

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

**MUNICIPIO DE COAMO  
AUDITORÍA 2014-2015**

**30 DE JUNIO DE 2015**

***BASIC FINANCIAL STATEMENTS  
WITH ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE  
SINGLE AUDIT ACT***

***Fiscal Year Ended June 30, 2015***



***Commonwealth of Puerto Rico  
Municipality of Coamo***

***Honorable Juan C. García Padilla  
Mayor***

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
 Basic Financial Statements  
 with additional reports and information  
 required by the Single Audit Act  
 Fiscal Year Ended June 30, 2015

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
The Municipal Legislature  
Municipality of Coamo  
Coamo, Puerto Rico**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Municipality of Coamo**, Puerto Rico (the Municipality), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' Government Auditing Standards. Those standards require that we plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error, in assessing those risks, we consider internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Municipality's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Summary of Opinions**

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Adverse
General Fund	Unmodified
Debt Service Fund	Unmodified
Special Revenue Fund	Unmodified
Capital Projects Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### **Basis for Adverse Opinion on the Government-Wide Financial Statements – Statement of Net Position and Statement of Activities**

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter of the Capital Assets' reported value in the accompanying statement of net position of the governmental activities and, accordingly the amount that would affect the assets, net position, and expenses of the governmental activities is not reasonably determinable.

The Municipality's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of the collective net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources reported by the pension plan trust. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.

### **Adverse Opinion**

In our opinion, because of the matters discussed in the above section of Basis for Adverse Opinion, the Government-Wide Financial Statements previously referred to do not present fairly, in all material respects, the financial position of the governmental activities of the **Municipality of Coamo**, Puerto Rico, as of June 30, 2013, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

The financial statements of "Piscinas Aguas Termales", "Teatro Hollywood", "Restaurante el Mirador", "Todo Deporte", "Servicios de Seguridad", "Centro de Convenciones", "Agricola Illescana" y "Mantenimiento y Ornato" were not audited, and we were not engaged to audit them as part of our audit of the Government's basic financial statements. "Piscinas Aguas Termales", "Teatro Hollywood", "Restaurante el Mirador", "Todo Deporte", "Servicios de Seguridad", "Centro de Convenciones", "Agricola Illescana" y "Mantenimiento y Ornato's" financial activities are included in the Government's basic financial statements as discretely presented component units, net financial position and revenues, respectively, of the Government's aggregate discretely presented component units.

### **Unmodified Opinion**

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 Coamo**, as of June 30, 2015, and the respective changes in its financial, for the General Fund, Special Revenue Fund-Federal Grants, Capital Projects Fund-State & Local Grants, Debt Service Fund and Other Non-major Governmental Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Other Matters

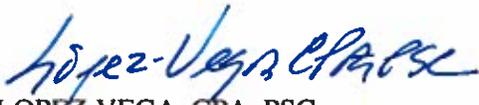
#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 14 and Budgetary Comparison information on page 77, 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 them to be essential parts 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 supplementary 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 of Coamo's** basic financial statements. The accompanying supplementary information – Financial Data Schedules shown in pages 83 through 85 are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages 88 through 90 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The Financial Data Schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate 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 Financial Data Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 29, 2016

Stamp No. 2728496 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2015**

**COMMONWEALTH OF PUERTO RICO**  
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Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2015

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As management of the **Municipality of Coamo** (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements as of and 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 accompanying financial statements, which follow this narrative.

This MD&A is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS); (2) fund financial statements (FFS); and (3) notes to the financial statements (NBFS). This report also contains additional required supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of financial statements that present different views of the Municipality, the government-wide financial statements (GWFS) and the fund financial statements (FFS). These financial statements also include the notes to the basic financial statements (NBFS) that explain some of the information in the financial statements and provide more detail.

## **FINANCIAL HIGHLIGHTS**

### ***Government-Wide Highlights:***

- Total Net Position of the Municipality Governmental Activities as of the end of the indicated fiscal year amounted to \$3,704,713 or six percent (6%) of the sum of total assets plus total deferred outflows of resources.
- The Municipality's Governmental Activities total Net Position increased by \$2,137,819.
- At the end of fiscal year 2015, total liabilities of the Municipality Governmental Activities amounted to \$59,523,644. Out of said amount, \$53,968,775 corresponded to long-term liabilities of which \$23,054,660 represented the outstanding balance of bonds issued, and \$27,773,939 represented the Municipality's proportionate share of the net pension liability of the Puerto Rico Government Employees Retirement System. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.

### ***Governmental Funds' Highlights:***

- As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$13,928,232 or \$4,215,803 lower than the similar figure corresponding to the previous fiscal year 2013-2014.
- At the end of the current fiscal year, the fund balance of the Municipality's General Fund amounted to \$2,493,049, or \$243,222 more than the previous fiscal year.
- The actual General Fund budgetary activities resulted in a favorable balance of \$694,313.

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Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2015

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***Component Units Highlights:***

- The aggregated total net position of the component units amounted to \$1,450,251.

**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) fund financial statements (FFS), and (3) notes to the basic financial statements (NBFS). This report also contains additional required 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 and proprietary 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 government-wide financial statements provide a broad view of the Municipality's operations in a manner similar to commercial enterprises. The statements provide both short and long-term information about the Municipality's financial position, which assists in assessing the Municipality's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

***1. Statement of Net Position (SNP)***

This SNP presents the government's entire assets, deferred outflow of resources, liabilities and deferred inflow of resources with the difference between the two reported as net position. Over time, increases or decreases in the Municipality's net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

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**2. *Statement of Activities (SA)***

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

Both of the above financial statements have the following columns:

- ***Governmental Activities*** — These activities are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the Municipality government fall into this category, including general government, education, public housing and welfare, health, public safety and economic development.
- ***Component Units*** — These are organizations that are legally separate from the Municipality, but either the Municipality is financially accountable for them or the nature and significance of their relationship with the Municipality are such that their exclusion would cause the Municipality's financial statements to be misleading or incomplete. The Municipality has only discretely presented component units. Discretely presented component units are presented in a separate column.

The government-wide financial statements can be found immediately following this MD&A.

**b) *Fund Financial Statements***

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 uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. The FFS focus on individual parts of the Municipality government, reporting the Municipality's operations in more detail than the government-wide financial statements. All of the funds of the Municipality have been accounted for in the governmental fund financial statements.

**1. *Governmental funds***

Most of the basic services provided by the Municipality are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the GWFS. However, unlike the GWFS, the FFS focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Municipality has four major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The Municipality's four major governmental funds are:

- The General Fund
- The Special Revenue Fund – Federal Grants
- The Capital Projects Fund – State and Local Grants
- The Debt Service Fund

The remaining non-major governmental funds are grouped and presented in a single column in the FFS. The FFS can be found immediately following the GWFS.

**2. *Component Units Financial Statements (CUFS)***

Component units are legally separate entities, for which the Municipality has financial accountability, but they have certain independent qualities as well. The GWFS present information for the component units in a single column on the statement of net position. Also, some information on the statement of activities is aggregated for component units. The combining statements of net position and the combining statement of activities provide detail for each major component unit and the non-major component units (if any) in aggregate. The combining financial statements for major component units can be found immediately following the governmental funds financial statements.

**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, FFS and CUFS. The NBFS can be found immediately following the basic financial statements.

**d) *Required Supplementary Information***

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes 1) General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund

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balances at fiscal year-end and, 2) pension plan and employer trend information related to the net pension liability and employer contributions.

**FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Coamo, governmental activities assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$3,704,713 at the end of 2015, as compared with \$1,566,894 at the end of the previous year, as restated by the implementation of the *GASB Statement No. 68, Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the \$2,137,819 increase reflected in the governmental activities Net Position figure:

	<b>Governmental activities</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014 (as restated)</b>
<b>Assets:</b>		
Current assets	\$ 20,345,954	\$ 24,513,855
Non-current assets:		
Capital assets, net	41,774,820	35,599,228
Total assets	<u>62,120,774</u>	<u>60,113,083</u>
<b>Deferred outflows of resources:</b>		
Deferred outflows for pensions	1,329,842	249,247
Total deferred outflows of resources	<u>1,329,842</u>	<u>249,247</u>
<b>Liabilities:</b>		
Current liabilities, excluding long-term obligations	5,554,869	5,073,538
Long-term obligations:		
Due within one year	2,660,411	3,607,990
Due after one year	51,308,364	50,113,908
Total liabilities	<u>59,523,644</u>	<u>58,795,436</u>
<b>Deferred inflows of resources:</b>		
Deferred inflows for pensions	222,259	-
Total deferred inflows of resources	<u>222,259</u>	<u>-</u>
<b>Net position:</b>		
Net investment in capital assets	25,853,452	18,522,392
Restricted	10,794,729	15,418,053
Unrestricted	(32,943,468)	(32,373,551)
Total net position	<u>\$ 3,704,713</u>	<u>\$ 1,566,894</u>

The Statement of Activities reflects that for fiscal year 2015, the revenues derived from several programs plus current operating revenues, when compared to total expenses, represent a net increase amounted to \$2,137,819 in governmental activities net position. Approximately thirty percent (30%) of the Municipality's governmental activities total revenue came from taxes, while sixty-three percent (63%)

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resulted from grants and contributions, including federal aid. The Municipality's governmental activities expenses included items such as general government, urban and economic development, health and welfare, public safety, public works, culture, recreation and education, community development and interest on long term obligations.

Approximately twenty eight percent (28%) of total expenses resulted from general government, five percent (5%) of total expenses resulted from urban and economic development, eleven percent (11%) of total expenses resulted from health and welfare, five percent (5%) of total expenses resulted from public safety, twenty one percent (21%) of total expenses resulted from public works, twenty two percent (22%) of total expenses resulted from culture, recreation and education, two percent (2%) of total expenses resulted from community development, while six percent (6%) of total expenses resulted from interest on long term obligations. The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2015 and 2014:

	<b>Governmental activities</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014 (as restated)</b>
<b>Program revenues:</b>		
Program-specific operating grants and contributions	\$ 6,619,559	\$ 6,619,559
Program-specific capital grants and contributions	2,625,988	2,625,988
Charges for services	332,726	332,726
Total program revenues	<u>9,578,273</u>	<u>9,578,273</u>
<b>General revenues:</b>		
Property taxes	4,240,463	4,240,463
Municipal license taxes	1,380,044	1,380,044
Sales and use taxes	1,766,777	1,766,777
Construction excise taxes	313,477	313,477
Unrestricted grants and contributions	7,886,408	7,886,408
Other general revenues (various sources)	1,068,382	1,068,382
Total general revenues	<u>16,655,551</u>	<u>16,655,551</u>
Total revenues	<u>26,233,824</u>	<u>26,233,824</u>
<b>Program expenses:</b>		
General government	6,381,804	6,381,804
Health and welfare	2,808,346	2,808,346
Public works	4,787,508	4,787,508
Public safety	784,436	784,436
Culture, recreation and education	5,147,679	5,147,679
Community development	685,897	685,897
Urban and economic development	1,341,601	1,341,601
Interest on long-term obligations	1,130,867	1,130,867
Total expenses	<u>23,068,138</u>	<u>23,068,138</u>
<b>Change in net position</b>	3,165,686	3,165,686
<b>Net position, at beginning of fiscal year</b>	23,856,612	(1,598,792)
<b>Net position, at end of fiscal year</b>	<u>\$ 27,022,298</u>	<u>\$ 1,566,894</u>

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**FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES**

*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.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$13,928,232, which represents a decrease of \$4,215,803 when compared with the prior year. Out of the indicated balance, \$10,287,228 was restricted for the following purposes: (1) to liquidate statutory debts (\$1,622); 2) to pay for capital projects (\$4,428,847); 3) for debt service payments (\$5,510,819); and 4) for other purposes (\$745,940). Also, \$1,301,043 were committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$151,466); 2) to pay for capital projects (\$697,247); and 3) for other purposes (\$452,330). As of June 30, 2015, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund balance of \$2,179,961, and a non-spendable fund balance of \$160,000 related to long-term due from component units.

The following table presents the condensed financial position of governmental funds at June 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
<i><b>Assets:</b></i>		
Total assets - major governmental funds	\$ 20,435,030	\$ 24,745,566
Total assets - other governmental funds	1,844,307	75,748
Combined total assets	22,279,337	24,821,314
<i><b>Liabilities:</b></i>		
Total liabilities - major governmental funds	7,550,788	6,677,279
Total liabilities - other governmental funds	646,037	-
Combined total liabilities	8,196,925	6,677,279
<i><b>Deferred Inflows of Resources:</b></i>		
Total liabilities - major governmental funds	154,280	-
Total liabilities - other governmental funds	-	-
Combined total deferred inflows of resources	154,280	-
<i><b>Fund balances (deficits):</b></i>		
Non-spendable - major governmental funds	160,000	-
Restricted - major governmental funds	9,541,288	14,627,608
Restricted - other governmental funds	745,940	75,748
Committed - major governmental funds	848,713	1,394,148
Committed - other governmental funds	452,330	-
Unassigned - major governmental funds	2,179,961	2,046,531
Combined total fund balances	13,928,232	18,144,035
<i><b>Total liabilities, deferred inflows of resources and fund balances</b></i>	<b>\$ 22,279,337</b>	<b>\$ 24,821,314</b>

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**BUDGETARY HIGHLIGHTS**

**a) General Fund**

The original and the final budget of the general fund for the fiscal year ended June 30, 2015 amounted to \$13,536,353. Over the course of the fiscal year, the Municipality revised the GF's budget in order to include increases and decreases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. The laws and regulations of the Commonwealth mandate a balanced budget.

The total actual revenues and other financing sources (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were \$13,474,436, which is .5% (\$61,917) lesser than the budgeted revenues and other financing sources. In addition, the total actual expenditures and other financing uses (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were \$12,780,123, which is 6% (\$756,230), lower than the budgeted expenditures and other financing uses.

The most significant fluctuations in actual revenues occurred in municipal license taxes which had actual revenues that were \$42,806 more than budgeted; in interest on deposits, which had actual revenues that were \$178,802 more than budgeted; in miscellaneous revenues, which had actual revenues that were \$57,441 more than budgeted; and in sales taxes, construction excise taxes and intergovernmental grants and contributions, which had actual revenues that were \$75,737, \$168,582 and \$136,144 less than budgeted, respectively.

Also, the most significant fluctuations in actual expenditures and encumbrances occurred in general government and public works, which had actual expenditures, and encumbrances that were \$375,112 and \$183,088 lower than budgeted.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**a) Capital Assets**

The Municipality has invested \$ 56,196,765 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$ 14,421,945 at June 30, 2015. The net capital assets of governmental activities increased during the current fiscal year due to the current fiscal year's capital additions (\$7,175,991), which were partially offset by the depreciation expense (\$1,000,399) for the same period.

The capital additions made to capital assets during the fiscal year ended June 30, 2015 were the following:

Construction in progress	\$ 5,419,246
Buildings, structures and improvements	487,573
Machinery, equipment, furniture and fixtures	847,700
Licensed vehicles	421,472
Capital additions for the fiscal year ended June 30, 2015	<u>\$ 7,175,991</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2015

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**b) Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act establishes that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Funds and the annual amounts collected with respect to such Municipality's Sales and Use Tax and Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

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

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.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2015-2016.

**FINAL COMMENTS**

The Municipality of Coamo is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community, urban and economic development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, sales taxes, municipal

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2015

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license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

Since the Municipality is significantly dependent on the intergovernmental grants and contributions received from the government of the Commonwealth of Puerto Rico and from property tax advances received from CRIM, the municipality could suffer a significant financial burden for certain scheduled intergovernmental revenues that could not be collected during the fiscal year 2015-2016.

**REQUEST FOR INFORMATION**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 1875, Coamo, PR 00769, call (787) 825-1150, or visit our website at [www.coamo.puertorico.pr](http://www.coamo.puertorico.pr).

**Basic Financial Statements and  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2015**

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

	<b>Primary Governmental activities</b>	<b>Component Units</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash in commercial banks	\$ 5,347,447	\$ 1,005,332
Cash in fiscal agent	10,588,739	-
Accounts receivable, net of allowance for doubtful accounts:		
Property taxes	26,324	-
Intergovernmental	2,675,387	-
Sales tax	139,983	-
Municipal license	14,185	-
Construction excise taxes	20,147	-
Interest	24,715	-
Others	-	202,203
Due from component units	160,000	-
Due from primary government		150,984
Real estate held for sale	1,349,027	-
Inventories	-	75,810
<b>Total current assets</b>	<b>20,345,954</b>	<b>1,434,329</b>
<b>Noncurrent assets:</b>		
Capital assets, net of accumulated depreciation and amortization of \$14,421,945 and \$70,597 for primary government and component units, respectively	41,774,820	376,494
<b>Total noncurrent assets</b>	<b>41,774,820</b>	<b>376,494</b>
<b>Total assets</b>	<b>\$ 62,120,774</b>	<b>\$ 1,810,823</b>
<b>Deferred outflows of resources:</b>		
Deferred outflows for pensions	\$ 1,329,842	\$ -
<b>Total deferred outflows of resources:</b>	<b>\$ 1,329,842</b>	<b>\$ -</b>
<b>Current Liabilities (due within one year):</b>		
Accounts payable	\$ 3,086,773	\$ 112,654
Due to component units	150,984	
Intergovernmental payables	316,329	-
Accrued interest payable on long-term debt	640,454	-
Unearned revenues	1,360,329	26,386
Current portion of long-term obligations:		
Bonds payable	939,835	-
Other debts	1,720,576	4,563
<b>Total current liabilities</b>	<b>8,215,280</b>	<b>143,603</b>
<b>Noncurrent liabilities (due in more than one year):</b>		
Current portion of long-term obligations:		
Bonds payable	49,107,386	-
Other debts	2,200,978	56,969
Due to primary government	-	160,000
<b>Total Noncurrent liabilities</b>	<b>51,308,364</b>	<b>216,969</b>
<b>Total liabilities</b>	<b>\$ 59,523,644</b>	<b>\$ 360,572</b>
<b>Deferred inflows of resources:</b>		
Deferred inflows for pensions	\$ 222,259	\$ -
<b>Total deferred inflows of resources</b>	<b>\$ 222,259</b>	<b>\$ -</b>
<b>Net position:</b>		
Invested in capital assets, net of related debt	\$ 25,853,452	\$ 376,494
Restricted for:		
Capital projects	5,126,094	
Debt service	4,470,365	
Other specified purposes	1,198,270	
Unrestricted net assets	(32,943,468)	1,073,757
<b>Total net position</b>	<b>\$ 3,704,713</b>	<b>\$ 1,450,251</b>

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

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

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Component Units
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities :						
General government	\$ 6,188,928	\$ -	\$ 154,619	\$ -	\$ (6,034,309)	\$ -
Health and welfare	2,424,682	-	1,827,693	-	(596,989)	-
Public works	4,783,356	117,622	165,050	391,660	(4,109,024)	-
Public safety	1,084,333	67,725	37,180	116,144	(863,284)	-
Culture, recreation and education	4,955,062	12,766	3,207,362	832,470	(902,464)	-
Community development	338,291	-	-	683,688	345,397	-
Urban and economic development	1,216,681	30,267	198,873	1,314,412	326,871	-
Interest on long-term obligation	1,259,549	-	-	-	(1,259,549)	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 22,250,882</u>	<u>\$ 228,380</u>	<u>\$ 5,590,777</u>	<u>\$ 3,338,374</u>	<u>\$ (13,093,351)</u>	<u>\$ -</u>
<b>COMPONENT UNITS:</b>						
Municipal Enterprise "Mantenimiento y Ornato"	\$ 204,953	\$ 1,088,622	\$ -	\$ -	\$ -	\$ 883,669
Municipal Enterprise "Piscinas Aguas Termales"	116,540	147,196	-	-	-	30,656
Municipal Enterprise "Teatro Hollywood"	112,191	56,097	-	-	-	(56,094)
Municipal Enterprise "Todo Deporte"	24,442	11,517	-	-	-	(12,925)
Municipal Enterprise "Servicios de Seguridad"	5,433	8,839	-	-	-	3,406
Municipal Enterprise "Centro de Convenciones"	68,457	134,629	-	-	-	66,172
Municipal Enterprise "Agrícola Illescana"	2,510	-	-	-	-	(2,510)
Municipal Enterprise "Restuarante el Mirador"	128	308	-	-	-	180
<b>TOTAL COMPONENT UNITS</b>	<u>\$ 534,654</u>	<u>\$ 1,447,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 912,554</u>
<b>GENERAL REVENUES</b>						
Taxes:						
Property taxes					3,984,729	-
Municipal license taxes					1,387,988	-
Sales taxes					1,636,060	-
Construction excise taxes					419,128	-
Total taxes					<u>7,427,905</u>	-
Grants and contributions, not restricted to specific programs					6,514,112	-
Interests on deposits					391,580	-
Miscellaneous					897,573	-
Special item-gain on sale of capital assets held for sale					-	-
Total general revenues					<u>15,231,170</u>	-
<b>CHANGE IN NET POSITION</b>					<u>2,137,819</u>	<u>912,554</u>
<b>NET POSITION-beginning of the year, as restated</b>					<u>1,566,894</u>	<u>537,697</u>
<b>NET POSITION-end of the year</b>					<u>\$ 3,704,713</u>	<u>\$ 1,450,251</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Balance Sheet – Governmental Funds  
Fiscal Year Ended June 30, 2015

	<b>MAJOR FUNDS</b>					
	General Fund	Special Revenue Fund - Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash in commercial banks	\$ 1,492,231	\$ 790,758	\$ 1,412,522	\$ -	\$ 1,651,936	\$ 5,347,447
Cash in fiscal agent	1,622	198,033	5,365,550	5,019,247	4,287	10,588,739
Account receivable, net of doubtful accounts:						
Property taxes	-	-	-	26,324	-	26,324
Municipal license	14,185	-	-	-	-	14,185
Construction excise taxes	20,147	-	-	-	-	20,147
Sales and use tax	74,735	-	-	65,248	-	139,983
Interest	24,715	-	-	-	-	24,715
Due from other funds	2,952,945	-	329,465	-	-	3,282,410
Due from component units	160,000	-	-	-	-	160,000
Due from governmental entities	278,696	2,165,066	43,541	-	188,084	2,675,387
<b>Total assets</b>	<b>\$ 5,019,276</b>	<b>\$ 3,153,857</b>	<b>\$ 7,151,078</b>	<b>\$ 5,110,819</b>	<b>\$ 1,844,307</b>	<b>\$ 22,279,337</b>
<b>LIABILITIES</b>						
Accounts payable	692,886	1,057,213	1,336,235	-	439	3,086,773
Intergovernmental payable	316,329	-	-	-	-	316,329
Due to other funds	329,465	1,708,598	688,749	-	555,598	3,282,410
Due to component units	60,984	-	-	-	90,000	150,984
Unearned revenue	972,283	388,046	-	-	-	1,360,329
<b>Total liabilities</b>	<b>2,371,947</b>	<b>3,153,857</b>	<b>2,024,984</b>	<b>-</b>	<b>646,037</b>	<b>8,196,825</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue	154,280	-	-	-	-	154,280
<b>Total deferred inflows of resources</b>	<b>154,280</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>154,280</b>
<b>FUND BALANCES</b>						
Fund balance:						
Nonspendable	160,000	-	-	-	-	160,000
Restricted	1,622	-	4,428,847	5,110,819	745,940	10,287,228
Committed	151,466	-	697,247	-	452,330	1,301,043
Unassigned	2,179,961	-	-	-	-	2,179,961
<b>Total fund balances</b>	<b>2,493,049</b>	<b>-</b>	<b>5,126,094</b>	<b>5,110,819</b>	<b>1,198,270</b>	<b>13,928,232</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,019,276</b>	<b>\$ 3,153,857</b>	<b>\$ 7,151,078</b>	<b>\$ 5,110,819</b>	<b>\$ 1,844,307</b>	<b>\$ 22,279,337</b>

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

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

	<b>MAJOR FUNDS</b>						
	General Fund	Special Revenue Fund - Federal Grants	Capital Project Fund -		Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
			State & Local Grants	-			
<b>REVENUES</b>							
Taxes:							
Property taxes	\$ 2,644,149	\$ -	\$ -	\$ 1,250,584	\$ -	\$ -	\$ 3,894,733
Municipal license	1,387,988	-	-	-	-	-	1,387,988
Construction excise taxes	419,128	-	-	-	-	-	419,128
Sales and use tax	946,434	-	-	689,626	-	-	1,636,060
Charges of service	198,113	-	-	-	30,267	-	228,380
Intergovernmental grants and contributions:							
Federal government	-	4,693,219	-	-	294,807	-	4,988,026
State government	6,641,682	415	2,536,882	-	1,276,258	-	10,455,237
Investment earnings	391,580	-	-	-	-	-	391,580
Miscellaneous	730,441	-	29,559	-	73,289	-	833,289
<b>Total Revenues</b>	<u>13,359,515</u>	<u>4,693,634</u>	<u>2,566,441</u>	<u>1,940,210</u>	<u>1,674,621</u>	<u>-</u>	<u>24,234,421</u>
<b>EXPENDITURES</b>							
Current:							
General government	5,644,951	-	-	-	447	-	5,645,398
Health and welfare	500,333	1,570,066	-	-	345,946	-	2,416,345
Public works	3,839,223	166,710	541,710	-	162,665	-	4,710,308
Public safety	792,011	104,269	-	-	11,875	-	908,155
Culture, recreation and education	903,149	2,168,901	832,520	-	1,024,521	-	4,929,091
Community development	146,712	683,688	444,916	-	-	-	1,275,316
Urban and economic development	483,271	-	5,440,169	-	348,434	-	6,271,874
Debt service:							
Principal	-	-	829,875	1,064,835	-	-	1,894,710
Interest	-	-	170,126	1,086,883	-	-	1,257,009
<b>Total Expenditures</b>	<u>12,309,650</u>	<u>4,693,634</u>	<u>8,259,316</u>	<u>2,151,718</u>	<u>1,893,888</u>	<u>-</u>	<u>29,308,206</u>
<b>Excess (Deficiency) of Revenues over expenditu</b>	<u>1,049,865</u>	<u>-</u>	<u>(5,692,875)</u>	<u>(211,508)</u>	<u>(219,267)</u>	<u>-</u>	<u>(5,073,785)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfer in from other funds	-	-	1,571,442	641,482	-	-	2,212,924
Transfer out to other funds	(1,589,627)	-	-	(623,297)	-	-	(2,212,924)
Special Item-sale of capital assets held for sale	782,984	-	74,998	-	-	-	857,982
<b>Total Other Financing Sources (uses)</b>	<u>(806,643)</u>	<u>-</u>	<u>1,646,440</u>	<u>18,185</u>	<u>-</u>	<u>-</u>	<u>857,982</u>
<b>NET CHANGE IN FUND BALANCES</b>	243,222	-	(4,046,435)	(193,323)	(219,267)	-	(4,215,803)
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>2,249,827</u>	<u>-</u>	<u>9,172,529</u>	<u>5,304,142</u>	<u>1,417,537</u>	<u>-</u>	<u>18,144,035</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 2,493,049</u>	<u>\$ -</u>	<u>\$ 5,126,094</u>	<u>\$ 5,110,819</u>	<u>\$ 1,198,270</u>	<u>\$ -</u>	<u>\$ 13,928,232</u>

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

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

Aggregate fund balance reported in the balance sheet - governmental funds	\$ 13,928,232
Governmental activities' amounts reported in the statement of net assets and the balance sheet - governmental funds are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, therefore, are not reported in the governmental funds	41,774,820
Certain revenue streams recorded in the statement of activities do not necessarily provide current financial resources, therefore, sometimes are deferred in the governmental funds. This is the net change in deferred inflows of resources items, that are measurable but not available at fiscal year end.	1,349,027
Capital asset held for sale reported 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 asset held for sale at June 30, 2015.	154,280
Deferred outflows for pensions are reported in the statement of net position but are not reported in the governmental funds	1,329,842
Deferred inflows for pensions are reported in the statement of net position but are not reported in the governmental funds	(222,259)
The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:	
Bonds payable	(23,054,660)
Net pension liability	(27,773,939)
Note payable to GDB - line of credit	(521,395)
Notes payable to CRIM	(1,050,633)
Compensated absences	(1,568,148)
Accrued interest payable on long-term debt	<u>(640,454)</u>
Net position as reported in the accompanying statement of net position	<u>\$ 3,704,713</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
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

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Net change in fund balances- total governmental funds \$ (4,215,803)

Governmental activities amounts reported in the statement of activities and the statement of Revenues, expenditures and changes in fund balances governmental funds are different because:

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognize for transactions that are not normally paid with expendable financial resources. In the Statements of Activities , however, wich is presented in the accrual basis, expenses and liabilities are presented regardless of when financial resources are available:

Net change in accrued interest payable on long-term debt	(2,540)
Net change in compensated absences liability	(107,665)
Net change in notes payable to CRIM	35,363
Pension expenses	(1,592,795)

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expenses. This the amount by which capital outlays exceed depreciation expenses. 6,175,592

Governmental funds report investments in real estate held for sale as expenditures. However in the statement of activities, the cost of those assets is capitalized until sold. This the amount invested in real estate held for sale. 272,816

Repayment of principal of long-term obligations is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets 1,894,710

Certain deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities. This is the deferred inflows of resource (earned and unavailable revenues) for revenue streams that are measurable but not available at June 30, 2015. 154,280

Retirement Contributions (excluding internal service funds) to defined benefit pension plans in the current fiscal year are not included on the Statement of Activities. 381,843

Proceeds from sale of real estate held for sale are recorded as other financing sources in the fund financial statements, but the issuances decrease the real estate held for sale asset in the statement of net assets (857,982)

Net changes in net assets reported in the accompanying statements of activities \$ 2,137,819

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Combining Statement of Net Position  
Major Component Units  
Fiscal Year Ended June 30, 2015

	Component Units								All Component Units Total
	Municipal Enterprise "Mantenimiento y Ornato"	Municipal Enterprise "Piscinas Aguas Termales"	Municipal Enterprise "Teatro Hollywood"	Municipal Enterprise "Todo Deporte"	Municipal Enterprise "Servicios de Seguridad"	Municipal Enterprise "Centro de Convenciones"	Municipal Enterprise "Agrícola Illescana"	Municipal Enterprise "Restuarante el Mirador"	
<b>Assets</b>									
<b>Current assets:</b>									
Cash in commercial banks	\$ 785,089	\$ 75,973	\$ 45,764	\$ 3,717	\$ 407	\$ 93,057	\$ 536	\$ 789	\$ 1,005,332
Accounts receivable, net of allowance for doubtful accounts:									
Trade	-	-	-	-	2,901	-	-	15,000	17,901
Intergovernmental	280,211	-	-	-	5,984	-	-	-	286,195
Affiliated entities	-	-	-	600	3,414	-	-	-	4,014
Loan receivable	45,077	-	-	-	-	-	-	-	45,077
Inventories	-	7,216	19,280	49,314	-	-	-	-	75,810
Total current assets	<u>1,110,377</u>	<u>83,189</u>	<u>65,044</u>	<u>53,631</u>	<u>12,706</u>	<u>93,057</u>	<u>536</u>	<u>15,789</u>	<u>1,434,329</u>
<b>Noncurrent assets:</b>									
Capital assets, net of accumulated depreciation of \$70,597	<u>274,989</u>	<u>9,555</u>	<u>48,530</u>	<u>33,051</u>	<u>-</u>	<u>10,369</u>	<u>-</u>	<u>-</u>	<u>376,494</u>
Total noncurrent assets	<u>274,989</u>	<u>9,555</u>	<u>48,530</u>	<u>33,051</u>	<u>-</u>	<u>10,369</u>	<u>-</u>	<u>-</u>	<u>376,494</u>
<b>Total assets</b>	<u>\$ 1,385,366</u>	<u>\$ 92,744</u>	<u>\$ 113,574</u>	<u>\$ 86,682</u>	<u>\$ 12,706</u>	<u>\$ 103,426</u>	<u>\$ 536</u>	<u>\$ 15,789</u>	<u>\$ 1,810,823</u>
<b>Current Liabilities:</b>									
Accounts payable									
Suppliers	\$ 8,064	\$ 21,332	\$ 29,004	\$ 9,015	\$ -	\$ 9,796	\$ 590	\$ -	\$ 77,801
Affiliated entities	-	2,657	926	431	-	-	-	-	4,014
Intergovernmental	-	4,206	43	-	-	-	-	-	4,249
Customer deposits	-	-	-	-	-	7,431	-	-	7,431
Unearned revenues	-	-	-	-	-	18,955	-	-	18,955
Accrued liabilities	<u>11,307</u>	<u>3,615</u>	<u>4,028</u>	<u>1,743</u>	<u>4,414</u>	<u>1,072</u>	<u>411</u>	<u>-</u>	<u>26,590</u>
Total current liabilities	<u>19,371</u>	<u>31,810</u>	<u>34,001</u>	<u>11,189</u>	<u>4,414</u>	<u>37,254</u>	<u>1,001</u>	<u>-</u>	<u>139,040</u>
<b>Noncurrent liabilities:</b>									
Due within one year	-	-	4,563	-	-	-	-	-	4,563
Due in more than one year	<u>-</u>	<u>20,000</u>	<u>63,892</u>	<u>91,000</u>	<u>10,000</u>	<u>-</u>	<u>2,077</u>	<u>30,000</u>	<u>216,969</u>
Total noncurrent liabilities	<u>-</u>	<u>20,000</u>	<u>68,455</u>	<u>91,000</u>	<u>10,000</u>	<u>-</u>	<u>2,077</u>	<u>30,000</u>	<u>221,532</u>
<b>Total liabilities</b>	<u>19,371</u>	<u>51,810</u>	<u>102,456</u>	<u>102,189</u>	<u>14,414</u>	<u>37,254</u>	<u>3,078</u>	<u>30,000</u>	<u>360,572</u>
<b>Net position:</b>									
Invested in capital assets, net of related debt	274,989	9,555	48,530	33,051	-	10,369	-	-	376,494
Restricted for:									
Unrestricted (deficit)	<u>1,091,006</u>	<u>31,379</u>	<u>(37,412)</u>	<u>(48,558)</u>	<u>(1,708)</u>	<u>55,803</u>	<u>(2,542)</u>	<u>(14,211)</u>	<u>1,073,757</u>
<b>Total net position</b>	<u>\$ 1,365,995</u>	<u>\$ 40,934</u>	<u>\$ 11,118</u>	<u>\$ (15,507)</u>	<u>\$ (1,708)</u>	<u>\$ 66,172</u>	<u>\$ (2,542)</u>	<u>\$ (14,211)</u>	<u>\$ 1,450,251</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Combining Statement of Activities  
Major Component Units  
Fiscal Year Ended June 30, 2015

Functions/programs	Expenses	Program Revenues			Changes in Net Position	Net Position, Beginning of Year	Net Position, End of Year
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
<b>MAJOR COMPONENT UNITS:</b>							
Municipal Enterprise "Mantenimiento y Ornato"	\$ 204,953	\$ 1,088,622	\$ -	\$ -	\$ 883,669	\$ 482,326	\$ 1,365,995
Municipal Enterprise "Piscinas Aguas Termales"	116,540	147,196	-	-	30,656	10,278	40,934
Municipal Enterprise "Teatro Hollywood"	112,191	56,097	-	-	(56,094)	67,212	11,118
Municipal Enterprise "Todo Deporte"	24,442	11,517	-	-	(12,925)	(2,582)	(15,507)
Municipal Enterprise "Servicios de Seguridad"	5,433	8,839	-	-	3,406	(5,114)	(1,708)
Municipal Enterprise "Centro de Convenciones"	68,457	134,629	-	-	66,172	-	66,172
Municipal Enterprise "Agrícola Illescana"	2,510	-	-	-	(2,510)	(32)	(2,542)
Municipal Enterprise "Restuarante el Mirador"	128	308	-	-	180	(14,391)	(14,211)
<b>TOTAL MAJOR COMPONENT UNITS</b>	<b>\$ 534,654</b>	<b>\$ 1,447,208</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 912,554</b>	<b>\$ 537,697</b>	<b>\$ 1,450,251</b>

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

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

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**1. Summary of Significant Accounting Policies**

The Municipality of Coamo (the Municipality) is a local municipal government constituted in 1579 in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Law 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 municipal governments legally separated from the state government of the Commonwealth of Puerto Rico.

The Constitution of the Commonwealth 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, 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 of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality at 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). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2015 in conformity with GAAP.

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 (FFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of: (1) a Management's Discussion and Analysis (MD&A), (2) a general fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end and, (3) a pension plan and employer trend information related to the net pension liability and employer contributions. RSI is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements. MD&A is a narrative report that introduces the accompanying basic financial

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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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.

In addition to the required financial reporting requirements referred to above, the accompanying basic financial statements are accompanied by additional supplementary information consisting of a budgetary comparison schedule – general fund and the notes to the budgetary comparison schedule – general fund, which have been subjected to the auditing procedures applied in the audit of the accompanying basic financial statements as of and for the fiscal year ended June 30, 2015, and a pension plan and employer trend information related to the Municipality's proportionate share of the net pension liability and annual contributions.

**b) *Financial Reporting Entity***

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality of Coamo. In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow:

- The organization is legally separate entity;
- The Municipality appoints a voting majority of the organization's board;
- There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are required to be included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality:

- The organization's governing body is substantively the same as the Municipality's governing body and (1) there is a financial benefit or burden relationship between the Municipality and the organization, or (2) management of the Municipality has operational responsibility for the organization;
- The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it;
- The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is based on the nature and significance of the organization's relationship with the Municipality.

Based on the application of the criteria outlined above, the following are considered component units of the Municipality: Municipal Enterprise "Piscinas Aguas Termales", Municipal Enterprise "Teatro Hollywood", Municipal Enterprise "Restaurante el Mirador", Municipal Enterprise "Mantenimiento y Ornato", Municipal Enterprise "Agrícola Illescana", Municipal Enterprise "Todo Deportes", Municipal Enterprise "Servicios de Seguridad" and Municipal Enterprise "Centro de Convenciones". Each of these organizations is a legally separate entity with a governing board that is appointed by the Mayor, with the advice and consent of the Municipal Legislature. In addition, with respect to each of these entities, one or both of the following conditions exist: (a) there is a financial benefit or burden relationship between the Municipality and the organization or (b) the Municipality is able to impose its will on the organization. Each organization's relationship with the Municipality is discussed briefly below:

- **Municipal Enterprise "Piscinas Aguas Termales"** – This is a for profit organization engaged in the administration of natural thermal springs pools and miscellaneous shops located within the Municipality. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy-five percent (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities have been conducted in a Municipality's facility, as required by law.
- **Municipal Enterprise "Teatro Hollywood"** – This is a for profit organization engaged in the cinema businesses. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy-five percent (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities have been conducted in a Municipality's facility, as required by law.
- **Municipal Enterprise "Restaurante el Mirador"** – This is a for profit organization engaged in the full service restaurant businesses. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy-five percent (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities have been conducted in a Municipality's facility, as required by law.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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- **Municipal Enterprise “Mantenimiento y Ornato”** – This is a for profit organization engaged in the public and private properties maintenance services businesses. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy-five percentages (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities has been conducted in a Municipality’s facility, as required by law.
  
- **Municipal Enterprise “Agrícola Illescana”** – This is a for profit organization engaged in the agriculture businesses. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy-five percentages (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities has been conducted in a Municipality’s facility, as required by law.
  
- **Municipal Enterprise “Todo Deportes”** – This is a for profit organization engaged in the sport shop retail businesses. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy-five percentages (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities has been conducted in a Municipality’s facility, as required by law.
  
- **Municipal Enterprise “Servicios de Seguridad”** – This is a for profit organization engaged in the public and private properties security services businesses. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy-five percentages (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities has been conducted in a Municipality’s facility, as required by law.
  
- **Municipal Enterprise “Centro de Convenciones”** – This is a for profit organization engaged in the administration and operation of a convention center. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy-five percentages (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities has been conducted in a Municipality’s facility, as required by law.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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The financial data for these organizations is presented as a total in a separate column in the government-wide financial statements to emphasize that these entities are legally separate from the Municipality. In addition, detailed financial data for each organization is presented in separated columns or rows in the combining statement of net position – major component units, and in the combining statement of activities – major component units.

Complete financial statements of the discretely presented component units can be obtained from the Administrative Office of Municipal Enterprises of Coamo, PO Box 480, Coamo, PR 00769. The financial statements of the discretely presented component units have a year end of June 30, 2015.

*c) Government-Wide Financial Statements*

The government-wide financial statements (the statement of net position and the statement of activities) report information of all of the governmental activities of the Municipality and its component units. The effect of interfund activity has been removed from these government wide financial statements (GWFS). Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net position presents the reporting entities' assets plus deferred outflows of resources less liabilities plus deferred inflow of resources equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is reported in 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, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net position** – This net position category consists of net resources restricted by external parties (such as 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.
- **Unrestricted net position** – This category consists of the excess of assets over related liabilities that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted net position often are designated to indicate that management does not consider them to be available for general operations. Assets reported

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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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.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenue are reported instead as general revenue (such as property taxes, municipal license taxes, construction excise taxes, etc.). Resources that are dedicated internally are reported as general revenue rather than as program revenue. The Municipality does not allocate general government (indirect) expenses to other functions.

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) public works, (5) culture, recreation and education, (6) health and welfare and (7) community development. 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
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Office of federal programs

**Urban and economic development:**

- Department of planning and economic development

**Public safety:**

- Department of emergency management
- Department of municipal police

**Public works:**

- Department of recycling and environmental services
- Department of public works

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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**Culture, recreation and education:**

Department of sports and recreation  
Department of culture and tourism

**Health and welfare:**

Department of aging and adult services

**Community development:**

Department of citizen affairs

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 three broad categories: (1) program revenues, (2) general revenues and (3) special items.

*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 separately reports the following categories of program revenues:

- **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, rent, 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 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, construction excise taxes and sales and use taxes are reported as general revenues. All other nontax 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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*Special items* consist of revenues arising from significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

*Extraordinary items* consist of revenues arising from significant transactions or other events that are both unusual in nature and infrequent in occurrence.

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 FFS 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.

The Municipality classifies the most significant portion 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 FFS.

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.

The Municipality has operations and 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; and 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) *Fund Financial Statements***

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, deferred outflow of resources, liabilities deferred inflow of resources, 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 FFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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These financial statements report the financial position and results operations of the Municipality's governmental funds and fund types by presenting sources, uses and balances of current and non-current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental fund and fund types, 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 FFS segregate governmental funds and fund types according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds and fund types is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- **General fund** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported 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 all financial resources that are restricted, committed, or assigned to expenditure for 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. 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 obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, and claims and judgments) are only accounted for in the accompanying statement of net position. The debt service payments of such debts, as applicable, are generally accounted for in the general fund.

- **Special revenue funds** – The special revenue funds are major and non-major governmental funds, as defined below, used by the Municipality to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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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 all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for also in the capital projects funds.

The use of the capital projects funds 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 capitalizable 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 FFS is on major governmental funds and fund types, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds and fund types between major and non-major categories within the FFS. Major individual governmental and proprietary funds and fund types are reported individually as separate columns in the FFS, 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 always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the FFS if its total assets, deferred outflow of resources, liabilities, deferred inflow of resources, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, deferred outflow of resources, liabilities, deferred inflow of resources, revenues or expenditures) for all governmental funds. In addition, the same element that meets the 10 percent criterion must be at least 5 percent of the corresponding element total for all governmental and enterprise (proprietary) funds combined. 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\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying FFS are: (1) the general fund, (2) the debt service fund, (3) the special revenue fund-federal grants, and (4) the capital projects fund-state and local grants.

The general fund is the accounting entity used to account for all financial resources and governmental activities not accounted for and reported in another fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and others.

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The special revenue fund – federal grants is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

The capital projects fund – state and local grants is the accounting entity in which revenues derived from local funds and state grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or state statutes.

The debt service fund is the accounting entity in which revenues derived from property and sales taxes are accumulated for the payment of, general long-term debt principal, interest, and related costs.

The accompanying FFS are accompanied by other statements and 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.

*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 rent) 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 certain 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.

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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 nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes 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 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 liability or deferred inflow of resources.

According to GASB No. 34, all general capital assets and the unmatured 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 governmental fund financial statements. Therefore, the accompanying governmental fund financial statements include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the governmental fund financial statements.

**Governmental fund financial statements** – The accompanying governmental fund financial statements 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 (deficits) – 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

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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 considers most revenues to be available if collected generally within 120 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 (earned and unavailable) revenues at June 30, 2015.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise 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 governmental fund financial statements, except for amounts recorded as deferred (earned and unavailable) revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed previously, 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, certain 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 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).

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

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 an 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 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 assets that will be converted into cash to satisfy current liabilities. Long-term assets (except for accounts receivables and inter-fund advances) and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance

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sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured 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 GASBI No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due).
- Notes payable, obligations under capital leases, compensated absences, and amounts subject to accrued claims and judgments under litigation are recorded only when they mature (when payment is due).
- Certain accrued liabilities not due and payable or not normally expected to be liquidated with current 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.
- Executory purchase orders and contracts are recorded as assignments of fund balance in the governmental funds FFS.

The measurement focus of the governmental funds financial statements 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 and the statement of revenues, expenses and changes in fund balances, but are not recorded in the accompanying governmental fund financial statements.

**Discretely Presented Component Units Financial Statements** – The accompanying discretely presented component units' financial statements are reported using the economic measurement focus and the accrual basis of accounting, similar to the government wide financial statements described above. The component units follow GAAP as issued by GASB and FASB as applicable to each component unit based on the nature of their operations.

Discrete presentation of component units is used to present the financial information of entities that do not qualify to be blended, in accordance with GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61, with the funds of the primary government. The component units' column in the government wide financial statements is used to report the financial activities of the Municipality's discretely presented component units. The financial statements of these component units are presented following the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, without regard to receipt or payment of cash.

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*f) Stewardship, Compliance and Accountability*

**Budgetary Control**

According to Law 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 each fiscal year commencing on 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 the immediately preceding May 31. 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 the immediately preceding June 15.

The Municipal Legislature has 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 regulation 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.

The Municipality's Department of Finance 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

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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 function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

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

**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 and debt service funds' original budgets, its amendments, and the actual results of operations of such major 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 Municipality's Computerized Accounting System Reports for the fiscal year ended June 30, 2015.

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 budgetary bases and GAAP actual amounts are presented at the bottom of the budgetary comparison schedules.

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***g) Deposits***

The Municipality's deposits are composed of: (1) cash on hand, (2) demand deposits in commercial banks, (3) demand deposits in the Government Development Bank for Puerto Rico (fiscal agent) and (4) cash equivalents in commercial banks.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations. At June 30, 2015, the cash available in the pooled cash account amounted to \$2,441,007, which has been recorded within major and non-major governmental funds.

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 in commercial banks and cash with fiscal agent of the general fund amounts to \$1,492,231 and \$1,622, respectively, represents the balance of interest bearing and non-interest bearing accounts for operating expenditures.

Cash in commercial banks and cash with fiscal agent of the special revenue fund – federal grants, amounting to \$790,758 and \$198,033, respectively, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain federal financially assisted programs.

Cash in commercial bank and cash with fiscal agent in the capital projects fund – state and local grants, amounting to \$1,412,522 and \$5,365,550, respectively, consists principally of the balance of interest bearing and non-interest bearing accounts related to state and local grants, and unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of major capital assets.

Cash with fiscal agent in the debt service fund consists of cash related to property tax and sales and use tax collections amounting to \$5,019,247 which are restricted for the payment of the Municipality's debt service of bonds payable, as required by law.

Cash in commercial bank in the other governmental funds, amounting to \$1,651,936 and \$4,287, respectively, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain state, federal funded and local financially assisted programs.

***h) Accounts Receivable***

Accounts receivable consist of all revenues earned but not collected at June 30, 2015. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are

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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) Real Estate Held for Sale***

Real estate's held for sale in the accompanying statement of net position consist of a development project for the construction of 44 affordable cost housing units in a project named “Villa Taina”, in Cuyón Ward of the Municipality of Coamo, and the construction of affordable cost housing units in connection with a Main Street revitalization effort. Those real estates' held for sale are carried at the lower of the estimated fair value or historical cost. Subsequent declines in the value of real estate available for sale are charged to expense.

***j) Inventories***

Generally, discretely component units' inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds and in the statement of net position of governmental activities.

***k) Capital Assets***

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position – governmental activities. 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 basis of \$100 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$100 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 expenditures in the corresponding function/program identified with the asset.

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 portion of the infrastructure constructed or acquired prior to June 30, 2003 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, 2003 as well as,

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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 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>
Building and site improvements	50
Infrastructure	50
Work of art	10
Vehicles	7
Furniture and fixtures	5 to 20
Machinery and equipment	5 to 20

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.

***l) Unearned Revenues***

In the governmental fund financial statements, unearned revenue arises when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net position).

***m) Deferred Outflow/Inflow of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Primary Government have one major item that qualify for reporting in this category and that one is the deferred outflows for pensions (i.e., difference between actual and expected experience, change in

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proportion, differences between employer's contributions and proportionate share of contributions, and contributions subsequent to the measurement date), reported in the government-wide statement of net position. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the statement of net position and the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Primary Government has only one type of item arising under the modified accrual basis of accounting that qualify for reporting in this category, and that is unavailable revenue. Deferred inflows of resources at the governmental fund level arise when potential revenue does not meet the "available" criteria for revenue recognition in the current period under the modified accrual basis of accounting. In subsequent periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet, and the revenue is recognized. The Primary Government also have one item that qualifies for reporting in this category in the government wide Statement of Net Position and that one is the deferred inflows for pensions (i.e., difference between actual and expected experience, net difference between projected and actual earnings on pension plan investments, change in proportion, and differences between employer's contributions and proportionate share of contributions).

*n) Compensated Absences*

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.

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 fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal 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 fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal 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

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

***o) 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 accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. In the governmental fund financial statements, the face amount of debt issued (gross debt proceeds) is reported as other financing sources when issued.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net position, such notes payables are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes.

***p) Accounting for Pension Costs***

The Municipality adopted the provisions of GASBS No. 68, Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27, and GASBS No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which amended GASBS No.68.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, the net pension liability, pension expense and deferred outflows/inflows of resources recognized in the accompanying basic financial statements are equal to the Municipality's proportionate shares of the collective net pension liability, pension expense and collective deferred outflows/inflows of resources reported for the pension plans' trust by the plan's administrator as of the measurement date. In addition, if the Municipality's annual contributions are less than the statutorily required amounts, a liability is recorded for any unpaid balances.

For the purpose of applying the requirements of GASBS Nos. 68 and 71, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a multi-employer hybrid defined contribution plan in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of

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Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported by the ESR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**q) Risk Management**

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Municipality. The Municipality pays the insurance premiums each fiscal 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 acronym), 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, by its Spanish acronym), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2015 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 a health insurance company for its employees. Different health insurance coverage and premium options are negotiated each year by the Municipality. The current insurance policies have not been cancelled 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.

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**r) Fund Balances**

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

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned, and unassigned, based on the relative strength of constraints that control how specific amounts can be spent. The Municipality has recorded the following types of fund balance classifications in the governmental funds:

- ***Nonspendable*** – Represent resources that are not in a spendable form or contractually required to be maintained intact.
- ***Restricted*** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditor 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.
- ***Committed*** – Represent resources used for specific purposes, imposed by formal action of the Municipal’s highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- ***Assigned*** – Represent resources 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 approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ***Unassigned*** – Represent the residual classification for the Municipality’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts is restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

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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.

When expenditure is incurred for purposes 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.

s) ***Inter-fund and Intra-entity Transactions***

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 resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as “*due from*” in the lender governmental fund and “*due to*” in the borrower governmental fund. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a “*transfer-in*” from the governmental fund that provided the loan.
- ***Inter-fund transfers (transfers-in/(out))*** – 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. Transfers are reported as “*other financing uses*” in the governmental fund making transfers and as “*other financing sources*” in the governmental fund receiving transfers.
- ***Inter-fund reimbursements*** – Represent repayments (reimbursements) 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.

Also, the Municipality has the following type of intra-entity transactions recorded among primary government and component units in the accompanying GFFS:

- ***Intra-entity transactions*** – Represent the flow of resources between the primary government and its component units, and among component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as inter-fund activity, as described above.

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*t) 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, deferred outflow of resources, liabilities and deferred inflow of resources, 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.

*u) Future Adoption of Accounting Pronouncements*

The GASB has issued the following standards that have effective dates after June 30, 2015:

- GASB Statement No. 72 Fair Value Measurement and Application (Issued 2/15). The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.
- 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 (Issued 06/15). The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.
- GASB Statement No. 74 Financial Reporting for Postemployment Benefit Plans other than Pension Plans (Issued 06/15). The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.
- GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Issued 06/15). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves

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information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

- GASB Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Issued 06/15). The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.
- GASB Statement No. 77 Tax Abatement Disclosures (Issued 08/15). The objective of this Statement is to require disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.
- GASB Statement No. 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15). The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- GASB Statement No. 79 Certain External Investment Pools and Pool Participants (Issued 12/15). This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- GASB Statement No. 80 Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 (Issued 01/16). The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

The impact of these statements on the Municipality's basic financial statements has not yet been determined.

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## 2. Deposits

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

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, (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, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.
- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$10,588,739 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

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

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

### **3. Municipal License Taxes**

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Coamo. 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 and due five (5) working days after April 15 of each year, 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 before the due date ended five (5) working days after April 15 of each year. 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 (five (5) working days after April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any revenue collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenue in the GWFS and the general fund. Unearned municipal license tax revenues recorded in the accompanying GWFS and the general fund amounted to \$972,283 at June 30, 2015. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2015-2016, therefore, cannot be used to pay obligations of the fiscal year 2014-2015.

### **4. Sales and Use Taxes**

On July 4, 2006, the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

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On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80), which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007, 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

Effective January 1, 2011, the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050, the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

On June 30, 2013, the Commonwealth approved Act No. 40 which, among other things, reduces the municipal sales and use tax from 1.5% to 1% and increases the Commonwealth's sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances.

Act No. 18 creates a special fund called the Municipal Administration Fund (FAM), under the custody of the Government Development Bank of Puerto Rico (GDB), which permits the municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

After July 1, 2014, the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, the Commonwealth will deposit .5% in the FAM. Distribution to the

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municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Coamo signed the agreement to be covered.

For municipalities covered by the agreement, the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities have the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long-term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

Act No. 19 creates the Municipal Finance Corporation (COFIM), a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax of 1%. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

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If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

Individuals, organizations and entities subject to the collection of the municipal sales and use tax must file a tax return to COFIM. The tax is due on or before the 20th day of each month based on the tax collected in the preceding month. COFIM has provided retailers three alternatives for the filling of the monthly return: 1) electronic filling through COFIM's internet portal; 2) in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico; and 3) in the collections offices of the municipalities that have been certified as collection agents of COFIM.

COFIM established a system of monthly advances for the transfers of the .2% destined for the Municipal Development Fund (FDM), the .2% related to the Municipal Redemption Fund (FRM) and the 1% of municipal sales and use tax. Each month, the GDB will make the FDM, FRM and 1% sales and use tax transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM, FRM and the 1% sales and use tax with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances.

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the Municipality of Coamo, the implementation date was February 1, 2015. For the fiscal year ended on June 30, 2015, the Municipality's total 1% sales and use tax advances amounted \$392,731, respectively. The GDB has not yet issued a final settlement for the advances made in the 2014-15 fiscal year.

## **5. Property Taxes**

The Municipality is authorized by Law 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 estimated market prices).

The Municipal Revenue Collection Center (CRIM, by its Spanish acronym) is a governmental entity not related to the Municipality which is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality and all other municipalities in the Commonwealth of Puerto Rico. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds (estimated collections) to the Municipality based on the initial estimated (forecasted) collection amounts for the fiscal year. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on

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a final basis not later than December 31 following the fiscal year end. If in any given fiscal year, CRIM remits to the Municipality property tax advances that are less than the property taxes actually collected by CRIM on behalf of the Municipality, then CRIM will increase the amount of the monthly property tax advances during the next fiscal year. However, if advances exceed the amount actually collected by CRIM, then CRIM will reduce the amount of the monthly property tax advances during the next fiscal year.

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 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2015 was 6.58 percent (of which taxpayers pay 6.38 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2015 was 8.58 percent (of which 8.33 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.

According to Law No. 81, included within the total personal and real property tax rates of 6.58 percent and 8.58 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth of Puerto Rico but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the debt service fund of the Commonwealth of Puerto Rico, for the payment of the general long-term debt of the state government.

In addition, included within the total personal and real property tax rates of 6.58 percent and 8.58 percent, respectively, there is a portion of the tax rate in the amount of 1.75 percent that is restricted for the Municipality's debt service requirements of bonds. Such amounts are recorded in the Municipality's debt service fund.

The portion of the property taxes recorded in the general fund is used to finance the operating activities of the Municipality, including the payment of: (1) the insurance premiums directly from private insurance companies, (2) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM's operating expenses, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Puerto Rico Department of Treasury as a subsidy is recorded in the Municipality's general fund.

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

- Thirty-five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of Puerto Rico, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth of Puerto Rico. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

At June 30, 2015, property taxes receivable recorded in the debt service fund amounted to \$26,324.

**6. Accounts Payable and Accrued Liabilities**

The composition of accounts payable and accrued liabilities balances at June 30, 2015 and for the fiscal year then ended is as follows:

<b>Descriptions:</b>	<b>Major governmental funds</b>				<b>Total governmental funds</b>
	<b>General fund</b>	<b>Special revenue fund – federal grants</b>	<b>Capital projects fund – State &amp; local grants</b>	<b>Other nonmajor funds</b>	
Accounts payable	\$ 552,857	\$ 1,057,213	\$ 1,336,235	\$ 439	\$ 2,946,744
Accrued liabilities	140,029	-	-	-	140,029
Total	<u>\$ 692,886</u>	<u>\$ 1,057,213</u>	<u>\$ 1,336,235</u>	<u>\$ 439</u>	<u>\$ 3,086,773</u>

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

**7. Intergovernmental Receivables and Payables**

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows:

	<b>Major Governmental Funds</b>	<b>Other governmental Funds</b>	<b>Total governmental funds</b>	<b>Statement of net Assets</b>
Intergovernmental receivables:				
Entity or Program:				
Puerto Rico Office of the Commissioner of Municipal Affairs	\$ 422,315	\$ 11,875	\$ 434,190	\$ 434,190
Puerto Rico Department of Education	661,418	-	661,418	661,418
Puerto Rico Office for the Improvement of Public Schools	43,541	5,812	49,353	49,353
U.S. Department of Housing and Urban Development	17,386	-	17,386	17,386
Government Development Bank for Puerto Rico	408,844	-	408,844	408,844
U.S. Department of Agriculture	28,433	-	28,433	28,433
Puerto Rico Administration for Children and Families	49,999	-	49,999	49,999
Puerto Rico Public Housing Administration	684,604	-	684,604	684,604
Puerto Rico Governor's Office - Elderly Affairs	41,867	-	41,867	41,867
Puerto Rico Emergency Management Office	17,182	-	17,182	17,182
Local Workforce Development Area of South-Central	21,718	-	21,718	21,718
Puerto Rico Municipal Revenue Collection Center	89,996	-	89,996	89,996
Puerto Rico Economic Development and Commerce Department – Youth Programs	-	21,554	21,554	21,554
Puerto Rico Department of Labor	-	148,843	148,843	148,843
Total intergovernmental receivables	<u>\$ 2,487,303</u>	<u>\$ 188,084</u>	<u>\$ 2,675,387</u>	<u>\$ 2,675,387</u>
Intergovernmental payables:				
Payroll (general fund):				
Puerto Rico Department of Labor	\$ 8,608	\$ -	\$ 8,608	\$ 8,608
Utilities and Others (general fund):				
Puerto Rico Aqueduct and Sewer Authority	304,809	-	304,809	304,809
Puerto Rico General Services Administration	2,912	-	2,912	2,912
Total intergovernmental payables	<u>\$ 316,329</u>	<u>\$ -</u>	<u>\$ 316,329</u>	<u>\$ 316,329</u>

Intergovernmental receivables and payables represent the pending settlements of the aforementioned intergovernmental transactions.

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

**8. Inter-fund and Intra-entity Transactions**

*a) Inter-fund Transaction*

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

Due/to:	Due from:		
	General fund	Other nonmajor funds	Total governmental funds
Special revenue fund – federal grants	\$ 1,708,598	\$ -	\$ 1,708,598
Capital projects fund – state & local grants	688,749	-	688,749
Other nonmajor funds	555,598	-	555,598
General fund		329,465	329,465
Total	\$ 2,952,945	\$ 329,465	\$ 3,282,410

Transfers in:	Transfers out:		
	General fund	Debt service fund	Total governmental funds
Debt service fund	\$ 641,482	\$ -	\$ 641,482
Capital projects fund – state & local grants	948,145	623,297	1,571,442
Total	\$ 1,589,627	\$ 623,297	\$ 2,212,924

The principal purposes of inter-fund receivables and payables are:

- Recognize in the general fund the outstanding balance of the loans granted to special revenue fund – federal grants, capital project fund – state and local grants, and non-major funds to temporarily cover the payroll and other operating costs of several federally and state funded programs.

The principal purposes of inter-fund transfers are to:

- Make a routinely transfer of resources from the general fund to the debt service fund to cover the principal and interest payment on certain bond. These debt service payments were made on January and July 2015.
- Make a non-routinely transfer of resources (general fund unassigned fund balance) from the general fund to a capital project governmental fund to cover specific capital project and other costs.
- Make a non-routinely transfer of resources (deb service fund unassigned fund balance surplus) from the debt service fund to a capital project governmental fund to cover specific capital project and other costs.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers at June 30, 2015.

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**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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**a) Intra-entity Transaction**

Due from component units at June 30, 2015 are as follows:

<b>Payable Entity:</b>	<b>Receivable Entity:</b>	
	<b>General fund</b>	<b>Total due from component units</b>
Municipal Enterprise "Piscinas Aguas Termales"	\$ 20,000	\$ 20,000
Municipal Enterprise "Teatro Hollywood"	40,000	40,000
Municipal Enterprise "Todo Deporte"	60,000	60,000
Municipal Enterprise "Servicios de Seguridad"	10,000	10,000
Municipal Enterprise "Restaurante el Mirador"	30,000	30,000
Total	<u>\$ 160,000</u>	<u>\$ 160,000</u>

Due to component units at June 30, 2015 are as follows:

<b>Payable Entity:</b>	<b>Receivable Entity:</b>		
	<b>Municipal Enterprise "Mantenimiento y Ornato"</b>	<b>Municipal Enterprise "Servicios de Seguridad"</b>	<b>Total due to component units</b>
General fund	\$ 55,000	\$ 5,984	\$ 60,984
Other nonmajor funds	90,000	-	90,000
Total	<u>\$ 145,000</u>	<u>\$ 5,984</u>	<u>\$ 150,984</u>

The principal purposes of intra-entity receivables and payables are:

- Recognize in the general fund the outstanding balance of the loans granted to components units to finance its operations.
- Recognize in the component units the outstanding balances of accounts receivable from the primary government for good supplied or services rendered to the primary government.

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

**2. Capital Assets**

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

**a) Governmental Activities**

	<b>Cost basis at beginning of fiscal year</b>	<b>Additions</b>	<b>Reductions/ Reclassifications</b>	<b>Cost basis at end of fiscal year</b>
<i>Cost basis:</i>				
Capital assets, not being depreciated:				
Land	\$ 4,484,978	\$ -	\$ -	\$ 4,484,978
Construction in progress	2,085,654	5,419,246	(2,085,654)	5,419,246
Total capital assets, not being depreciated	<u>6,570,632</u>	<u>5,419,246</u>	<u>(2,085,654)</u>	<u>9,904,224</u>
Capital assets, being depreciated:				
Buildings, structures, and improvements	33,902,128	487,573	2,085,654	36,475,355
Infrastructure	1,216,116	-	-	1,216,116
Machinery and equipment, and furniture and fixtures	2,986,561	847,700	-	3,834,261
Licensed vehicles	4,345,337	421,472	-	4,766,809
Total capital assets, being depreciated	<u>42,450,142</u>	<u>1,756,745</u>	<u>2,085,654</u>	<u>46,292,541</u>
Total cost basis of capital assets	<u>\$ 49,020,774</u>	<u>\$ 7,175,991</u>	<u>\$ -</u>	<u>\$ 56,196,765</u>
	<b>Accumulated Depreciation at beginning of fiscal year</b>	<b>Additions</b>	<b>Reductions/ Reclassifications</b>	<b>Accumulated Depreciation at end of fiscal year</b>
Accumulated depreciation:				
Buildings, structures, and improvements	\$ 8,924,126	574,878	\$ -	\$ 9,499,004
Infrastructure	364,835	60,806	-	425,641
Machinery and equipment, and furniture and fixtures	1,012,023	214,014	-	1,226,037
Licensed vehicles	3,120,562	150,701	-	3,271,263
Total accumulated depreciation	<u>13,421,546</u>	<u>1,000,399</u>	<u>-</u>	<u>14,421,945</u>
Net capital assets, governmental activities	<u>\$ 35,599,228</u>	<u>\$ 6,175,592</u>	<u>\$ -</u>	<u>\$ 41,774,820</u>

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2015.

The infrastructure assets recorded in the accompanying statement of net position do not include a substantial portion of the Municipality's general infrastructure assets that were constructed or acquired by the Municipality from 1980 through June 30, 2015.

Several real property assets, including buildings, structures, land and land improvements have not been recorded in the accompanying statement of net position at June 30, 2015.

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

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

General government	\$ 90,408
Public safety	48,512
Economic and urban development	192,811
Health and welfare	22,127
Community development	31,473
Public works	215,751
Culture, recreation, and education	399,317
Total depreciation and amortization expense	\$ 1,000,399

**3. Unearned Revenues**

At June 30, 2015, unearned revenues recorded as liabilities in the GWFS and the governmental fund financial statements are as follows:

	General fund	Special revenue fund federal grants	Total governmental funds	Statement of net assets
<i>Unearned revenues:</i>				
Municipal licenses	\$ 972,283	\$ -	\$ 972,283	\$ 972,283
Intergovernmental grants and contributions	-	388,046	388,046	388,046
Total unearned revenues	\$ 972,283	\$ 388,046	\$ 1,360,329	\$ 1,360,329

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

**4. Long-Term Obligations**

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

	<b>Balance at beginning of fiscal year (as restated)</b>	<b>Borrowings Or additions</b>	<b>Payments And Deductions</b>	<b>Balance at end of fiscal year</b>	<b>Balance due within one year</b>
<i><b>Governmental activities:</b></i>					
<b>Bonds payable:</b>					
General and public obligation serial bonds	\$ 24,119,495	\$ -	\$ 1,064,835	\$ 23,054,660	\$ 939,835
<b>Notes payable:</b>					
Municipal Revenue Collection Center:					
Law No. 42 of January 26, 2000	625,997	-	18,843	607,154	20,027
Law No. 146 of October 11, 2001 – Delinquent property tax accounts sold	297,365	-	16,520	280,845	16,520
Final settlement – fiscal year 13-14	162,634	-	-	162,634	162,634
Saving and Loans Cooperatives Consortium:					
Interim construction loan for construction of affordable cost housing units	829,878	-	829,878	-	-
Puerto Rico Government Development Bank:					
Line of credit for construction of affordable cost housing units	521,395	-	-	521,395	521,395
<b>Net pension liability</b>	25,704,651	2,069,288	-	27,773,939	-
<b>Compensated absences</b>	1,460,483	1,023,137	915,472	1,338,525	1,000,000
Totals for governmental activities	<u>\$ 53,721,898</u>	<u>\$ 3,092,425</u>	<u>\$ 2,845,548</u>	<u>\$ 53,739,152</u>	<u>\$ 2,660,411</u>

Historically, the general fund has been used to liquidate the notes payable to CRIM, compensated absences and any other long-term liabilities other than bonds. In the case of the line of credit obtained for the construction of affordable cost housing units, such line of credit will be repaid with the proceed of the housing units' sales.

**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) 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 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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

**b) Bonds Payable**

The Municipality issues general obligation and public improvement serial 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 provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt is composed of bonds payable. 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 more fully described in Note 5, the Municipality levies an annual additional special property tax of 1.75 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 the Government Development Bank for Puerto Rico, fiscal agent, whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual and semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

As more fully described in Note 4, the Municipality impose a sales and uses taxes of one (1%) percent, which are deposited in COFIM to guarantee the payment of long-term bonds. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of the Municipality.

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:

<b><u>General Obligation and Public Improvement Bonds:</u></b>	<b><u>Outstanding balance</u></b>
1997 serial bonds (face amount \$300,000) due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannual installments at variable rates (6.29% at June 30, 2015) through July, 1, 2017.	\$ 80,000
1998 serial bonds (face amount \$405,000) due in annual principal installments ranging from \$5,000 to \$40,000; plus interests due in semiannual installments at variable rates (4.80% at June 30, 2015) through July 1, 2024.	255,000
2001 serial bonds (face amount of \$2,015,000) due in annual principal installments ranging from \$30,000 to \$165,000; plus interests due in semiannual installments at variable rates (4.80% at June 30, 2015) through July 1, 2026.	1,375,000

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**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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	<b><u>Outstanding balance</u></b>
2002 serial bonds (face amount of \$810,000) due in annual principal installments ranging from \$15,000 to \$60,000; plus interests due in semiannual installments at variable rates (4.80% at June 30, 2015) through July 1, 2027.	560,000
2004 serial bonds (face amount of \$10,000,000) due in annual principal installments ranging from \$144,000 to \$550,000; plus interests due in semiannual installments at fixed rate of 6% through July 1, 2029.	6,065,660
2006 serial bonds (face amount of \$310,000) due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2031.	260,000
2006 serial bonds (face amount of \$1,010,000) due in annual principal installments ranging from \$15,000 to \$80,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2031.	840,000
2008 serial bonds (face amount of \$370,000) due in annual principal installments ranging from \$5,000 to \$35,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2032.	325,000
2008 serial bonds (face amount of \$1,660,000) due in annual principal installments ranging from \$20,000 to \$135,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2032.	1,445,000
2009 serial bonds (face amount of \$910,000) due in annual principal installments ranging from \$15,000 to \$75,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2034.	830,000
2009 serial bonds (face amount of \$190,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2033.	160,000
2009 serial bonds (face amount of \$1,317,000) due in annual principal installments ranging from \$21,000 to \$112,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2033.	1,168,000

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Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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	<b><u>Outstanding balance</u></b>
2009 serial bonds (face amount of \$791,000) due in annual principal installments ranging from \$10,000 to \$66,000; plus interests due in semiannual installments at variable rates (1.52% at June 30, 2015) through July 1, 2033.	706,000
2010 serial bonds (face amount of \$705,000) due in annual principal installments ranging from \$10,000 to \$60,000; plus interests due in semiannual installments at variable rates (4.75% at June 30, 2015) through July 1, 2034.	645,000
2011 serial bonds (face amount of \$165,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2035.	145,000
2011 serial bonds (face amount of \$410,000) due in annual principal installments ranging from \$45,000 to \$75,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2017.	200,000
2011 serial bonds (face amount of \$260,000) due in annual principal installments ranging from \$5,000 to \$25,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2035.	240,000
2011 serial bonds (face amount of \$2,095,000) due in annual principal installments ranging from \$25,000 to \$175,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2035.	1,965,000
2012 serial bonds (face amount of \$930,000) due in annual principal installments ranging from \$10,000 to \$80,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2036.	890,000
2012 serial bonds (face amount of \$1,210,000) due in annual principal installments ranging from \$20,000 to \$105,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2036.	1,150,000
2012 serial bonds (face amount of \$290,000) due in annual principal installments ranging from \$35,000 to \$50,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2019.	180,000

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Notes to Basic Financial Statements (Continued)  
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	<b><u>Outstanding balance</u></b>
2012 serial bonds (face amount of \$505,000) due in annual principal installments ranging from \$20,000 to \$55,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2028.	485,000
2012 serial bonds (face amount of \$3,160,000) due in annual principal installments ranging from \$75,000 to \$280,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2015) through July 1, 2033.	<u>3,085,000</u>
Total bonds payable	<u><u>\$ 23,054,660</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.

Interest expense on bonds payable amounted to \$1,086,883 for the fiscal year ended June 30, 2015. Annual debt service requirements of maturity for bonds payable are as follows:

<b>Fiscal year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 939,835	\$ 1,157,165	\$ 2,097,000
2017	999,835	1,463,838	2,463,673
2018	1,065,835	1,397,602	2,463,437
2019	1,012,835	1,331,458	2,344,293
2020	1,033,835	1,266,775	2,300,610
2021-2025	6,168,175	5,239,073	11,407,248
2026-2030	6,801,310	2,992,723	9,794,033
2031-2035	4,463,000	948,715	5,411,715
2036-2040	570,000	35,250	605,250
<b>Totals</b>	<u>\$ 23,054,660</u>	<u>\$ 15,832,599</u>	<u>\$ 38,887,259</u>

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Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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*c) Notes Payable to Municipal Revenue Collection Center*

The Municipality had the following notes payables to Municipal Revenue Collection Center (CRIM, by its Spanish acronym) at June 30, 2015:

- **Act No. 42** – Act No. 42 of January 26, 2000 was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing of a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlements of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

In addition, on February 12, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$777,082 of excess of property tax advances through fiscal year 2000 and 2001. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB. The outstanding principal balances of the note payable to CRIM amounted \$607,054, at June 30, 2015.

- **Law No. 146 - Financing of delinquent property tax accounts sold** – On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001, as amended (Law No. 146). The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of the Government Development Bank for Puerto Rico, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse.

The original face amount of the note allocated by CRIM to the Municipality was \$413,005, for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest, except for property tax receivables collections related to the transaction explained in the above paragraph, which will be applied as principal payment to reduce the debt balance. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund. The outstanding principal of the note payable to CRIM amounted to \$280,845, at June 30, 2015.

**Fiscal Year 2013-2014 Settlement Statement** – On December 31, 2014, CRIM, as required by law, prepared the final settlement for the fiscal year 2013-2014, whereby a comparison

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was made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. According to the final settlement, advances to the Municipality exceeded the amount actually collected by the CRIM, and therefore, according to law, a payable to the CRIM amounted to \$162,634 should be recorded in the GWFS.

*d) Notes Payable to Puerto Rico Government Development Bank (GDB)*

- **Line of credit for affordable cost housing units construction project** – On February 15, 2011 the Municipality obtained a line of credit (up to \$849,616) from the Puerto Rico Government Development Bank to finance the construction of affordable cost housing units. The line of credit available balance used for the project, plus interest accrued, will be payable with proceed obtained from the sale of housing units to be constructed. Any deficiency will be paid with the general or debt service funds resources. At June 30, 2015, the balance of this line of credit amounted to \$521,395.

*e) Compensated Absences*

At June 30, 2015, the government-wide statement of net position – governmental activities include a liability amounting \$1,568,148, of which \$933,483 represents accrued sick leave benefits, and \$634,665 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**5. Employees' Retirement Systems**

*a) General Information about the Retirement Plan*

As of June 30, 2015, regular employees of the Municipality contribute to a cost-sharing multiple employer hybrid defined benefit and defined contribution retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation. The pension plan operates under Act No. 447 of May 15, 1951, as amended, Act No. 305 of September 24, 1999 (System 2000 Reform) and Act No. 3 of April 4, 2013.

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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Participants under the defined contribution plan established by Reform System 2000 will receive a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return. New participants under the hybrid plan established by Act No. 3 will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The minimum monthly pension for current retirees is \$500.

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 ( $\$5,000 \times .25\%$ ).

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$381,843.

As required by Act 32 of June 25, 2013, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to \$111,817, of which \$111,817 (100%) was subsidized by the OMB.

***b) Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions***

As per the requirements of the GASB Statements No. 67 and 68, ESR is required, as the pension plan's administrator, to provide to each of its participating employers audited actuarial and financial information used in the calculation of their proportionate share of the plan's net pension liability, pension expense and deferred outflows/inflows of resources related to pensions as of the measurement date. For the fiscal year ended June 30, 2015, the measurement date is June 30, 2014. In addition, the ESR has to provide all the required actuarial and historical data to be reported in the notes to the financial statements of the Municipality and as Required Supplementary Information (RSI).

However, the ESR has not provided to the Municipality the audited actuarial and financial information; instead provided unaudited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015, and therefore, the Municipality complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts, as required by the criteria set forth in the GASB Statement No. 68.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

**6. Postemployment Benefits**

In addition to the pension benefits described in note 5, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonuses and death benefits. However, beginning July 1, 2013, Act No. 3 of 2013 eliminated all Special Law benefits to future retirees.

For the fiscal year ended June 30, 2015, the costs related to these post-employment benefits amounted to \$476,703, of which \$129,907.21 (27%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

**7. Commitments, Contingencies and Uncertainties**

**Encumbrances**

The Municipality has reported, outstanding encumbrances amounting to \$151,466 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.

**Claims and Judgments**

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

The Municipality also is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities. With respects to pending or threatened litigation, the Municipality has reported no liabilities as of June 30, 2015. Management believes, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

**Federal Financially Assisted Programs**

The Municipality receives financial assistance from the federal government in the form of grants and entitlements. Receipts of grants are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal law and regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133). Disallowance as a result of these audits may become liabilities of the Municipality

**8. Fund Balance**

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

Fund balances (deficit)	General fund	Special revenue fund – federal grants	Capital projects fund – state & local grants	Debt service fund	Other nonmajor funds	Total
<i>Restricted for:</i>						
Long-term due from component units	\$ 160,000	\$ -	\$ -	\$ -	\$ -	\$ 160,000
<i>Restricted for:</i>						
General government	1,622	-	-	-	-	1,622
Health and welfare	-	-	-	-	79,061	79,061
Public works	-	-	163,570	-	97,924	261,494
Public safety	-	-	-	-	8,343	8,343
Culture and recreation and education	-	-	157,282	-	37,056	194,338
Community development	-	-	4,003,280	-	-	4,003,280
Urban and economic development	-	-	104,715	-	523,556	628,271
Debt service	-	-	-	5,110,819	-	5,110,819
<i>Committed to:</i>						
General government	54,274	-	-	-	42,916	97,190
Health and welfare	1,572	-	-	-	-	1,572
Public works	69,927	-	70,294	-	237,000	377,221
Public safety	-	-	-	-	1,912	1,912
Culture and recreation and education	11,050	-	-	-	-	11,050
Community development	14,491	-	626,953	-	170,502	811,946
Urban and economic development	152	-	-	-	-	152
<i>Unassigned</i>	2,179,961	-	-	-	-	2,179,961
Total fund balances	<u>\$ 2,493,049</u>	<u>\$ -</u>	<u>\$ 5,126,094</u>	<u>\$ 5,110,819</u>	<u>\$ 1,198,270</u>	<u>\$ 13,928,232</u>

**9. Accounting Changes and Restatements**

During fiscal year ended June 30, 2015, the Municipality implemented the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, assets, deferred outflows of resources and deferred inflows of resources, and expense/expenditures for pensions provided to employees of the primary government. It requires the Municipality to record the Municipality's proportionate share of the net pension liability in the government-wide financial statements.

GASB Statement No. 68 was implemented simultaneously with the provisions of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date; and amendment of GASB Statement No. 68*. This standard allowed governments to record all beginning deferred inflows and deferred outflows associated with the pension. If all beginning balances could not have identified practically, governments should only report deferred outflows for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability

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

but before the start of the government's fiscal year. The Municipality implemented the Standard by recognizing only the employer contributions made between the measurement date and before the start of the government's fiscal year.

As a result of the implementing these new standards, numerous changes were made to beginning balances. The following schedule reconciles the total net position balance at June 30, 2014, as previously reported by the Municipality, to the beginning net position, as restated in the accompanying GWFS:

	<b>Net position - governmental activities</b>
<b>Assets:</b>	
As previously reported in the audited financial statements at June 30, 2014	\$ 60,113,083
Add/(deduct): prior-period adjustments	-
Total net assets at June 30, 2014, as restated	<b>\$ 60,113,083</b>
<b>Deferred outflows of resources:</b>	
As previously reported in the audited financial statements at June 30, 2014	\$ -
Add/(deduct): prior-period adjustments	249,247
Total deferred outflows of resources at June 30, 2014, as restated	<b>\$ 249,247</b>
<b>Liabilities:</b>	
As previously reported in the audited financial statements at June 30, 2014	\$ 33,090,785
Add/(deduct): prior-period adjustments	25,704,651
Total liabilities at June 30, 2014, as restated	<b>\$ 58,795,436</b>
<b>Deferred inflows of resources:</b>	
As previously reported in the audited financial statements at June 30, 2014	\$ -
Add/(deduct): prior-period adjustments	-
Total deferred inflows of resources at June 30, 2014, as restated	<b>\$ -</b>
<b>Net position:</b>	
As previously reported in the audited financial statements at June 30, 2014	\$ 27,022,298
Add/(deduct): prior-period adjustments	(25,455,404)
Total net position at June 30, 2014, as restated	<b>\$ 1,566,894</b>

## 10. Subsequent Events

### a) Transition to Value Added Tax

On May 29, 2015, the Commonwealth of Puerto Rico enacted Act 72-2015 ("Act 72"), which, among other things, increased the sales and use tax ("SUT") by 4.5%, in addition to the then-applicable 7% SUT, and provided for a transition to a value added tax ("VAT"), subject to certain conditions.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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Since July 1, 2015, transactions subject to the 7% SUT are now subject to an aggregate 11.5% SUT (10.5%, of which 0.5% goes to a special fund for the benefit of the municipalities, and 1% separately collected by the municipalities). The transition from the SUT to the VAT is scheduled for March 31, 2016; Act 72 permits the Secretary of Treasury to extend the implementation date for up to 60 days.

In addition, since October 1, 2015 and until March 31, 2016, taxable business to business transactions are subject to an aggregate 11.5% SUT and certain business to business services and designated professional services that were previously exempt from SUT are subject to a Commonwealth SUT of 4% (with no municipal SUT applying to these services).

After March 31, 2016 (or the extended implementation date for the VAT at the discretion of the Secretary of Treasury), all transactions subject to the SUT will be subject to a new aggregate VAT of 10.5% plus a 1% municipal SUT. The new VAT will also apply to the introduction into Puerto Rico of taxable articles and on taxable transactions which relate to the sale in Puerto Rico of goods and services by a merchant, the rendering of a service by a nonresident to a person in Puerto Rico, and combined transactions.

Act No. 72 exempted the following services, among other exemptions, from the business to business SUT: (i) services offered by the Commonwealth government and instrumentalities, (ii) education, (iii) interest and other financing charges, (iv) insurance, (v) health and hospital services, and (vi) services offered by merchants with a volume of business not exceeding \$50,000.

On September 30, 2015, the Governor of Puerto Rico signed into law Act 159-2015, which expanded the services exempt from the 4% SUT to include certain legal services, advertising services, services rendered to a person engaged exclusively in the storage or handling of fuel in a foreign trade zone, services rendered to bona fide farmers, designated professional services rendered to labor unions, and ocean, air and ground transportation of goods, among other services.

**b) Puerto Rico Fiscal and Economic Growth Plan**

On June 29, 2015, the Governor of Puerto Rico created the Puerto Rico Fiscal and Economic Recovery Working Group (the "Working Group") to evaluate the measures necessary to address the fiscal crisis of the Commonwealth, including the measures recommended in the Krueger Report. The Working Group was responsible for developing and recommending to the Governor of Puerto Rico the Puerto Rico Fiscal and Economic Growth Plan (the "FEGP"). The FEGP was released on September 8, 2015 and updated on January 18, 2016, and propose the implementation of the following measures, within others: 1) Labor Reform, 2) Energy Rates Stabilization, 3) Corporate Taxes Fostering Growth, 4) Reduction of the Cost of Doing Business in Puerto Rico, 5) Investment in Infrastructure, 6) Transition to the Value Added Tax System, 7) Improving Supervision and Monitoring of Taxpayers, 8) Reduction in Governmental Operational Costs, 9) Reduction of Government Subsidies, 10) Downsizing of the Public Education System, 11) Cost Control of the Commonwealth's Health Program, 12) Promotion of Public-Private Partnerships, 13) Installation of New Accounting Systems, 14) Centralization of the Department of the

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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Treasury's Functions, 15) Betterment of the Fiscal and Economic Decision Making Systems, and 16) Enactment of New Budgetary Rules and Creation of a Fiscal Oversight Board.

**c) New Guidelines for the Calculation of the Contribution In Lieu of Taxes ("CELI")**

On October 16, 2015, the Puerto Rico Commission of Energy ("CEPR") approved the new guidelines for the energetic subsidy (contribution) received by the 78 municipalities of the Commonwealth from the Puerto Rico Electric Power Authority (PREPA) in lieu of the payment of municipal license taxes ("CELI"). These guidelines limit to the subsidy to be received by the municipalities, by establishing a maximum threshold amount of energy consumption charges that can be incurred by the municipalities. Any charges in excess of that maximum threshold will be paid by the municipalities based on the prevailing service rates in effect during the billing period. If the municipalities do not pay the amounts billed, they are subject to a possible service cancellation by the PREPA.

In addition to these energy consumption limits, the CELI will not be applicable to every municipal property or installation. It will only be available for those facilities used for the rendering of not-for-profit services to the community; for corporations that provide public health services; and for the consumption charges incurred by the public lighting infrastructure. Those municipal installations and properties used for for-profit activities or occupied by not-for-profit entities that do not provide municipal services or by persons and businesses that are not municipal entities are excluded from the CELI subsidy.

Finally, the guidelines require that the municipalities implement efficiency and conservation measures for a reduction of 15% in the energy consumption to be incurred in the next three fiscal years. All of these requirements are effective beginning November 16, 2015 (fiscal year 2015-16).

**d) Obama Administration's Proposal to Help Puerto Rico Solve its Economic and Fiscal Crisis**

On October 21, 2015, the Obama Administration released a proposal to address Puerto Rico's urgent fiscal crisis. The proposal makes the following recommendations: (i) Congress should extend Chapter 9 of the U.S. Bankruptcy Code to Puerto Rico, and also provide a broader legal framework to allow for a comprehensive restructuring of Puerto Rico's liabilities, (ii) Congress should provide independent fiscal oversight to ensure Puerto Rico adheres to its recovery plan and fully implements proposed reforms, (iii) Congress should provide a long-term solution to Puerto Rico's historically inadequate Medicaid treatment, and (iv) Congress should extend to Puerto Rico certain proven measures to reward work and stimulate growth, such as the Earned Income Tax Credit. Both houses of U.S. Congress have conducted hearings on Puerto Rico's fiscal crisis and are evaluating various alternatives that include establishing a fiscal oversight board and providing a Commonwealth-wide restructuring regime.

**e) Voluntary Pre-Retirement Program**

On December 8, 2015, the Commonwealth of Puerto Rico enacted the Act No. 211-2015 to create a Voluntary Pre-retirement Program. This Act, among other provisions, establishes that employees who started contributing to the ERS before April 1, 1990 with at least 20 years of

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015

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service may be eligible to participate in the program. Those who participate in the program would be paid 50% of their average salary (except police officers, which would be paid 60%). These payments will be made until the employee becomes eligible to receive payments from the ERS. Other benefits would include the payment of the participant's health care plan during the first two years of the program.

*End of Notes to Basic Financial Statements*

**Required Supplementary Information  
Budgetary Comparison Schedule – General Fund  
Fiscal Year Ended June 30, 2015**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
 Budgetary Comparison Schedule – General Fund (Continued)  
 (See Notes to Budgetary Comparison Schedule)  
 Fiscal Year Ended June 30, 2015

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(budgetary basis)</u>	<u>final budget – over (under)</u>
<b>Revenues:</b>				
Property taxes	\$ 2,644,149	\$ 2,644,149	\$ 2,644,149	\$ -
Sales and use tax	1,022,171	1,022,171	946,434	(75,737)
Municipal license tax	1,345,182	1,345,182	1,387,988	42,806
Construction excise taxes	587,710	587,710	419,128	(168,582)
Intergovernmental grants and contributions	6,880,525	6,880,525	6,744,381	(136,144)
Interest on deposits	225,000	225,000	403,802	178,802
Charges for services	158,616	158,616	198,113	39,497
Miscellaneous	673,000	673,000	730,441	57,441
Total revenues	<u>\$ 13,536,353</u>	<u>\$ 13,536,353</u>	<u>\$ 13,474,436</u>	<u>\$ (61,917)</u>
<b>Expenditures and encumbrances:</b>				
General government	5,766,511	5,751,863	5,376,751	375,112
Public safety	903,351	885,633	793,583	92,050
Public works	4,154,821	4,092,238	3,909,150	183,088
Health and welfare	499,317	500,333	500,333	-
Culture, recreation and education	915,671	962,263	914,198	48,065
Urban and economic development	480,940	521,475	497,762	23,713
Community development	186,082	181,066	146,864	34,202
Total expenditures	<u>\$ 12,906,693</u>	<u>\$ 12,894,871</u>	<u>\$ 12,138,641</u>	<u>\$ 756,230</u>
Revenues over (under) expenditures and encumbrances	<u>629,660</u>	<u>641,482</u>	<u>1,335,795</u>	<u>694,313</u>
<b>Other financing sources (uses):</b>				
Transfer to other governmental funds	(629,660)	(641,482)	(641,482)	-
Total other financing sources (uses)	<u>(629,660)</u>	<u>(641,482)</u>	<u>(641,482)</u>	<u>-</u>
Net increase (decrease) in fund balance (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 694,313</u>	<u>\$ 694,313</u>

**Reconciliation of differences:**

Sources/inflows of financial resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 13,474,436
Differences - budgetary basis to GAAP:				
Differences in bases of accounting:				
GAAP adjustments to revenues				(114,921)
Non-budgeted other financing sources (special item-sale of capital assets held for sale)				782,984
Total revenues reported on the statement of revenues, expenditures and changes in fund balances				<u>\$ 14,142,499</u>

**Reconciliation of differences (concluded):**

Uses/outflows of financial resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule (including transfer out to other funds)				\$ 12,780,123
Timing differences:				
Current year encumbrances recorded as expenditures for budgetary purposes				(151,466)
Prior year encumbrances recorded as expenditures for GAAP purposes				17,933
Entity differences				
Non-budgeted transfer to other governmental fund (budget carryover)				948,145
Non-budgeted expenditures				304,542
Total expenditures and transfer out to other funds as reported on the statement of revenues, expenditures and changes in fund balances				<u>\$ 13,899,277</u>

See accompanying notes to financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Budgetary Comparison Schedule – General Fund  
Fiscal Year Ended June 30, 2015

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**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. Transfers of appropriations within the budget, known as Mayor's Resolutions, 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 reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project 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 annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2015 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2015.

**Required Supplementary Information  
Retirement Plan  
Fiscal Year Ended June 30, 2015**

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF COAMO**

Schedule of the Municipality's Proportionate Share of the Net Pension Liability  
Puerto Rico Government Employees Retirement System – Municipality's Employees Only  
Last 10 Fiscal Years

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	<u>2015</u>
<b><u>Municipality's Employees</u></b>	
Proportion of the collective net pension liability	0.09230%
Proportionate share (amount) of the collective net pension liability	\$ 596,661
Covered-employee payroll	\$ 2,674,906
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	22.31%
Plan fiduciary net position as a percentage of the total pension liability	0.42%

**Notes to Schedule:**

- 1) The Puerto Rico Government Employees Retirement System includes the Municipality in its definition of municipal employees.
- 2) Per GASB Statement No. 68, governments should present information for those years for which information is available. If information is not available, the government may implement them prospectively.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of the Municipality's Contributions  
Cost-Sharing Multiple Employer Defined Benefit Pension Plans – Employer Contributions  
Puerto Rico Government Employees Retirement System – Municipality's Employees Only  
Last 10 Fiscal Years

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	<b>2015</b>
<b><u>Municipality's Employees</u></b>	
Contractually required contribution	\$ 381,843
Contributions in relation to the contractually required contribution	(381,843)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 2,674,906
Contributions as a percentage of the covered-employee payroll	14.275%

**Notes to Schedule:**

- 1) The Puerto Rico Government Employees Retirement System includes the Municipality in its definition of municipal employees.
- 2) Per GASB Statement No. 68, governments should present information for those years for which information is available. If information is not available, the government may implement them prospectively.

**Section 8 Housing Choice Voucher Program  
Financial Data Schedule  
Fiscal Year Ended June 30, 2015**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Financial Data Schedule  
Year Ended June 30, 2015

<b>Line Item No.</b>	<b>Description</b>	<b>Housing Choice Vouchers (CFDA No. 14.871)</b>
<b>Balance Sheet</b>		
111	Cash-unrestricted	\$ 108,421
113	Cash-other restricted	-
<b>100</b>	<b>Total Cash</b>	<b>108,421</b>
<b>150</b>	<b>Total Current Assets</b>	<b>108,421</b>
164	Furniture, equipment and machinery - administration	81,481
166	Accumulated depreciation	(62,166)
<b>160</b>	<b>Total capital assets, net of accumulated depreciation</b>	<b>19,315</b>
<b>180</b>	<b>Total Non-current Assets</b>	<b>19,315</b>
<b>190</b>	<b>Total Assets</b>	<b>\$ 127,736</b>
312	Accounts payable <= 90 days	\$ 139
322	Accrued compensated absences - current portion	3,142
333	Accounts payable - other government	29,222
<b>310</b>	<b>Total Current Liabilities</b>	<b>32,503</b>
354	Accrued compensated absences- Non-current	4,713
<b>350</b>	<b>Total Non-current liabilities</b>	<b>4,713</b>
<b>300</b>	<b>Total Liabilities</b>	<b>37,216</b>
508.1	Invested in capital assets, net of related debt	19,315
511.1	Restricted Net Position	-
512.1	Unrestricted Net Position	71,205
<b>513</b>	<b>Total Net Position</b>	<b>90,520</b>
<b>600</b>	<b>Total Liabilities and Net Position</b>	<b>\$ 127,736</b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Financial Data Schedule  
Year Ended June 30, 2015

<b>Line Item No.</b>	<b>Description</b>	<b>Housing Choice Vouchers (CFDA No. 14.871)</b>
<b>Income Statement</b>		
<b>70600-010</b>	Housing assistance payments	\$ 256,874
<b>70600-020</b>	Ongoing administrative fees earned	37,933
<b>70600</b>	<b>HUD PHA operating grants</b>	<b>294,807</b>
<b>71100-020</b>	Administrative Fee	149
<b>71100</b>	<b>Investment income - unrestricted</b>	<b>149</b>
<b>71400-010</b>	Housing Assistance Payment	2,050
<b>71400-020</b>	Administrative Fee	-
<b>71400</b>	<b>Fraud recovery</b>	<b>2,050</b>
<b>71500</b>	Other revenue	52,252
<b>70000</b>	<b>Total Revenue</b>	<b>349,258</b>
<b>91100</b>	Administrative salaries	27,586
<b>91500</b>	Employee benefit contributions - administrative	3,143
<b>91600</b>	Office Expenses	15,770
<b>91000</b>	<b>Total Operating-Administrative</b>	<b>46,499</b>
<b>96210</b>	Compensated absences	281
<b>96000</b>	<b>Total Other General Expenses</b>	<b>281</b>
<b>96900</b>	<b>Total Operating Expenses</b>	<b>46,780</b>
<b>97000</b>	<b>Excess Revenue Over Operating Expenses</b>	<b>302,478</b>
<b>97300-050</b>	All Other	257,923
<b>97300</b>	<b>Housing assistance payments</b>	<b>257,923</b>
<b>97350</b>	<b>HAP Portability-in</b>	<b>40,532</b>
<b>97400</b>	Depreciation expense	5,734
<b>90000</b>	<b>Total Expenses</b>	<b>350,969</b>
<b>10000</b>	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	<b>\$ (1,711)</b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Financial Data Schedule  
Year Ended June 30, 2015

<b>Line Item No.</b>	<b>Description</b>	<b>Housing Choice Vouchers (CFDA No. 14.871)</b>
11030	Beginning equity	\$ 92,231
11170-001	Administrative Fee Equity- Beginning Balance	\$ 94,030
11170-010	Administrative Fee Revenue	37,933
11170-040	Investment Income	149
11170-045	Fraud Recovery Revenue	-
11170-050	Other Revenue	52,252
11170-051	Comment for Other Revenue	Portability Move- In Collections
11170-060	Total Admin Fee Revenues	90,334
11170-080	Total Operating Expenses	46,780
11170-090	Depreciation	5,734
11170-095	Housing Assistance Portability In	40,532
11170-100	Other Expenses	
11170-101	Comment for Other Expense	
11170-110	Total Expenses	93,046
11170-002	Net Administrative Fee	(2,712)
11170-003	Administrative Fee Equity- Ending Balance	91,318
11170	<b>Administrative Fee Equity</b>	<b>\$ 91,318</b>
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ (1,799)
11180-010	Housing Assistance Payment Revenues	256,874
11180-015	Fraud Recovery Revenue	2,050
11180-030	Total HAP Revenues	258,924
11180-080	Housing Assistance Payments	257,923
11180-100	Total Housing Assistance Payments Expenses	257,923
11180-002	Net Housing Assistance Payments	1,001
11180-003	Housing Assistance Payments Equity-Ending Balance	(798)
11180	<b>Housing Assistance Payments Equity</b>	<b>\$ (798)</b>
11190-210	Total ACC HCV Units	720
11190	<b>Unit Months Available</b>	<b>720</b>
11210	<b>Unit Months Leased</b>	<b>695</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

Notes To Financial Data Schedule  
Year Ended June 30, 2015

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**NOTE A – BASIS OF PRESENTATION**

The accompanying Financial Data Schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national manager center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

**Schedule of Expenditures of Federal Awards  
Fiscal Year Ended June 30, 2015**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Expenditures of Federal Awards  
Fiscal Year Ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>US Department of Agriculture:</b>			
Direct Program:			
Community Facilities Loans and Grants Program	10.766		\$ 165,050
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Child and Adult Care Food Program	10.558	N/AV	<u>19,438</u>
<b>Subtotal – US Department of Agriculture</b>			<b><u>184,488</u></b>
<b>US Department of Housing and Urban Development:</b>			
Direct Programs:			
Section 8 Housing Choice Voucher	14.871		294,807
Emergency Solutions Grant Program	14.231		25,751
Pass-through the Office of the Commissioner of Municipal Affairs of the Commonwealth of Puerto Rico:			
Community Development Block Grants – State’s Program	14.228	N/AV	683,687
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:			
Shelter Plus Care Program	14.238	N/AV	56,070
Pass-through the Department of Public Housing of the Commonwealth of Puerto Rico:			
Public and Indian Housing	14.850	N/AV	<u>1,018,528</u>
<b>Subtotal – US Department of Housing and Urban Development</b>			<b><u>2,078,843</u></b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Expenditures of Federal Awards (Continued)  
Fiscal Year Ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>US Department of Justice:</b>			
Pass-through the Department of Justice of the Commonwealth of Puerto Rico:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/AV	<u>87,087</u>
<b>Subtotal – US Department of Justice</b>			<b><u>87,087</u></b>
<b>US Department of Education:</b>			
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Twenty-First Century Community Learning Centers	84.287	N/AV	<u>2,168,901</u>
<b>Subtotal – US Department of Education</b>			<b><u>2,168,901</u></b>
<b>US Department of Health and Human Services:</b>			
Pass-through the Governor’s Office for Elderly Affairs of the Commonwealth of Puerto Rico:			
Special Program for Aging – Title III - Part D – Disease Prevention and Health Services	93.043	N/AV	3,194
Special Program for Aging – Title III - Part B – Grant for Supportive Services and Senior Centers	93.044	N/AV	44,406
National Family Caregiver Support – Title III – Part E	93.052	N/AV	7,957
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:			
Community Services Block Grant	93.569	N/AV	41,763
Child Care and Development Block Grant	93.575	N/AV	218,769
Family Violence Prevention and Services	93.591	N/AV	37,179

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Expenditures of Federal Awards (Continued)  
Fiscal Year Ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
Pass-through the Puerto Rico Development Disabilities Council:			
Developmental Disabilities Basic Support and Advocacy Grant	93.630	N/AV	<u>97,010</u>
<b>Subtotal – US Department of Health and Human Services</b>			<b><u>450,278</u></b>
<b>US Department of Homeland Security:</b>			
Pass-through the Governor’s Authorized Representative Office (GAR) of the Commonwealth of Puerto Rico:			
Disaster Grants – Public Assistance	97.036	N/AV	1,245
Pass-through the Governor’s Office for Public Security Affairs of the Commonwealth of Puerto Rico:			
State Homeland Security Grant Program	97.067	N/AV	<u>17,182</u>
<b>Subtotal – US Department of Homeland Security</b>			<b><u>18,427</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u><u>\$ 4,988,024</u></u></b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Schedule of Expenditures of Federal Awards  
Fiscal Year Ended June 30, 2015

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality of Coamo, Commonwealth of Puerto Rico (the Municipality) for the fiscal year ended June 30, 2015. The Municipality's reporting entity is disclosed in Note 1 to the Municipality's basic financial statements as of and for the fiscal year ended June 30, 2015.

The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B - FEDERAL CFDA NUMBER**

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

**NOTE C - PASS - THROUGH GRANTOR'S NUMBER**

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

**NOTE D - PASS - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund - Federal Grants and in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue Fund- Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 4,693,217	\$ 294,807	\$ 4,988,024
Nonfederal programs expenditures and other adjustments	417	1,599,081	1,599,498
Total expenditures in the fund financial statements	<u>\$ 4,693,634</u>	<u>\$ 1,893,888</u>	<u>\$ 6,587,522</u>



*López-Vega, CPA, PSC*

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

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

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Coamo**, 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 29, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the **Municipality of Coamo'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 Coamo's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Coamo'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item **2015-001** and **2015-002** that we consider to be material weakness.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Municipality of Coamo's** financial statements are free from 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which as described in the accompanying schedule of findings and questioned costs as items **2015-001**.

**Municipality of Coamo's Response to Findings**

**Municipality of Coamo's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Municipality of Coamo'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**

The purpose of this report is 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.



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
March 29, 2016

Stamp No. 2728497 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors



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- American Institute of Certified Public Accountants
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

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

We have audited **Municipality of Coamo's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Coamo's** major federal programs for the year ended June 30, 2015. **Municipality of Coamo'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 **Municipality of Coamo's** 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality of Coamo'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 of Coamo's** compliance.

**Opinion on Each Major Federal Program**

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

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-  
133 (CONTINUED)**

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **15-003** and **15-006**. Our opinion on each major federal program is not modified with respect to these matters.

**Municipality of Coamo** response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Autonomous Municipality of **Municipality of Coamo**’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

**Municipality of Coamo** 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 the **Municipality of Coamo**’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Coamo**’s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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 weaknesses.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-  
133 (CONTINUED)**

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-003 through 2015-007 to be significant deficiencies.

**Municipality of Coamo'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 of Coamo'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

We noted certain matters that we reported to management of the **Municipality of Coamo** in a separate letter dated March 29, 2016.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 29, 2016

Stamp No. 2728498 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2015

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued: Unmodified for fund financial statements and adverse for government-wide financial statements and aggregate discretely presented component units

Internal control over financial reporting:

Material weakness identified? Yes **X**      No

Significant deficiencies identified not considered to be material weaknesses? Yes **X**      None reported

Noncompliance material to financial statements noted? Yes **X**      No

**Federal awards**

Internal Control over major programs:

Material weakness identified? Yes      No **X**

Significant deficiencies identified not considered to be material weaknesses? Yes **X**      None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

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

**Identification of major programs:**

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants – State’s Program
84.287	Twenty First Century Community Learning Centers

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? Yes      No **X**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

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**Section II – Financial Statements Findings**

*This significant deficiency in internal controls is considered an instance of noncompliance (NC).*

**Finding Reference**            **2015-001**

**Requirement**                **Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans (NC)**

**Statement of Condition** Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality’s governmental activities has not been determined.

In addition, the Municipality’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

**Criteria**                        GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan trusts that comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.

**Cause of Condition**        The Municipality’s pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015.

**Effect of Condition**        The Municipality’s Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

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**Section II – Financial Statements Findings**

**Finding Reference**      **2015-001 (Continued)**

**Recommendation**      We recommend the Municipality maintains a constant communication with the pension plan’s administrator, the Commonwealth’s Employees Retirement System Administration, in order to obtain the necessary audited actuarial and financial information necessary to comply with the requirements of the GASB Statement No. 68.

**Questioned Cost**      None

**Management Response and Corrective Action**      We concur with the auditors’ recommendations. The Municipality is closely monitoring the actions of the Commonwealth’s Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard.

Implementation Date:      During the 2015-2016 fiscal year

Responsible Persons:      Mrs. Miraisa David Esparra  
Finance Department Director

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

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**Section II – Financial Statements Findings**

**Finding Reference**            **2015-002**

**Requirement**                **Fixed\Capital Assets and Expenditures – Subsidiary Ledger**

**Statement of Condition**    The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.

**Criteria**                      Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.

**Cause of Condition**        Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.

**Effect of Condition**        The Municipality’s Government-Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.

**Recommendation**         We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, necessary to comply with the requirements of the GASB Statement No. 34.

**Questioned Costs**         None

**Management Response and Corrective Action**    The Municipality’s Finance Department staff plan to continue its efforts in order to update the capital assets subsidiary ledger, principally the infrastructure assets.

Implementation Date:        During Fiscal Year 2015-2016

Responsible Person:        Mrs. Miraisa David Esparra  
Finance Department Director

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

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**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**        **2015-003**

**Program**                    **Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)**

**Requirement**            **Special Tests and Provisions – Housing Rehabilitation**

**Statement of Condition**    During our examinations of the thirteen (13) files related with housing rehabilitation activities performed during fiscal year 2014-2015, we noted the following situations:

- a. In one (1) case, funds were used to build a new housing unit and not to rehabilitate or renovate the housing unit to standard conditions to relieve overcrowding and improve families’ quality of life as stated in the Housing Rehabilitation Program activities.
- b. In thirteen (13) cases, we found that in the contracts signed between participants and Municipality (**Form OCAM-RMV-11-04**) have not established the duration of the work to be performed as established in the Program’s Operational Guide.

**Criteria**                    24 CFR, Section 570.506 states that when CDBG funds are used for rehabilitation, the grantee must assure that the work is properly completed and appropriate documentation is maintained. CFR 24, Section 91.220, states that all activities that a grantee undertakes during their CDBG program year must be identified in an Action Plan or in an amended Action Plan. Also, 24 CFR section 570.202 (b) (2) states that labor, materials, and other costs of rehabilitation of properties, including repair directed toward an accumulation of deferred maintenance, replacement of principal fixtures and components of existing structures, installation of security devices, including smoke detectors and dead bolt locks, and renovation through alterations, additions to, of enhancement of existing structures and improvements, abatement of asbestos hazards (and other contaminants) in buildings and improvements that may be undertaken singly, or in combination.

**Cause of Condition**        The program has not established adequate internal control procedures to assure that rehabilitations are duly completed as required by regulations and appropriate documentation is maintained.

**Effect of Condition**        The Municipality is not in compliance with 24 CFR, Section 570.506, 24 CFR, Section 570.202 and CFR 24, Section 91.220.

**Recommendation**        We recommend the Program to establish the following procedures:

- a. Assure that the participant completes the rehabilitation process within the period established in the contract.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

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**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference 2015-003 (Continued)**

**Recommendation** (Continued)

- b. Assure that the participants use the construction materials for the rehabilitation of their housing units and not for construction of new housing units.

**Questioned Costs** None

**Management Response  
and Corrective Action**

The Federal Director will establish communication with the program staff in order to strengthen its program procedures to assure the Municipality be in compliance with the Special Test-Housing Rehabilitation.

Implementation Date: During Fiscal Year 2015-2016

Responsible Person: Mrs. Maria A. Maurás – Federal Program Director

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

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**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>2015-004</b>
<b>Program</b>	<b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>
<b>Requirement</b>	<b>Equipment and Real Property Management</b>
<b>Statement of Condition</b>	<b>Section II – Financial Statements Findings – Finding Reference 2015-002</b>

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**            **2015-005**

**Program**                        **Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)**

**Requirement**                **Cash Management (C)**

**Statement of Condition**    The Municipality’s internal control over compliance with the cash management requirements of federal program is not effective since it is not minimizing the time elapsed between the receipt and disbursement of funds. In our drawdown test over fourteen (14) fund requisitions, we noted the following exceptions:

- a) In seven (7) fund requisitions for \$231,646, we observed that the Municipality made the disbursements between seven (7) to eleven (11) days after the deposits;
- b) The bank reconciliations, shows average monthly cash balance of \$15,394 in the CDBG Bank Account. The cash balance shows a higher cash balance in the following months:

<u>Month</u>	<u>Amount</u>
Aug-14	\$27,265
Sep-14	\$20,589
Oct-14	\$31,952
Nov-14	\$39,237

**Criteria**                        24 CFR Subpart C, Section 85.20 (b) (7), *Cash management*. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on sub grantees’ cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

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**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **2015-005 (Continued)**

**Criteria**                      (Continued)

24 CFR Subpart I, Section 570.489 (c), *Federal grant payments – (1) Payment*. The State shall be paid in advance in accordance with Treasury Circular 1075 (31 CFR part 205). The State shall use procedures to minimize the time elapsing between the transfer of grant funds and disbursement of funds by the State to units of general local government. Units of general local government shall also use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities.

**Cause of Condition**      The Municipality’s disbursements procedures failed to assure that funds requested and received from grantor be disbursed in compliance with the Code of Federal Regulations Requirements. The above conditions are the result of inadequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

**Effect of Condition**      The Municipality is not in compliance with the 24 CFR Subpart I, Section 570.489 (c).

**Recommendation**      The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by CDBG regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within five (5) days.

**Questioned Costs**      None

**Management Response and Corrective Action**      The Program will coordinate with Municipal Finance Department to implement Corrective Action Plan. The plan will review and update policies and processes to reduce the time between the drawdown and payment of the funds. The cash management policies and operating procedures will be in writing and adopted as an internal control procedure in the Program. One of the key item of the procedure will be that no single individual will control a transaction from beginning to end. The manager of the accounting area of the Program will be responsible and accountable of the establishing of the procedure in combination with the Finance Director of the Municipality.

Implementation Date: During Fiscal Year 2015-2016

Responsible Person: Mrs. Maria A. Maurás – Federal Program Director  
Mrs. Miraisa David Esparra – Finance Department Director

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

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**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>2015-006</b>
<b>Program</b>	<b>Twenty First Century Community Learning Centers (CFDA. No. 84.287); U.S. Department of Education</b>
<b>Requirement</b>	<b>Cash Management (C) – Budgetary Control</b>
<b>Statement of Condition</b>	During our cash management advance system test, we detect that in the second request of funds, the Program received \$74,832 in excess of the Program realistic cash needs and not take the adequate actions to return the cash received in excess during the year. As result, the Municipality expended budgeted amounts for rent, in other Program activities.
<b>Criteria</b>	<p>34 CFR 80.20 Standards for financial management systems - <b>(a)</b> A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. <b>(b)</b> The financial management systems of other grantees and subgrantees must meet the following standards: <b>(4) Budget control.</b> Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data is required, estimates based on available documentation will be accepted whenever possible.</p> <p>Clause eleven of the grant agreement, states that Municipality should establish fiscal controls and accounting procedures that guarantee the correct disbursement of the federal funds received.</p>
<b>Cause of Condition</b>	Management did not exercise internal control procedures to verify the request of funds and compare the amounts received with the approved budget.
<b>Effect of Condition</b>	The Municipality is not in compliance with the 34 CFR 80.20 (a) and (b) 4 and Clause eleven of the grant agreement.
<b>Recommendation</b>	We recommend Management to established internal controls of monitoring the funds received and compare the amounts with the approved budget and with the request of funds. In order to assure that the request of funds was made in accordance with laws and regulations and to detect immediately any amount received in excess of the Program realistic cash needs.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	We concur with the finding. The Federal Program Director will coordinate with the accounting personnel to implement a procedure of request of fund monitoring process to ensure that the request of funds is made in accordance with laws and

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2015

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regulations and to detect or correct any error in the requested cash.

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**    **2015-006 (Continued)**

Implementation Date: During Fiscal Year 2015-2016

Responsible Person: Mrs. Maria A. Maurás – Federal Program Director

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Schedule of Prior Years Audit Findings (Continued)  
Fiscal Year Ended June 30, 2015

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
13-03	14.228	<p><u>We performed a housekeeper activity test of ten (10) participant's files and found the following exceptions: (a) In eight (8) participant's files, we noted that the service contract (Form OCAM-AH-005) that established the service plan to be offered by the CDBG Program between the Municipality and the participant was not signed; (b) In the ten (10) participant's files, although we did find evidence that visits were performed during the contract period, the program staff did not visited at least twice per month the participant's housing unit to ensure the quality of services, according to the activity procedures guide.</u></p> <p>Corrective action was taken.</p>
13-05	14.228	<p><u>Section II – Financial Statements Findings – Finding Reference 13-01</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2015-004.</p>
12-03	14.228	<p><u>We performed a housekeeper activities test of eight (8) participant's files and found the following exceptions: (a) In the three (3) participant's files, we noted that the eligibility approval form was not completed by the program staff; (b) In the eight (8) participant's files, we did not find evidence that demonstrate if the program staff visited at least twice per month the participant's housing unit to ensure the quality of services; (c) In one (1) participant file, did not complete the approval application form OCAM-AH-004A.</u></p> <p>Corrective action was taken.</p>
12-07	14.228	<p><u>Section II – Financial Statements Findings – Finding Reference 12-01</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2015-004.</p>