 2015.

Of the total population of the Municipality, 68 percent or approximately 20,616 persons are considered to live under the poverty level. This rate is higher than the overall rate for Puerto Rico (48 percent). Approximately 40 percent of the population of the Municipality receives public financial assistance as their principal source of income.

The economy of the Municipality is closely linked to the economy of the Commonwealth of Puerto Rico, which ultimately is greatly affected by the condition of the United States of America. Direct investment, exports, transfer payments, interest rates, inflation, and tourist expenditures are exogenous variables that are affected by the economy of the United States of America.

The preliminary reports issued by the Puerto Rico Planning Board (a governmental agency of the Commonwealth of Puerto Rico) about the performance of the economy in general indicate, that the economy would grow 1.3% in terms of total real gross product during the fiscal year ended June 30, 2015.

Infrastructure expansion and modernization have been, to a large extent, financed by bonds issued by the Municipality and certain grants from the U.S. Department of Housing and Urban Development and the Federal Emergency Management Agency. Economic progress has been aided by significant increases in the levels of education and occupational skills of the population of the Municipality.

GASB STATEMENT NO. 68 AND RECENT LEGISLATION RELATED TO THE EMPLOYEES RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO

Substantially all full-time employees of the Municipality participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended ("Act 447") and a component unit of the Commonwealth of Puerto Rico. The Employees Retirement System covers substantially all employees of the Commonwealth, its component units and the municipalities of Puerto Rico including the Municipality of Barranquitas.

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Employees' Retirement System. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the Employees Retirement System as further discussed below.

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 ("Act 447 Participants") were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 ("Act 1 Participants") were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 ("Act 1 of 1990").

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as "System 2000"). Members who entered the Employees Retirement System on or after January 1, 2000 ("System 2000 Participants") participate solely in System 2000. Prior to the amendment made by Act 3-2013, under the System 2000 benefit structure, a participant was entitled to receive a

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lump-sum payment, which could be received in full or used to purchase an annuity from a third party, based solely on the amounts contributed in cash by such participant and credited earnings on such cash. Act 3-2013 amended the law to eliminate the lump sum distribution and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the Employees Retirement System. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the Employees Retirement System together with the assets corresponding to the defined benefit structure. Thus, future benefit payments under the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the Employees Retirement System.

Retirement and related benefits provided by the Employees Retirement System, and required contributions to the Employees Retirement System by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 ("Act 116"), the statutory employer contribution for the Employees Retirement System increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll, and will continue to increase annually until fiscal year 2021. The employer contribution rate for fiscal year 2015 is 13.275%.

Required employee contributions for the Employees Retirement System vary according to how the individual employee's retirement benefits are coordinated with social security benefits. Act 3-2013 increased the employee contribution from 8.275% to 10% of covered payroll.

The Employees Retirement System provides basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as "Basic System Pension Benefits"). The Employee Retirement System also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as "System Administered Pension Benefits"). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Municipality. The System Administered Pension Benefits corresponding to former employees of the Municipality are obligations of the Municipality. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

The June 30, 2013 actuarial valuations for the Employees Retirement System calculated accounting results for pension benefits under Governmental Accounting Standards Board No. 25, "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*" ("GASB 25"). The Employees Retirement System's actuarial valuation as of June 30, 2014 differs from the actuarial valuation as of June 30, 2013, due to the adoption of GASB Statement No. 67, "*Financial Reporting for Pension Plans*" ("GASB 67"), which replaced GASB 25. GASB 67 specifies certain significant changes for financial reporting purposes, including but not limited to (a) calculation of plan liabilities based on the "entry age normal" method (compared to the "projected unit credit" method used

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in the prior valuation), (b) calculation of a "depletion date" based on a projection as to the length of time assets will cover projected benefit payments under certain assumptions, and (c) for purposes of valuing the plan's liabilities after the depletion date, use of a discount rate tied to a municipal bond index. GASB 67 also introduces certain new terminology, including: (i) Total Pension Liability, which is the actuarial accrued liability calculated in accordance with the new GASB 67 requirements, (ii) Fiduciary Net Position, which is the market value of plan assets, net of liabilities (in the case of the Employees Retirement System, Fiduciary Net Position is also equivalent to the previously reported actuarial value of assets), and (iii) Net Pension Liability, which is calculated as Total Pension Liability less Fiduciary Net Position, and is equivalent to the unfunded actuarial accrued liability.

To calculate the net pension liability of the Employees Retirement System, the actuarial valuation uses several actuarial assumptions. Some examples of these assumptions include an expected rate of return of assets, age of retirement of active members, future pay increases for current employees, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. If the experience of the Employees Retirement System is different from these assumptions, the net pension liability of the Employees Retirement System may increase or decrease to the extent of any variances.

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2014 (most recently available) reflects a fiduciary net position of \$127 million, total pension liability of \$30.2 billion and a net pension liability of \$30.1 billion.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68") became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the Employees Retirement System. GASB 68 will bring the effect of GASB 67 summarized above, into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Employees Retirement System. The Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Employees Retirement System; therefore, they must report their allocated share of the Commonwealth's resulting net pension liability from GASB 67. The Commonwealth and the Employees Retirement System are still in the process of evaluating the impact of GASB 68 and have not provided the Municipality with the necessary information as of June 30, 2015 to adopt GASB 68 including its allocated share of the net pension liability mentioned above. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information required by GASB 68.

CURRENTLY KNOWN FACTS

Failure to Implement Requirements of New Accounting Standard for Pensions

As disclosed in Note 13 to the basic financial statements, the Municipality was not able to implement the requirements of Statements No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pension*, (GASB 68). The Municipality's inability to implement the requirements of GASB 68 resulted from the unavailability of the required information that was expected to be provided by The Employee Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS), a pension trust fund of the Commonwealth, which is not under the Municipality's management and control. Therefore, as of the date of this report, it is not know when the required information shall be provided to enable the Municipality to implement the requirements GASB 68 and, therefore, the Municipality is not able to determine the possible impact on its basic financial

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statements. This situation resulted in the expression of a qualified opinion from our external auditors, on the governmental activities of the Municipality.

RECENT LEGISLATION RELATED TO MUNICIPAL SALES AND USAGE TAXES

On January 24, 2014, Act No.18, known as *Municipal Administration Fund Act* (Act No. 18), and Act No. 19, known as *Municipal Finance Corporation Act* (Act No. 19) were enacted to, among other things, amend Sections 4020.01, 4020.02 and 6080.14 of Act No. 1 of January 31, 2011, known as *Internal Revenue Code for a New Puerto Rico*.

Effective July 1, 2014, Act No. 18 reduced the statutory municipal sales and usage tax rate of all municipalities from one point five percent (1.5%) to one point zero percent (1.0%). Simultaneously, Act No.19 created the *Municipal Finance Corporation* (MFC), an affiliated public company of GDB, which is authorized to issue bonds and use other financing mechanisms to directly or indirectly pay or refinance all or part of the municipal long-term debt incurred by the Municipality in previous fiscal years, that are payable from or backed by the municipal sales and usage taxes.

In order to mitigate the effects of the reductions in the municipal sales and usage tax rate referred to above, Act No. 18 established the mechanisms to protect the financial stability of the Municipality by allowing the it to continue receiving the economic benefits lost as a consequence of the reduction in the statutory municipal sales and usage tax rate referred to above. For these purposes, effective July 1, 2014, Act No. 18 requires that an amount equal to zero point five percent (0.5%) of the state sales and usage taxes collected by the Commonwealth of Puerto Rico be deposited in a special fund to be known as *Municipal Administration Fund* (MAF) in the name and for the benefit of the Municipality.

Accordingly, since July 1, 2014, the Commonwealth of Puerto Rico has made advances from the collections arising from the zero point five percent (0.5%) of the state sales and usage taxes to the MAF of the Municipality. The advances have been made and distributed to the Municipality on a monthly basis as follows in accordance with Section 4050 of Act No. 1, as amended:

- i.* Forty percent (40%) of the amounts transferred has been available to cover general operating expenses of the *General Fund* of each municipality;
- ii.* Forty percent (40%) of the of the amounts transferred has been available and restricted in the MFC's redemption fund to guarantee the repayment of any municipal loan, bond, note, or other evidence of debt whose repayment source is the monies deposited therein under the custody of GDB.
- iii.* Twenty percent (20%) of the amounts transferred has been available and restricted in the capital projects fund to finance the acquisition, construction and improvement of major capital assets.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality of Barranquitas, Department of Finance and Budget, P.O. Box 250, Barranquitas, Puerto Rico, 00794.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Statement of Net Position
June 30, 2015

Assets		<u>Governmental activities</u>
Current assets:		
Cash in commercial banks		\$ 10,149,838
Accounts receivable, net of allowance for doubtful accounts:		
Property taxes	\$ 1,306,393	
Intergovernmental grants and contributions	1,102,547	
Other receivables	16,094	
Total accounts receivable		2,425,034
Inventories and other current assets		58,406
Restricted assets:		
Cash in commercial banks	\$ 2,673,198	
Cash with fiscal agent	5,017,479	
Property taxes receivable, net of allowance for doubtful accounts	5,742	
Accrued interests on deposits	7,371	
Intergovernmental grants and contributions receivable	373,709	
Total restricted assets		8,077,499
Total current assets		20,710,777
Non-current assets:		
Capital assets, at cost:		
Depreciable capital assets	\$ 63,323,465	
Non-depreciable capital assets	4,236,842	
Total capital assets, at cost	67,560,307	
Less: accumulated depreciation and amortization	(24,659,835)	
Total capital assets, net		42,900,472
Other assets		40,064
Total non-current assets		42,940,536
Total assets		\$ 63,651,313

(Continued)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Statement of Net Position
June 30, 2015

Liabilities and net position

		<u>Governmental activities</u>
Current liabilities (due within one year):		
Accounts payable and accrued liabilities	\$ 827,643	
Intergovernmental payables	<u>1,109,871</u>	
Total accounts payable and accrued liabilities		\$ 1,937,514
Liabilities related to restricted assets - accounts payable and accrued liabilities		595,811
Current portion of long term obligations:		
Bonds payable		509,400
Compensated absences		<u>780,793</u>
Total current liabilities		<u>3,823,518</u>
 Non-current liabilities, excluding current portion (due in more than one year):		
Non-current portion of liabilities related to restricted assets - bonds payable		7,445,500
Compensated absences		648,021
Estimated liability for municipal solid waste landfill closure and post-closure care costs		<u>10,169,926</u>
Total non-current liabilities		<u>18,263,447</u>
Total liabilities		<u>22,086,965</u>
 Deferred inflows of resources		<u>3,022,827</u>
 Net position:		
Net investment in capital assets		<u>37,221,510</u>
Restricted for:		
Debt service	\$ 1,534,956	
Federal and state funded programs	<u>241,725</u>	
Total restricted net position		<u>1,776,681</u>
Unrestricted		<u>(456,670)</u>
Total net position		<u>\$ 38,541,521</u>

(Concluded)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Statement of Activities
Fiscal Year Ended June 30, 2015

<u>Function / programs</u>	<u>Expenses, including depreciation expense of \$1,848,888</u>	<u>Program revenues</u>			<u>Net revenues (expenses) and changes in net position</u>
		<u>Charges for services</u>	<u>Program- specific operating grants and contributions</u>	<u>Program- specific capital grants and contributions</u>	
<i>Governmental activities:</i>					
General government	\$ 4,882,473	-	221,298	-	\$ (4,661,175)
Public housing and welfare	1,593,945	-	1,034,881	-	(559,064)
Health and sanitation	1,039,356	-	-	-	(1,039,356)
Urban and economic development	3,168,774	333,314	413,419	436,290	(1,985,751)
Public safety	760,152	-	-	-	(760,152)
Culture, recreation and education	574,340	-	-	-	(574,340)
Interests on bonds payable	355,055	-	576,208	-	221,153
Total governmental activities	<u>\$ 12,374,095</u>	<u>333,314</u>	<u>2,245,806</u>	<u>436,290</u>	<u>\$ (9,358,685)</u>
General revenues:					
Taxes:					
Property taxes					\$ 8,133,868
Municipal license taxes					834,086
Construction excise taxes					54,014
Sales and usage taxes					554,634
Total tax revenues					<u>9,576,602</u>
Intergovernmental grants and contributions, not restricted to specific programs					1,293,603
Interests on deposits					186,553
Miscellaneous revenues					189,472
Total general revenues					<u>11,246,230</u>
Net increase in net position					<u>1,887,545</u>
Net position at beginning of fiscal year					<u>36,653,976</u>
Net position at end of fiscal year					<u>\$ 38,541,521</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
 Balance Sheet – Governmental Funds
 June 30, 2015

Assets	Major governmental funds						Total governmental funds
	General fund	Capital improvements bond fund	Legislative joint resolutions fund	Debt service fund	Community development block grant fund	Other governmental funds	
Cash in commercial banks	\$ 10,149,838	-	-	-	-	-	\$ 10,149,838
Accounts receivable, net of allowance for doubtful accounts:							
Property taxes	1,306,393	-	-	-	-	-	1,306,393
Intergovernmental grants and contributions	1,102,547	-	-	-	-	-	1,102,547
Due and advances from other funds	896,000	-	-	-	-	-	896,000
Other receivables	16,094	-	-	-	-	-	16,094
Restricted assets:							
Cash in commercial banks	-	-	1,509,891	-	44,321	1,118,986	2,673,198
Cash with fiscal agent	288,843	1,726,474	-	2,212,548	-	789,614	5,017,479
Property taxes receivable, net of allowance for doubtful accounts	-	-	-	5,742	-	-	5,742
Accrued interests on deposits	-	7,241	-	130	-	-	7,371
Intergovernmental grants and contributions receivable	-	-	-	-	235,360	138,349	373,709
Total assets	\$ 13,759,715	1,733,715	1,509,891	2,218,420	279,681	2,046,949	\$ 21,548,371
Liabilities							
Accounts payable and accrued liabilities	\$ 722,332	-	-	-	-	-	\$ 722,332
Intergovernmental payables	1,109,871	-	-	-	-	-	1,109,871
Liabilities related to restricted assets:							
Accounts payable and accrued liabilities	-	86,462	72,220	174,008	215,150	47,971	595,811
Due and advances to other funds	-	179,562	100,000	56	64,531	551,851	896,000
Matured bonds due and payable	-	-	-	509,400	-	-	509,400
Total liabilities	1,832,203	266,024	172,220	683,464	279,681	599,822	3,833,414
Deferred inflows of resources	541,186	-	1,337,671	-	-	1,205,402	3,084,259
Fund balances							
Non-spendable	88,675	-	-	-	-	-	88,675
Spendable:							
Assigned	799,893	-	-	-	-	-	799,893
Restricted	-	1,467,691	-	1,534,956	-	241,725	3,244,372
Unassigned	10,497,758	-	-	-	-	-	10,497,758
Total fund balances	11,386,326	1,467,691	-	1,534,956	-	241,725	14,630,698
Total liabilities, deferred inflows of resources and fund balances	\$ 13,759,715	1,733,715	1,509,891	2,218,420	279,681	2,046,949	\$ 21,548,371

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
June 30, 2015

The amounts of governmental activities reported in the statement of net position and the balance sheet-governmental funds are different for the following reasons:

Total fund balances reported in the balance sheet-governmental funds	\$ 14,630,698
Add (Deduct):	
Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation and amortization of \$24,659,835 at June 30, 2015, which is reported in statement of net position.	42,900,472
Inventories and other assets recorded in the statement of net position are not considered available financial resources at fiscal year-end, therefore, are not reported as assets in the governmental funds.	98,470
Deferred inflows of unavailable intergovernmental grants and contributions recorded in the governmental funds are recorded as revenues in the statement of activities.	61,432
The following liabilities are not due (mature) in the current fiscal year, therefore, are not reported in the governmental funds at June 30, 2015:	
Accrued employees' christmas bonuses	(105,311)
Bonds payable	(7,445,500)
Compensated absences	(1,428,814)
Estimated liability for municipal solid waste landfill closure and post-closure care costs	<u>(10,169,926)</u>
Net position-governmental activities, as reported in the statement of net position	<u>\$ 38,541,521</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
Fiscal Year Ended June 30, 2015

Major governmental funds

	General fund	Capital improvements bond fund	Legislative joint resolutions fund	Debt service fund	Community development block grant fund	Other governmental funds	Total governmental funds
Revenues:							
Taxes:							
Property taxes	\$ 7,834,511	-	-	299,357	-	-	\$ 8,133,868
Municipal license taxes	834,086	-	-	-	-	-	834,086
Construction excise taxes	54,014	-	-	-	-	-	54,014
Sales and usage taxes	554,634	-	-	-	-	-	554,634
Total tax revenues	9,277,245	-	-	299,357	-	-	9,576,602
Intergovernmental grants and contributions	1,296,823	-	21,813	576,208	326,149	1,757,926	3,978,919
Charges for services	333,314	-	-	-	-	-	333,314
Interests on deposits	101,403	81,983	1,145	1,804	-	218	186,553
Miscellaneous revenues	189,442	-	-	-	-	30	189,472
Total revenues	11,198,227	81,983	22,958	877,369	326,149	1,758,174	14,264,860
Expenditures:							
Current:							
General government	4,494,882	-	-	-	-	221,298	4,716,180
Public housing and welfare	661,144	423	-	-	129,803	905,078	1,696,448
Health and sanitation	1,165,179	-	-	-	-	-	1,165,179
Urban and economic development	2,329,301	4,009	-	-	-	44,975	2,378,285
Public safety	858,290	-	-	-	-	-	858,290
Culture, recreation and education	532,074	-	-	-	-	-	532,074
Debt service:							
Principal	-	-	-	494,400	-	-	494,400
Interests	-	-	-	355,055	-	-	355,055
Capital outlays	1,669,918	42,734	22,958	-	196,826	635,799	2,568,235
Total expenditures	11,710,788	47,166	22,958	849,455	326,629	1,807,150	14,764,146
Revenues over (under) expenditures	(512,561)	34,817	-	27,914	(480)	(48,976)	(499,286)
Other financing sources (uses):							
Proceeds from issuance of bonds	-	810,000	-	-	-	-	810,000
Transfers from other funds	170,538	-	-	-	480	-	171,018
Transfers to other funds	(480)	(81,983)	-	(829)	-	(87,726)	(171,018)
Total other financing sources (uses), net	170,058	728,017	-	(829)	480	(87,726)	810,000
Net increase (decrease) in fund balances	(342,503)	762,834	-	27,085	-	(136,702)	310,714
Fund balances at beginning of fiscal year	11,728,829	704,857	-	1,507,871	-	378,427	14,319,984
Fund balances at end of fiscal year	\$ 11,386,326	1,467,691	-	1,534,956	-	241,725	\$ 14,630,698

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


09/04/2016

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances – Governmental Funds to the Statement of Activities
 Fiscal Year Ended June 30, 2015

The amounts of governmental activities reported in the accompanying statement of activities and the statement of revenues, expenditures and changes in fund balances - governmental funds, are different for the following reasons:

Total net increase in fund balances reported in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds	\$ 310,714
Add (Deduct):	
Net change in deferred inflows of intergovernmental grants and contributions	(3,220)
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation and amortization expense. This is the amount by which capital outlay expenditures (\$2,568,235) exceeded depreciation and amortization expense (\$1,848,888) for the fiscal year ended June 30, 2015.	719,347
Proceeds from issuance of bonds are reported as other financial sources in the governmental funds, however, are reported as increases in bonds payable in the statement of net position.	(810,000)
Repayment of principal of long-term liabilities is reported as an expenditure in the governmental funds, however, the repayment reduces bonds payable in the statement of net position.	494,400
The following changes in assets and liabilities reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds:	
Other assets	(1,404)
Accrued employees' christmas bonuses	(105,311)
Estimated liability for municipal solid waste landfill closure and post-closure care costs	1,319,918
Accrued compensated absences	<u>(36,899)</u>
Net increase in net position, as reported in the accompanying statement of activities	<u>\$ 1,887,545</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

1. Background Information and Summary of Significant Accounting Policies

The Municipality of Barranquitas (the Municipality) is a local municipal government constituted in 1970 in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

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

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

a) Financial Reporting Model

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI, consisting of a Management's Discussion and Analysis (MD&A), is information presented along with, but separate from, Municipality's basic financial statements.

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2015, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

On March 2009, the Municipality adopted the provisions of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56).

GASB 55 incorporated the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all GAAP for state and local governments so that they derive from a single source.

GASB 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles – related party transactions, going concern considerations, and subsequent events.

On July 1, 2012, the Municipality adopted the following two new statements of financial accounting standards issued by the Governmental Accounting Standards Board: (1) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and (2) Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65).

GASB 63 provides financial reporting guidance for deferred outflows of resources, which are consumptions of net position by the government that is applicable to a future reporting period and deferred inflows of resources which are acquisitions of net position by the government that is applicable to a future reporting period. GASB 63 amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of GASB 63 resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of Net Position and the term “net assets” is changed to “net position” throughout the financial statements.

GASB 63 also amends the reporting of the “net investment in capital assets” component of net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.

GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Government Accounting Standards Board in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items

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previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

There was no impact on the Municipality's financial statements as a result of the implementation of Statement No. 65.

b) *Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Act No. 81.

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

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

On July 1, 2003, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

According to GASB No. 39, a legally separate, tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

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- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

On July 1, 2011, the Municipality adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amended of GASB Statement No. 14 and No. 34* (GASB No. 61). GASB No. 61 modified certain requirements for inclusion of component units in the financial reporting entity.

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 for the fiscal year ended June 30, 2015.

c) *Government-wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

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

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

Net position is classified in the accompanying statement of net position within the following three categories:

- **Net investment in capital assets** – This net position category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable and other debts that are attributed to the acquisition, construction or improvement of

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those assets (capital-related debt). For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.

Pursuant to the provisions of GASB 63, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets is included in this component of net position.

In addition, for the purposes of determining the outstanding debt attributed to capital assets, the following items are excluded from the calculation: (1) bond issuance costs, (2) interest payable, (3) accrued interest on deep discount debt and non-capital accrued liabilities (e.g. compensated absences, claims and judgments, etc.), and (5) debt used to finance capital acquisitions by parties outside the Municipality. Furthermore, the computation of net investment in capital assets, net of related debt, excludes inter-fund loans and other financial assets.

- **Restricted net position** – This net position category consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

On July 1, 2005, the Municipality adopted the provisions of Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). This Statement requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. This Statement clarified that a legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. This Statement states that the legal enforceability of an enabling legislation should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration. Although the determination that a particular restriction is not legally enforceable may cause the Municipality to review the enforceability of other restrictions, it should not necessarily lead the Municipality to the same conclusion for all enabling legislation restrictions.

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

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

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The Municipality has reported the following types of restricted net position in the accompanying statement of net position as of June 30, 2015:

- (1) **Debt service** – Represent net resources available to cover future debt service payments of bonds payable.
 - (2) **Capital projects** – Represent net resources available to cover the cost of the acquisition, construction and improvement of major capital assets.
 - (3) **Federal and state funded programs** – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.
- **Unrestricted** – This category consists of the excess of liabilities and deferred inflows of resources over related assets that are neither externally nor legally restricted, neither invested in capital assets. At June 30, 2015, this category has a negative balance of \$456,670 because liabilities exceeded the related assets. Generally, the assets recorded within this category are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position changed during the fiscal year ended June 30, 2015, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

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

General government:

- Municipal legislature
- Mayor's office
- Department of finance and budget
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Department of purchasing and supplies

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Urban and economic development:

Department of public works
Department of transportation and maintenance
Department of engineering

Public safety:

Department of emergency management
Department of municipal police

Health and sanitation:

Department of recycling and environmental control

Culture, recreation and education:

Department of recreation and sports
Department of culture and tourism

Public housing and welfare:

Department of elderly services
Department of service to citizens

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

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues.

The accompanying statement of activities reports the following categories of program revenues for the fiscal year ended June 30, 2015:

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

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grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions. The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities. Inter-fund services provided and used have not been eliminated in the process of consolidation.

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

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) *Governmental Fund Financial Statements*

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances – governmental funds.

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These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types also were also modified for clarity and consistency.

Pursuant to the provisions set forth by GASB 54, the Municipality reported the following governmental funds in the accompanying GFFS:

- **General fund** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt service fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. Consistently with the prior fiscal years' financial statement presentation, during the fiscal year ended June 30, 2015, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term debts for which debt service payments do not involve the advance accumulation of resources (such as obligations under capital leases) are only accounted for in the accompanying statement of net position. The debt service payments of such debts are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund.

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- **Special revenue funds** – The special revenue funds are non-major governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital projects fund). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditures 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.

- **Capital projects funds** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for also in the capital projects funds. The use of the capital projects funds in the accompanying financial statements has been reserved only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capital assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund would be classified as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least ten percent (10%) of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Furthermore, any other non-major governmental fund would be reported as a major governmental fund in the GFFS if such fund is considered of significant interest to regulations or investors of the Municipality, as it is the case of the capital improvements bond fund and the community development block grant fund described below.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the debt service fund, (3) the capital

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improvements bond fund, (4) the legislative joint resolutions fund, and (5) the community development block grant fund.

The capital improvements bond fund is a non-major capital projects fund (reported as a major governmental fund in the GFFS) used to account for the financial resources arising mainly from bond issuance proceeds used in the acquisition or construction of major capital facilities, other assets and permanent improvements. The most significant transactions of this fund are related to capital outlays and proceeds from issuance of bonds.

The legislative joint resolutions fund is a major capital project fund used to account for the financial resources arising from program-specific capital grants and contributions awarded by the Legislature of the Commonwealth of Puerto Rico, which are principally used in the acquisition or construction of major capital facilities, other assets and permanent improvements. The most significant transactions of this fund are related to capital outlays and intergovernmental grants and contributions revenues.

The community development block grant fund is a major capital projects fund used to account for the financial resources arising from program-specific capital grants and contributions awarded by the U.S. Department of Housing and Urban Development, which are principally used in the acquisition or construction of major capital facilities, other assets and permanent improvements. The most significant transactions of this fund are related to grant revenues and capital outlays incurred to develop viable communities and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, the following types of similar internal funds have been combined into single funds in the accompanying fund financial statements:

- The various capital improvement bond issues outstanding have been reported as a single major capital projects fund, the capital improvements bond fund.
- Numerous less significant capital project and special revenue funds have been combined into single capital project funds and special revenue funds, respectively.
- Program-specific capital grants and contributions awarded by the Legislature of the Commonwealth of Puerto Rico have been combined into a single major capital projects fund, the legislative joint resolutions fund.

The accompanying GFFS are accompanied by the following schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net position, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

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e) *Measurement Focus and Basis of Accounting*

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

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

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend

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resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred. Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred inflows of resources pursuant to the provisions of GASB 63.

According to GASB No. 34, all general capital assets and the un-matured long-term liabilities are recorded only in the accompanying statement of net position. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposit, intergovernmental grants and contributions and certain charges for services) to be available if collected within 90 days after June 30, 2015, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows of resources at June 30, 2015.

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

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place.

Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by

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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 or 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.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1, 2015, which are recorded as governmental fund liabilities of the debt service fund at June 30, 2015 which is the date when resources were available in the debt service fund.
- Compensated absences, and the estimated liability for municipal solid waste landfill closure and post-closure care costs are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable (un-matured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.

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- Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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

f) Stewardship, Compliance and Accountability

Budgetary Control

According to Act No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

The Municipal Legislature has ten (10) business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have three (3) days to sign and approve it. If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

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

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

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare, capital outlays, principal expenditures, interest expenditures, etc.) within the general and debt service funds, respectively.

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

Budgetary Accounting

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

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

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

The accompanying Budgetary Comparison Schedule – general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2015. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2015, which is prepared by the Municipality's Department of Finance and Budget. Copies of that report may be obtained by writing to the Municipality's Director of Finance and Budget at P.O. Box 250, Barranquitas, Puerto Rico 00794.

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Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general fund's budgetary basis and GAAP actual amounts is presented as follows:

Excess of revenues and other financing sources over expenditures and other financing uses – budgetary basis – general fund	\$ 2,917,493
Timing difference - net effect of current year encumbrances recorded as expenditures for budgetary purposes versus prior year encumbrances recorded as current year expenditures for GAAP purposes	(3,514,973)
Basis of accounting differences (net changes in the following assets, liabilities and deferred inflows of resources):	
Property taxes receivable	(5,122)
Intergovernmental grants and contributions receivable	(203,381)
Due and advances from other funds	233,580
Other receivables	200
Accounts payable, accrued liabilities and intergovernmental payables	177,591
Deferred inflows of resources	52,109
Expenditures and other financing uses over revenues and other financing sources, general fund – GAAP basis	\$ (342,503)

g) *Unrestricted and Restricted Deposits*

The Municipality's deposits at June 30, 2015 are composed of: (1) demand deposits in commercial banks and (2) demand deposits in the Government Development Bank for Puerto Rico (GDB), fiscal agent.

Cash in commercial banks of \$10,149,838 in the general fund is available to meet current operating requirements of the Municipality and any excess, if any, is generally invested in certificates of deposit in commercial banks with original maturities to three months or less.

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

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to \$2,212,548 that are restricted for the payment of the Municipality's debt service, as required by law.

Cash with fiscal agent of \$288,843 in the general fund consists of program-specific contributions awarded by the Puerto Rico Electric Power Authority that are restricted for the acquisition, construction and improvement of certain minor electrical infrastructure assets.

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Cash with fiscal agent recorded in the capital improvements bond fund consists mainly of unspent proceeds of bonds amounting to \$1,726,474 that are restricted for the acquisition, construction or improvements of major capital assets.

Cash with fiscal agent of \$789,614 in other governmental funds consists of program-specific capital grants and contributions awarded by the Commonwealth of Puerto Rico and the Federal Emergency Management Agency that are restricted for the acquisition, construction or improvements of major capital assets.

Restricted cash in commercial banks in the legislative joint resolutions fund consists of unspent program-specific grants and contributions amounting to \$1,509,891 awarded by the Legislature of the Commonwealth of Puerto Rico that are mainly restricted for the acquisition, construction or improvements of major capital assets.

Restricted cash in commercial banks for other governmental funds, amounting to \$1,118,986, represents the balance of non-interest bearing accounts restricted to finance the operations of various federal and state funded grant programs.

h) Unrestricted and Restricted Accounts and Notes Receivable

Receivables consist of all revenues earned but not collected at June 30, 2015. These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds".

On July 1, 2007, the Municipality adopted the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB No. 48). This Statement establishes standards for the measurement, recognition, and display of transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments, generally, a single lump sum. GASB No. 48 provides technical guidance to determine whether this type of transaction should be regarded as a sale or as a collateralized borrowing resulting in a liability. This criteria is used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. Accordingly, GASB No. 48 establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity.

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GASB No. 48 also provides guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. According to the criteria set forth by GASB No. 48, there were no transactions involving receivables that should be reported as a sale as of and for the fiscal year ended June 30, 2015; therefore, the adoption of GASB No. 48 had no effect in the accompanying basic financial statements.

i) Inventories and Other Current Assets

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

j) Capital Assets

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

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of \$500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

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

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

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction

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in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Motor vehicles	8
Furniture and fixtures	5 to 20
Machinery and equipment, excluding those held under capital leases	5 to 20
Machinery and equipment under capital leases	3 to 5

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

k) Deferred Inflows of Resources

In the GFFS, deferred inflows of resources arise when one of the following situations occur:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2015 and collected within sixty (60) days for property taxes and ninety (90) days for all over revenue streams thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for unearned revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

l) Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2015 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

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The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

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

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

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

m) Long-Term Debt

The long-term liabilities reported in the accompanying statements of net position include the Municipality's bonds payable, notes payable, obligations under capital leases, accrued compensated absences, and estimated liabilities for municipal solid waste landfill closure and post-closure care costs.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2015 are recorded as governmental fund liabilities in the GFFS (debt service fund) when resources are available in the debt service fund (June 30, 2015). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

n) Municipal Solid Waste Landfill Closure and Post-Closure Care Costs

Solid waste landfill closure and post-closure maintenance care costs are accounted for following the provisions of GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs* (GASB No. 18). Pursuant to the "Solid Waste Disposal Criteria", issued by the U.S. Environmental Agency on October 9, 1991, and according to GASB No. 18, the estimated liability for solid waste landfill closure and post-closure care costs (cost of equipment expected to be installed or constructed, the cost of the final cover (capping), and the costs of monitoring and maintenance) include an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill under the accrual basis of accounting. In addition to operating expenses related to the current activities of the landfill, an expense provision and related liability are being recognized based on future closure and post-closure care costs that

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will be incurred during operation and will continue after the date the landfill no longer accepts waste.

In the accompanying government-wide statement of net position, this liability is recognized over the useful life of the landfill, even though such costs will only be incurred, by definition, near or after the close of the landfill. The estimates of closing and post-closing care costs are made using current costs (costs that would be incurred if the closing date of the landfill would have been June 30, 2015). The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the governmental funds' level, landfill closure and post-closure care costs are recorded in the statement of revenues, expenditures and changes in fund balances – governmental funds as expenditures in the accounting period in which the liability is incurred.

o) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

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

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

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are

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negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2015. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

p) Fund Balances

On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB 54, the accompanying GFFS report fund balance amounts that are considered non-spendable since are net resources that cannot be spent readily with cash or are legally or contractually required not to be spent. At June 30, 2015, such fund balances are related to long-term inter-fund loans receivable from the Public Assistance Program fund recorded in the general fund amounting to \$88,675.

Other fund balances in the accompanying basic financial statements have been reported as restricted, assigned, or unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. *Restricted* – Represent net resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers. In the accompanying basic financial statements, restricted fund balances have been reported in the following funds and for the following purposes:
 - *Capital improvements bond fund* – restricted fund balance consist of financial resources to be used only for the acquisition, construction or improvement of capital assets under contracts and other commitments, as approved and financed by the Government Development Bank for Puerto Rico.
 - *Legislative joint resolutions fund* – restricted fund balance consist of financial resources arising from grants and contributions received through resolutions of the Legislature of the Commonwealth of Puerto Rico to be used principally for the acquisition, construction or improvement of capital assets under contracts and other commitments.
 - *Debt service fund* – restricted fund balance consist of financial resources available only to cover future debt service payments (principal and interest)

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on bonds payable, which are accounted for in the debt service fund, as required by Law.

- *Other governmental funds* – restricted fund balance consist of financial resources arising from operating and capital grants and contributions from state and federal grantors that can be spent only for the specific purposes stipulated by the respective external resource providers, or through enabling legislation.
- b. *Assigned* – Represent net resources recorded in the general fund intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders or budgetary encumbrances approved by the Mayor). The Municipal Legislature delegates the Mayor the authority to establish fund balance assignments.

At June 30, 2015 assigned fund balances in the general fund consist of fund balances reserved for encumbrances amounting to \$799,893.

- c. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications.

The Municipality had no fund balances classified as *committed* at June 30, 2015. Those types of fund balances are generally related to financial resources used for specific purposes, imposed by formal action of the Municipality's highest level of decision making authority (Municipal Legislature through resolutions and ordinances), which would only be changed by a similar law, ordinance or resolution.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2015.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue and capital project fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB 54. In addition, the financial positions and the results of operations reported in the accompanying GFFS as of and for the fiscal year ended June 30, 2015 have not been affected for this change in accounting principle.

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q) *Inter-fund Activities*

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

- ***Inter-fund loans*** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the governmental fund that made the loan.
- ***Inter-fund transfers*** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Operating transfers are reported as other financing sources in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ***Inter-fund reimbursements*** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

r) *Use of Estimates*

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

s) *Accounting Standards Issued But Not Yet Adopted*

The Governmental Accounting Standards Board has issued the following standards that have not been adopted by the Municipality, and are currently under evaluation for their impact in future financial statements:

- a. GASB Statement No. 72, *Fair Value Measurement and Application* - was issued in February 2015. The requirements of GASB 72 are effective for financial statements for reporting periods beginning after June 15, 2015.
- b. GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued in June 2015. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not

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within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

- c. GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pensions* - was issued in June 2015. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.
- d. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued in June 2015. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.
- e. GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued in June 2015. The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015.
- f. GASB Statement No. 77, *Tax Abatement Disclosures*, was issued in August 2015. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

t) Reclassifications

Certain reclassifications have been made to the 2014 figures reported in the accompanying management's discussion and analysis to conform them with their respective 2015 presentation.

2. Deposits

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and the Government Development Bank for Puerto Rico (GDB), fiscal agent. Proceeds from all bonds and the funds related to certain federal grant awards are required by law to be held with GDB, as fiscal agent.

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, and (4) foreign exchange exposure.

- **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 as promulgated by Law No. 113 of August 3, 1995. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the

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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. 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 has no formal policy relating to interests rate risks, however, 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) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. At June 30, 2015, the interest rate risk associated with the Municipality's cash is considered low since the investment portfolio of the Municipality 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 in GDB, amounting to \$5,017,479 at June 30, 2015, 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 is considered low.
- **Foreign exchange risk** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015.

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Cash and cash equivalents at June 30, 2015, are classified in the accompanying balance sheet – governmental funds as follows:

	Major governmental funds						Total
	General fund	Capital improvements bond fund	Legislative joint resolutions fund	Debt service fund	Community development block grant fund	Other governmental funds	
Unrestricted:							
Cash in commercial banks	\$ 10,149,838	-	-	-	-	-	\$ 10,149,838
Restricted:							
Cash in commercial banks	-	-	1,509,891	-	44,321	1,118,986	2,673,198
Cash with fiscal agent	288,843	1,726,474	-	2,212,548	-	789,614	5,017,479
Total carrying amount of deposits	<u>\$ 10,438,681</u>	<u>1,726,474</u>	<u>1,509,891</u>	<u>2,212,548</u>	<u>44,321</u>	<u>1,908,600</u>	<u>\$ 17,840,515</u>

3. Municipal License Taxes

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Barranquitas. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2015, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally 5 business days after April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred inflows of resources in the GWFS and the GFFS. Deferred inflows of resources related to municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$477,309 at June 30, 2015.

Municipal license tax revenues amounted to \$834,086 for the fiscal year ended June 30, 2015, which has been recorded in the general fund since is available for general operating purposes.

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4. Property Taxes

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 market prices).

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (lien; levy date) and reporting such taxable value through a personal property tax return filed on May 15 (due date and collection date) subsequent to the assessment date. The total personal property tax rate in force at June 30, 2015 was 6.28 percent (of which taxpayers pay 6.08 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed every January 1, (lien; levy date) and is based on estimated current values of the property, deflated to 1957 market prices. Real property taxes are due and collectible on January 1 and July of every fiscal year. The total real property tax rate in force at June 30, 2015 was 8.28 percent (of which 8.08 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

Included within the total personal and real property tax rates of 6.28 percent and 8.28 percent, respectively, there is a portion of the tax rate in the amount of 1.05 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

The composition of property taxes receivable is as follows at June 30, 2015:

	Major governmental funds		
	General fund	Debt service fund	Total
Property taxes receivable	\$ 1,306,393	5,742	\$ 1,312,135

Property tax revenues recorded in the general fund and the debt service fund amounted to \$7,834,511 and \$299,357, respectively, for the fiscal year ended June 30, 2015.

5. Sales and Usage Taxes

On January 24, 2014, Act No.18, known as Municipal Administration Fund Act (Act No. 18), and Act No. 19, known as Municipal Finance Corporation Act (Act No. 19) were enacted to, among other things, amend Sections 4020.01, 4020.02 and 6080.14 of Act No. 1 of January 31, 2011, known as Internal Revenue Code for a New Puerto Rico.

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Effective July 1, 2014, Act No. 18 reduced the statutory municipal sales and usage tax rate from one point five percent (1.5%) to one point zero percent (1.0%) for all municipalities of Puerto Rico.

Simultaneously, Act No.19 created the Municipal Finance Corporation (MFC), a subsidiary of GDB, which is authorized to issue bonds and use other financing mechanisms to directly or indirectly pay or refinance all or part of the municipal long-term debt incurred that are payable from or backed by the municipal sales and use taxes effective July 1,2014.

In order to mitigate the effects of the reductions in the municipal sales and use tax rate referred to above, Act No. 18 established the mechanisms to protect the financial stability of the municipal governments of Puerto Rico by allowing the municipalities to continue receiving the economic benefits lost as a consequence of the reduction in the statutory municipal sales and use tax rate referred to above. For these purposes, effective July 1, 2014, Act No. 18 requires that an amount equal to zero point five percent (0.5%) of the state sales and use taxes collected by the Commonwealth of Puerto Rico be deposited in a special fund to be known as Municipal Administration Fund (MAF) in the name and for the benefit of each municipality of Puerto Rico.

Accordingly, commencing on July 1, 2014, the Commonwealth of Puerto Rico shall make advances from the collections arising from the zero point five percent (0.5%) of the state sales and usage taxes to the MAF of each municipality. The advances shall be made and distributed to the municipalities on a monthly basis as follows in accordance with Section 4050 of Act No. 1, as amended:

- i.* Forty percent (40%) of the amounts transferred shall be available to cover general operating expenses of the General Fund of each municipality.
- ii.* Forty percent (40%) of the of the amounts transferred shall be available and restricted in the MFC's redemption fund to guarantee the repayment of any municipal loan, bond, note, or other evidence of debt whose repayment source is the monies deposited therein under the custody of GDB.
- iii.* Twenty percent (20%) of the amounts transferred shall be available and restricted in the capital improvements bond fund to finance the acquisition, construction and improvement of major capital assets.

Sales and usage tax revenues recorded in the general fund amounted to \$554,634 for the fiscal year ended June 30, 2015.

6. Construction Excise Taxes

The Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings and structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, project design and other

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engineering fees, licenses and permits, legal and accounting fees, and most marketing and advertising costs. The tax is paid by the taxpayer at the beginning of the project.

All single-family residential construction projects not related to housing development projects, condominiums, or any similar projects, are partially exempt from construction excise taxes. In addition, a portion of all single-family residential improvement projects are exempt from construction excise taxes. All projects carried out on buildings and structures classified as historical treasures by the Puerto Rico Planning Board have an in the tax rate applicable to construction excise taxes.

Construction excise tax revenues amounted to \$54,014 for the fiscal year ended June 30, 2015, which has been recorded in the general fund since is available for general operating purposes.

7. Intergovernmental Receivables and Payables

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows at June 30, 2015:

	<u>Major governmental funds</u>			Total
	General fund	Community development block grant fund	Other governmental funds	
Intergovernmental receivables:				
<i>Charges for services:</i>				
Solid waste disposal service charges to various municipalities and state government agencies	\$ 14,125	-	-	\$ 14,125
<i>Intergovernmental grants and contributions:</i>				
Puerto Rico Treasury Department - Employees' Christmas bonus cost reimbursement	61,432	-	-	61,432
Puerto Rico Electric Power Authority - Contributions in lieu of municipal taxes	1,026,990	-	-	1,026,990
Puerto Rico Department of Education - Schools maintenance and capital improvements program	-	-	138,349	138,349
U.S. Department of Housing and Urban Development-SBGP Block Grant	-	235,360	-	235,360
Total intergovernmental receivables	<u>\$ 1,102,547</u>	<u>235,360</u>	<u>138,349</u>	<u>\$ 1,476,256</u>
Intergovernmental payables:				
<i>Utilities and charges for services:</i>				
Puerto Rico Electric Power Authority - Electric power consumption costs	\$ 1,026,990	-	-	\$ 1,026,990
Puerto Rico Water and Sewer - Water and sewer consumption costs	82,881	-	-	82,881
Total intergovernmental payables	<u>\$ 1,109,871</u>	<u>-</u>	<u>-</u>	<u>\$ 1,109,871</u>

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8. Inter-fund Transactions

The composition of inter-fund balances and transactions at June 30, 2015 and for the fiscal year then ended is as follows:

	Due/advances from other governmental funds- General fund
<i>Major governmental funds:</i>	
Capital improvements bond fund	\$ 179,562
Legislative joint resolutions fund	100,000
Debt service fund	56
Community development block grant fund	64,531
<i>Other governmental funds</i> , including long-term advance of \$88,675 from the Public Assistance Grant fund	551,851
Total	\$ 896,000

	Transfers from other governmental funds:		
	General fund	Community development block grant fund	Total governmental funds
Transfers to other governmental funds:			
General fund	\$ -	480	\$ 480
Capital improvements bond fund	81,983		81,983
Debt service fund	829	-	829
Other governmental funds	87,726	-	87,726
Total	\$ 170,538	480	\$ 171,018

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable at June 30, 2015.

The principal purposes of interfund receivables and payables among governmental funds are:

- Recognize in the general fund the outstanding balance of \$551,851 of short-term and long-term loans granted to other governmental funds to finance the operation of several state and federally-funded programs. The long-term portion of those loans amounted to \$88,675, which have been recorded as advances at June 30, 2015. These advances are not expected to be repaid within one fiscal year after year-end. Accordingly, at June 30, 2015 the general fund reported assigned (non-spendable) fund balance amounting to \$88,675 to properly disclose that these interfund receivables are not considered current available financial resources of the general fund at June 30, 2015.

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- Recognize the outstanding balance of short-term loans amounting to \$179,562 granted by the general fund to the capital improvements bond fund to temporarily finance the costs of the acquisition, construction and improvement of various major capital assets.
- Recognize the outstanding balance of short-term loans amounting to \$100,000 granted by the general fund to the legislative joint resolutions fund to temporarily finance the acquisition, construction and improvement of various major capital assets.

The principal purposes of inter-fund transfers among governmental funds are:

- Make a non-routine residual equity transfer amounting to \$87,726 from the Elderly Nutrition Services Fund (reported within other governmental funds) to the general fund.
- Make a routine transfer of interest income amounting to \$81,983 from the capital improvements bond fund to the general fund, as permitted by law. This interest income was earned by the deposits held in the capital improvements bond fund and was transferred to the general fund.

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9. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015:

	Balance at beginning of fiscal year	Additions/ depreciation expense	Balance at end of fiscal year
<i>Governmental activities:</i>			
<i>Cost basis:</i>			
Capital assets, not being depreciated:			
Land	\$ 2,520,574	-	\$ 2,520,574
Construction in progress	1,017,336	698,932	1,716,268
Total capital assets not being depreciated/amortized	<u>3,537,910</u>	<u>698,932</u>	<u>4,236,842</u>
Capital assets, being depreciated:			
Land improvements	2,467,116	-	2,467,116
Buildings, structures, and improvements	23,322,359	224,505	23,546,864
Infrastructure	28,690,237	1,347,640	30,037,877
Machinery and equipment, and furniture and fixtures	2,438,880	173,687	2,612,567
Licensed vehicles	4,535,570	123,471	4,659,041
Total capital assets, being depreciated	<u>61,454,162</u>	<u>1,869,303</u>	<u>63,323,465</u>
Total cost basis of capital assets	<u>64,992,072</u>	<u>2,568,235</u>	<u>67,560,307</u>
<i>Accumulated depreciation and amortization:</i>			
Land improvements	1,716,257	64,298	1,780,555
Buildings, structures, and improvements	4,094,319	298,780	4,393,099
Infrastructure	10,645,350	979,908	11,625,258
Machinery and equipment, and furniture and fixtures	1,921,562	205,382	2,126,944
Licensed vehicles	4,433,459	300,520	4,733,979
Total accumulated depreciation and amortization	<u>22,810,947</u>	<u>1,848,888</u>	<u>24,659,835</u>
Net capital assets	<u>\$ 42,181,125</u>	<u>719,347</u>	<u>\$ 42,900,472</u>

Depreciation and amortization expense was charged to functions in the accompanying government-wide statement of activities as follows for the fiscal year ended June 30, 2015:

General government	\$ 352,587
Public housing and welfare	93,173
Health and sanitation	75,347
Urban and economic development	984,405
Public safety	100,971
Culture, recreation and education	242,405
Total depreciation and amortization expense	<u>\$ 1,848,888</u>

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10. Deferred Inflows of Resources

At June 30, 2015, deferred inflows of resources recorded in the GWFS and the GFFS are as follows:

	<u>Major governmental funds</u>			Total governmental funds	Statement of net position
	General fund	Legislative joint resolutions fund	Other governmental funds		
<i>Unavailable revenues-</i> intergovernmental grants and contributions	\$ 61,432	-	-	61,432	\$ -
<i>Unearned revenues:</i>					
Municipal license taxes	477,309	-	-	477,309	477,309
Intergovernmental grants and contributions	2,445	1,337,671	1,205,402	2,545,518	2,545,518
Total unearned revenues	<u>479,754</u>	<u>1,337,671</u>	<u>1,205,402</u>	<u>3,022,827</u>	<u>3,022,827</u>
Total deferred inflows of resources	<u>\$ 541,186</u>	<u>1,337,671</u>	<u>1,205,402</u>	<u>3,084,259</u>	<u>\$ 3,022,827</u>

11. Long-Term Obligations

The general long-obligations debt activity for the fiscal year ended June 30, 2015 is as follows:

	Balance at beginning of fiscal year	Borrowings or additions	Payments or deductions	Balance at end of fiscal year	Balance due within one year
Bonds payable	\$ 7,618,000	810,000	(473,100)	7,954,900	\$ 509,400
Compensated absences	1,391,915	817,692	(780,793)	1,428,814	780,793
Estimated liability for municipal solid waste landfill closure and post-closure care costs	11,489,844	-	(1,319,918)	10,169,926	-
Total long term obligations	<u>\$ 20,499,759</u>	<u>1,627,692</u>	<u>(2,573,811)</u>	<u>19,553,640</u>	<u>\$ 1,290,193</u>

Historically, the general fund has been used to liquidate compensated absences, and any other long-term liabilities other than bonds.

a) Debt Limitation

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued

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thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirements. The Municipality's available legal debt margin amounted to \$6.4 million at June 30, 2015, as published by the Government Development Bank for Puerto Rico.

b) Bonds Payable

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth of Puerto Rico provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt includes bonds and bond anticipation notes. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As described in Note 4, the Municipality levies an annual additional special tax of 1.05 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2015:

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	Outstanding amount
1995 serial bonds for the acquisition of major capital assets, original amount of \$515,000, due in annual principal installments ranging from \$5,000 to \$45,000; plus interests due in semiannually installments at variable rates (8.21% at June 30, 2015) through July 1, 2019.	\$ 195,000
2004 serial bonds for the acquisition, construction and improvement of major capital assets, original amount of \$725,000, due in annual principal installments ranging from \$15,000 to \$75,000; plus interests due in semiannually installments at variable rates (4.53% at June 30, 2015) through July, 1, 2024.	455,000
2002 serial bonds for the acquisition, construction and improvement of major capital assets, original amount of \$910,000, due in annual principal installments ranging from \$5,000 to \$80,000; plus interests due in semiannually installments at variable rates (4.80% at June 30, 2015) through July 1, 2026.	655,000
1999 serial bonds for the acquisition, construction and improvement of major capital assets, original amount of \$1,525,000 due in annual principal installments ranging from \$30,000 to \$140,000 plus interests due in semiannually installments at variable rates (4.80% at June 30, 2015) through July 1, 2019.	605,000
2004 serial bonds for the acquisition, construction and improvement of major capital assets, original amount of \$235,000, due in annual principal installments ranging from \$5,000 to \$20,000; plus interests due in semiannually installments at variable rates (4.53% at June 30, 2015) through July 1, 2029.	180,000
2008 serial bonds for the acquisition of major capital assets, original amount of \$2,905,000, due in annual principal installments ranging from \$20,000 to \$225,000; plus interests due in semiannually installments at variable rates (1.48% at June 30, 2015) through July 1, 2032.	2,595,000
2010 serial bonds for the acquisition of major capital assets, original amount of \$170,000, due in annual principal installments ranging from \$20,000 to \$35,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2015) through July 1, 2017.	85,000

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	<u>Outstanding amount</u>
2010 serial bonds for the acquisition of major capital assets, original amount of \$255,000, due in annual principal installments ranging from \$5,000 to \$20,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2015) through July 1, 2035.	235,000
2010 serial bonds for the acquisition of major capital assets, original amount of \$188,000, due in annual principal installments ranging from \$20,000 to \$33,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2015) through July 1, 2017.	93,000
2010 serial bonds for the acquisition of major capital assets, original amount of \$1,110,000, due in annual principal installments ranging from \$15,000 to \$95,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2015) through July 1, 2035.	1,035,000
2011 serial bonds for the acquisition of major capital assets, original amount of \$325,000, due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2015) through July 1, 2036.	310,000
2012 serial bonds for the acquisition of major capital assets, original amount of \$403,000, due in annual principal installments ranging from \$45,900 to \$70,800; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2015) through July 1, 2018.	254,800
2012 serial bonds for the acquisition of major capital assets, original amount of \$405,000, due in annual principal installments ranging from \$45,000 to \$75,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2015) through July 1, 2018.	255,000
2013 serial bonds for the acquisition of major capital assets, original amount of \$198,000, due in annual principal installments ranging from \$2,800 to \$16,500; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2015) through July 1, 2037.	192,100

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	Outstanding amount
2014 serial bonds for the acquisition of major capital assets, original amount of \$810,000, due in annual principal installments ranging from \$15,000 to \$75,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2015) through July 1, 2034.	<u>\$ 810,000</u>
Total general obligation and public improvements bonds	<u><u>\$ 7,954,900</u></u>

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

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

Fiscal year ending June 30,	Principal	Interest	Total
2016	509,400	329,074	838,474
2017	522,200	353,585	875,785
2018	411,920	314,915	726,835
2019	459,000	350,908	809,908
2020	347,355	254,670	602,025
2021-2025	1,830,336	1,349,717	3,180,053
2026-2030	2,192,516	1,637,860	3,830,376
2031-2035	1,429,836	506,950	1,936,786
2036-2038	252,337	110,782	363,119
Totals	<u>\$ 7,954,900</u>	<u>5,208,461</u>	<u>\$ 13,163,361</u>

At June 30, 2015, accrued interest payable on bonds amounted to \$174,008. Interest expense on bonds amounted to \$355,055 for the fiscal year ended June 30, 2015.

According to sections 103 and 148 to 150 of the U.S. Internal Revenue Code and sections 1.148 to 1.150 of the U.S. Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2015, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

12. Municipal Solid Waste Landfill Closure and Post-closure Care Costs

The Municipality is legally responsible for closure and post-closure care costs associated with its municipal solid-waste landfill. State and federal laws and regulations require the Municipality to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

The Municipality has performed 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. Based on this study, the Municipality has recognized an estimated liability of \$10,169,926 in the accompanying government-wide financial statements using current costs allocated based on the actual landfill capacity at June 30, 2015. The portion of the estimated current costs to be incurred in future years is approximately \$2.6 million, which has not been recognized yet in the accompanying government-wide financial statements. The net change in the liability for the fiscal year ended June 30, 2015 was recorded in the accompanying government-wide financial statements with a credit to health and sanitation expenses of \$1,319,918 in the statement of activities. The current costs of landfill closure and post-closure at June 30, 2019 is \$12.8 million.

Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. At June 30, 2015, the Municipality's landfill is still operating and its remaining estimate useful life is approximately five (4) years. Approximately eighty (80) percent of the Municipality's total capacity has been used at June 30, 2015. However, the Municipality is currently evaluating alternatives for the expansion of its solid waste landfill. The expansion would extend the useful life through June 30, 2019.

13. Employees' Retirement Systems

Substantially all full-time employees of the Municipality participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended ("Act 447") and a component unit of the Commonwealth of Puerto Rico. The Employees Retirement System covers substantially all employees of the Commonwealth, its component units and the municipalities of Puerto Rico including the Municipality of Barranquitas.

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Employees' Retirement System. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the Employees Retirement System as further discussed below.

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 ("Act 447 Participants") were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 ("Act 1 Participants") were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 ("Act 1 of 1990").

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as "System 2000"). Members who entered the Employees Retirement System

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

on or after January 1, 2000 ("System 2000 Participants") participate solely in System 2000. Prior to the amendment made by Act 3-2013, under the System 2000 benefit structure, a participant was entitled to receive a lump-sum payment, which could be received in full or used to purchase an annuity from a third party, based solely on the amounts contributed in cash by such participant and credited earnings on such cash. Act 3-2013 amended the law to eliminate the lump sum distribution and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the Employees Retirement System. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the Employees Retirement System together with the assets corresponding to the defined benefit structure. Thus, future benefit payments under the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the Employees Retirement System.

Retirement and related benefits provided by the Employees Retirement System, and required contributions to the Employees Retirement System by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 ("Act 116"), the statutory employer contribution for the Employees Retirement System increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll, and will continue to increase annually until fiscal year 2021. The employer contribution rate for fiscal year 2015 is 13.275%.

Required employee contributions for the Employees Retirement System vary according to how the individual employee's retirement benefits are coordinated with social security benefits. Act 3-2013 increased the employee contribution from 8.275% to 10% of covered payroll.

The Employees Retirement System provides basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as "Basic System Pension Benefits"). The Employee Retirement System also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as "System Administered Pension Benefits"). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Municipality. The System Administered Pension Benefits corresponding to former employees of the Municipality are obligations of the Municipality. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

The June 30, 2013 actuarial valuations for the Employees Retirement System calculated accounting results for pension benefits under Governmental Accounting Standards Board No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" ("GASB 25"). The Employees Retirement System's actuarial valuation as of June 30, 2014 differs from the actuarial valuation as of June 30, 2013, due to the adoption of GASB Statement No. 67,

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

“Financial Reporting for Pension Plans” (“GASB 67”), which replaced GASB 25. GASB 67 specifies certain significant changes for financial reporting purposes, including but not limited to (a) calculation of plan liabilities based on the “entry age normal” method (compared to the “projected unit credit” method used in the prior valuation), (b) calculation of a “depletion date” based on a projection as to the length of time assets will cover projected benefit payments under certain assumptions, and (c) for purposes of valuing the plan’s liabilities after the depletion date, use of a discount rate tied to a municipal bond index. GASB 67 also introduces certain new terminology, including: (i) Total Pension Liability, which is the actuarial accrued liability calculated in accordance with the new GASB 67 requirements, (ii) Fiduciary Net Position, which is the market value of plan assets, net of liabilities (in the case of the Employees Retirement System, Fiduciary Net Position is also equivalent to the previously reported actuarial value of assets), and (iii) Net Pension Liability, which is calculated as Total Pension Liability less Fiduciary Net Position, and is equivalent to the unfunded actuarial accrued liability.

To calculate the net pension liability of the Employees Retirement System, the actuarial valuation uses several actuarial assumptions. Some examples of these assumptions include an expected rate of return of assets, age of retirement of active members, future pay increases for current employees, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. If the experience of the Employees Retirement System is different from these assumptions, the net pension liability of the Employees Retirement System may increase or decrease to the extent of any variances.

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2014 (most recently available) reflects a fiduciary net position of \$127 million, total pension liability of \$30.2 billion and a net pension liability of \$30.1 billion.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB 68”) became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the Employees Retirement System. GASB 68 will bring the effect of GASB 67 summarized above, into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Employees Retirement System. The Commonwealth, as well as its component units and the municipalities, are considered “cost-sharing” employers of the Employees Retirement System; therefore, they must report their allocated share of the Commonwealth’s resulting net pension liability from GASB 67. The Commonwealth and the Employees Retirement System are still in the process of evaluating the impact of GASB 68 and have not provided the Municipality with the necessary information as of June 30, 2015 to adopt GASB 68 including its allocated share of the net pension liability mentioned above. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information required by GASB 68.

The pension costs recognized in the accompanying financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

During the fiscal years ended June 30, 2015, 2014 and 2013, the Municipality and the participating employees contributed substantially all of the required contributions to ERS and System 2000. The combined actual contributions made by the Municipality and its participating employees to ERS and

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

System 2000 amounted to \$571,101 million, \$654,688 million and \$548,701 million for the fiscal years ended June 30, 2015, 2014 and 2013, respectively.

14. Commitments and Contingencies

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

With respect to pending and threatened litigation, the Municipality has not reported liabilities for awarded or anticipated unfavorable judgments as of June 30, 2015. Management believes that any unfavorable outcome in relation to pending or threatened litigation would be covered by the Municipality's insurance coverage and any exposure would not be material to the basic financial statements taken as a whole, if any.

The Municipality has reported outstanding encumbrances amounting to \$799,893 in the general fund at June 30, 2015. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

As of June 30, 2015, the Municipality has several outstanding or planned non-cancelable construction projects of which \$1.7 million have been already incurred and paid as of June 30, 2015. These projects are evidenced by contractual commitments with contractors and are accounted for in the capital improvements bond fund and other nonmajor capital project funds.

The Municipality receives financial assistance from the federal Governments of the United States of America and the Commonwealth in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Accordingly, expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. Disallowance as a result of these audits may become liabilities of the Municipality. The *"Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of the Uniform Guidance"* for the fiscal year ended June 30, 2015, disclosed various instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor the disallowed amounts. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors, if any.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2015

15. Fund Balances

As of June 30 2015, fund balance is comprised of the following:

	General fund	Capital improvements bond fund	Debt service fund	Other governmental funds	Total
<i>Non-spendable:</i>					
Long-term inter-fund loans receivable from the Public Assistance Program fund	\$ 88,675	-	-	-	\$ 88,675
<i>Assigned for:</i>					
Budgetary encumbrances - general government	799,893	-	-	-	799,893
<i>Restricted for:</i>					
Capital outlays related to the acquisition, construction and improvement of buildings, structures and infrastructure assets	-	1,467,691	-	10,080	1,477,771
Debt service of bonds payable	-	-	1,534,956	-	1,534,956
Operation of state and federally funded programs:					
Public housing and welfare	-	-	-	108,620	108,620
Urban and economic development	-	-	-	26	26
Public safety	-	-	-	283	283
Culture, recreation and education	-	-	-	122,716	122,716
<i>Unassigned</i>	10,497,758	-	-	-	10,497,758
Total fund balances	<u>\$ 11,386,326</u>	<u>1,467,691</u>	<u>1,534,956</u>	<u>241,725</u>	<u>\$ 14,630,698</u>

16. Subsequent Events

The Municipality evaluated subsequent events through March 8, 2016, the date on which the basic financial statements were available to be issued. There are no material subsequent events that would require adjustments to or disclosures in the accompanying basic financial statements as of and for the year ended June 30, 2015.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
 Budgetary Comparison Schedule - General Fund
 June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual amounts (Budgetary basis) (See Note 1)</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Property taxes	\$ 7,839,633	\$ 7,839,633	\$ 7,839,633	\$ -
Municipal license taxes	504,000	778,536	834,086	55,550
Sales and usage taxes	350,000	472,549	554,634	82,085
Construction excise taxes	50,000	39,728	54,014	14,286
Charges for services	135,000	216,238	333,314	117,076
Interests on deposits	40,000	70,124	183,386	113,262
Intergovernmental grants and contributions	1,253,299	1,393,394	1,448,095	54,701
Miscellaneous revenues	102,000	121,545	189,242	67,697
Total revenues	<u>10,273,932</u>	<u>10,931,747</u>	<u>11,436,404</u>	<u>504,657</u>
Expenditures:				
Current:				
General government	4,993,258	5,662,667	4,262,036	(1,400,631)
Public safety	972,274	978,774	858,623	(120,151)
Health and sanitation	1,174,067	1,194,517	1,129,164	(65,353)
Public Housing and welfare	736,525	776,525	649,148	(127,377)
Culture, recreation and education	478,030	622,037	539,192	(82,845)
Urban development	1,504,278	2,397,258	2,548,124	150,866
Capital outlays	415,500	2,267,205	1,669,918	(597,287)
Total expenditures	<u>10,273,932</u>	<u>13,898,983</u>	<u>11,656,205</u>	<u>(2,242,778)</u>
Revenues over (under) expenditures	<u>-</u>	<u>(2,967,236)</u>	<u>(219,801)</u>	<u>2,747,435</u>
Other financing sources (uses)				
Prior year's budgetary cash surplus readjustment	-	2,967,236	2,967,236	-
Transfer from other funds	-	-	170,538	170,538
Transfer to other funds	-	-	(480)	(480)
Total other financing sources (uses), net	<u>-</u>	<u>2,967,236</u>	<u>3,137,294</u>	<u>170,058</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,917,493</u>	<u>\$ 2,917,493</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Budgetary Comparison Schedule - General Fund
June 30, 2015

1. Stewardship, Compliance and Accountability

a. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfer of certain appropriations within the budget, known as Mayor's Executive Orders, do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are disclosed in the notes of the financial statements as other significant commitments and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under budgetary basis of accounting, revenues are recorded when cash is received. The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Schedule of Expenditures of Federal Awards
June 30, 2015

	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Section 8 – Housing Choice Voucher	14.871	RQ-060-VO	\$ 780,874
Pass-through of the State-Office of the Department of the Family – Emergency Solutions Grant Program	14.231	2014-000246	44,895
Pass-through of the State-Office of the Municipal Affairs Commissioners – Community Development Block Grant/State – Administer Small Cities	14.228	2012-AB-09 2012-FC-09	<u>326,629</u>
Total U.S. Department of Housing and Urban Development			<u>1,152,398</u>
U.S. Department of Homeland Security			
Disaster Grant – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1919 FEMA 4017	<u>625,338</u>
Total U.S. Department of Homeland Security			<u>625,338</u>
U.S. Department of Agriculture			
Pass-through of the Puerto Rico Elderly Commission – Food Distribution-Child and Adult Care Food Program	10.558	N/A	<u>124,204</u>
Total U.S. Department of Agriculture			<u>124,204</u>
Total Federal Financial Assistance			<u>\$ 1,901,940</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
Notes to Schedule of Expenditures of Federal Awards
June 30, 2015

1. General

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

2. Relationship to Basic Financial Statements

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

Expenditures in the Basic Financial Statements

Major Governmental Funds	\$ 12,956,996
Nonmajor governmental funds	1,807,150
	<hr/> 14,764,146
Less: Non-federal expenditures	<hr/> (12,862,206)
	<hr/>
Total expenditures in the Schedule of Federal Awards	\$ <u>1,901,940</u>



BENITEZ-JAIME, CPA-PSC

Certified Public Accountants and Business Consultants

**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
June 30, 2015**

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

We 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, each major fund, and aggregate remaining fund information of the Municipality of Barranquitas of the Commonwealth of Puerto Rico 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 and have issued our report thereon dated March 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Barranquitas internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 entity'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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as item 2015-01.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Barranquitas of the Commonwealth of Puerto Rico financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Municipality of Barranquitas of the Commonwealth of Puerto Rico Response to Findings

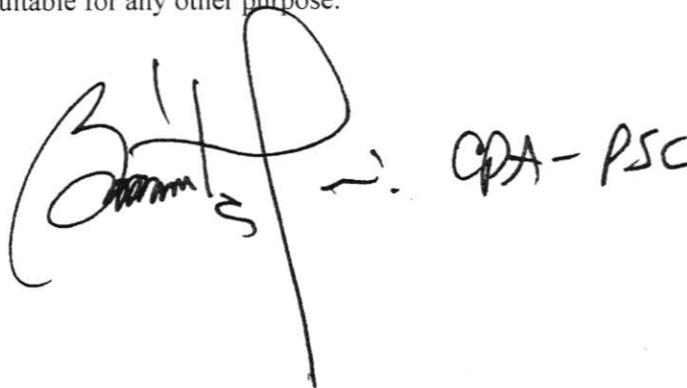
The Municipality of Barranquitas of the Commonwealth of Puerto Rico response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Toa Alta, Puerto Rico
March 8, 2016

Stamp No. O2708933
was affixed to the
original report.

A large, stylized handwritten signature in black ink, followed by the initials "CPA-PSC" written in a similar style.



BENITEZ-JAIME, CPA-PSC

Certified Public Accountants and Business Consultants

Report on compliance for each major program and on Internal Control over compliance required by the Uniform Guidance June 30, 2015

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

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Barranquitas of the Commonwealth of Puerto Rico (the Municipality) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the Municipality of Barranquitas of the Commonwealth of Puerto Rico major federal programs for the year ended June 30, 2015. Municipality'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

Our responsibility is to express an opinion on compliance for each of the Municipality of Barranquitas of the Commonwealth of Puerto Rico major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Pass-through State Office of the Municipal Affairs Commissioner – Community Development Block Grant/State – Administered Small Cities

As described in the accompanying schedule of findings and questioned costs, the Municipality of Barranquitas did not comply with requirements regarding CFDA 14.228 Community Development Block Grant/State – Administered Small Cities Program as described in finding number 2015-02 for the Cash Management Requirement. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

Qualified Opinion on Pass-through State Office of the Municipal Affairs Commissioner – Community Development Block Grant/State – Administered Small Cities

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Municipality of Barranquitas complied, in all material respects, the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grant/State – Administered Small Cities Program for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Municipality of Barranquitas of the Commonwealth of Puerto Rico, 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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Municipality of Barranquitas of the Commonwealth of Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality'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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

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.

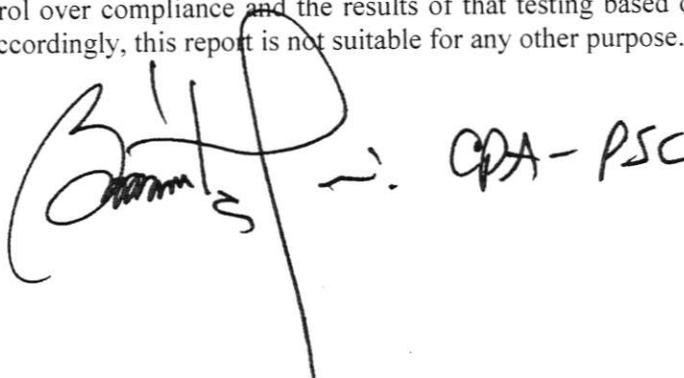
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Municipality's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Toa Alta, Puerto Rico
March 8, 2016

Stamp No. O2708934
was affixed to the
original report.

A large, stylized handwritten signature in black ink is written over the text. To the right of the signature, the initials "CPA-PSC" are written in a similar handwritten style.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
 Schedule of Findings and Questioned Costs
 June 30, 2015

Financial Statements

Type of auditors' report issued:		Qualified
Internal control over financial reporting:		
Material weakness (es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency (ies) identified not considered to be material weakness?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> X </u> yes	<u> </u> no

Federal Awards

Internal Control over major programs:		
Material weakness (es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency (ies) identified not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported
Type of auditor's report issued on compliance For major programs:		Qualified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516?	<u> X </u> yes	<u> </u> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant/Small Cities
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish Between Type A and Type B programs:	<u> \$300,000 </u>	
Auditee qualified as low-risk auditee?	<u> </u> yes	<u> X </u> no

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Section II – FINANCIAL STATEMENT FINDINGS

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

2015-01 DEFICIENCIES IN THE ACCOUNTING SYSTEM, CLOSING PROCEDURES AND OTHER ACCOUNTING RECORDS

CONDITION:

During the last two years , the Municipality acquired and implemented a new accounting and financial management system (NAFMS). However, the following specific conditions were noted during our audit that need to be addressed: The Municipality:

- Accounting transactions are currently accounted for simultaneously through manual and computerized accounting systems for which no reconciliation procedures are made among them, including the accounting records currently used by federal programs which are not reconciled with the NAFMS. The balance sheet accounts in the NAFMS are not reconciled and adjusted to conform them to the Municipality's audited basic financial statements.
- Does not reconcile periodically and agree amounts in the Municipality's general ledger with the corresponding subsidiary taxes receivable and accounts payable. Municipality makes significant year end efforts to identify all unrecorded liabilities.
- Does not account for long term debt balances in its accounting system on a timely basis nor its has a subsidiary ledger that provides a detail of all its long term obligations. The detail of long term debt is prepared as part of the year end closing process and kept in electronic worksheets. The long term debt presented in the government-wide basic financial statements is assembled from numerous external documents and resources.
- Does not close its accounting records to prepare financial reports in accordance with GAAP on a monthly basis for all of its operations. Current monthly procedures are carried on a modified budgetary basis and does not provide for an analysis of the overall financial position and results of operations of each of the Municipality's funds and accounts.
- Does not analyze and evaluate accounts balances and transactions on a monthly basis to ensure that these are free from errors and irregularities. The analysis of most account balances and transactions is performed once a year as part of the year end closing process.
- Does not have a formal periodical cut-off procedures to ensure that all transactions are recorded in the corresponding accounting period.

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- Does not have an integrated financial reporting structure to allow for the effective and efficient preparation of the Municipality's basic financial statements including the conversion process for the government-wide financial statements. The 2015 basic financial statements and related conversion was completed after a significant gathering of formal and informal documents.

CRITERIA:

Article 8.010(b) of Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81), states that the Municipality must maintain its fund accounting in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), the National Committee on Governmental Accounting (NCGA) and the Governmental Accounting, Auditing and Financial Reporting book (commonly known as Blue Book).

In addition, Article 8.010(c) of Law No. 81 states that uniform accounting system used by the Municipality must: (1) produce reliable reports and financial statements, (2) provide complete information about the results of operations of the Municipality, and (3) include the necessary internal controls to account all funds, capital assets and other assets of the Municipality.

Also, Article 7.001 (a) of the Autonomous Municipalities Law establishes that the Municipality shall close its accounting records at year end to allow for the accurate evaluation of the results of operations for the ensuing year.

Due to the conditions referred to above, the preparation of the Municipality's basic financial statements as of and for the fiscal year ended June 30, 2015 was more difficult and less efficient than would have been in ordinary circumstances. A significant amount of adjusting entries had to be made to the financial data and reports processed through the NAFMS in order to properly account for unrecorded transactions and to correct transactions recorded in the wrong accounting period. Since the accounts and other accounting records of the NAFMS are not designed to provide all the information necessary to prepare the Municipality's basic financial statements, the Municipality had to obtain and process financial data from several sources outside the NAFMS. These conditions represent material weaknesses in the Municipality's internal controls over financial reporting.

CAUSE AND EFFECT:

These conditions occurred because the Municipality's financial accounting and reporting structure is not designed to gather the necessary information efficiently and effectively to permit periodic analysis of transactions and balances and periodic reconciliation among trial balances and subsidiary ledgers. The failure to have an adequate accounting system does not allow the Municipality to have timely and accurate financial information for its decision making process.

RECOMMENDATION:

We recommend the Municipality to continue its efforts to review and revise its current accounting and financial reporting structure. This includes, among others, the evaluation of the current accounting and financial reporting software to ensure it meets the necessary standards, establishment or revision of policies and procedures, establishment of periodic reconciliation and analysis processes and procedures,

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additional training of all personnel related to accounting and financial reporting responsibilities and establishing a financial reporting unit. This financial reporting unit should be responsible for overseeing the overall deployment of the project to ensure that goals are met effectively.

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Section III - Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
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SBGP
CFDA No. 14.228

2015-02 FEDERAL CASH MANAGEMENT SYSTEM

Statement of Condition: NONE

The Municipality has not established effective cash management procedures. During our review of the request of funds performed during the year, we noted the following deficiency:

- a. From 76 request of funds received during the 2014-2015 fiscal year amounting to \$422,057, 36 (47%) disbursements amounting to \$241,706, maintained a delay of 3 days or more between the funds receipt date and the disbursement date.

Criteria:

Program grant agreement established that "the Municipality minimize the time elapsing between the receipt and the disbursement of funds. Such period shall not exceed three (3) days".

Cause and Effect:

This condition arose because the Municipality has not implemented specific internal controls and procedures designed to minimize the time elapsed between the time when drawdowns are made and the subsequent time when disbursement of federal funds are carried out. This condition increases the risks of avoidable interest income and instances of idle cash balances in the program's bank accounts.

Recommendation:

In accordance with federal regulations, the Municipality should estimate drawdown's of Federal funds as closely as possible to the actual disbursements. The Municipality should established procedures to minimize the time elapsing between drawdowns and disbursements.

Total questioned costs \$ -

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Summary schedule of prior years audit findings
Fiscal Year 2013-2014
June 30, 2015

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2014. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2014-2015).
- NR - Not resolved yet. Finding repeated in fiscal year 2014-2015.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
14-01	Deficiencies in the Uniform Accounting System and other Accounting Records	NR

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 Summary schedule of prior years audit findings
 Fiscal Year 2013-2014
 June 30, 2015

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2014. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2014-2015).
- NR - Not resolved yet. Finding repeated in fiscal year 2014-2015.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
14-02	Federal cash management system	NR

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 Summary schedule of prior years audit findings
 Fiscal Year 2012-2013
 June 30, 2015

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2013. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2014-2015).
- NR - Not resolved yet. Finding repeated in fiscal year 2014-2015.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
13-01	Deficiencies in the Uniform Accounting System and other Accounting Records	NR

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Summary schedule of prior years audit findings
Fiscal Year 2012-2013
June 30, 2015

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2013. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2013-2014).
- NR - Not resolved yet. Finding repeated in fiscal year 2013-2014.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
13-02	Federal cash management system	NR