

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2004

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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 AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Coamo**, as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget 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 the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 12, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter with respect to the Capital Assets reported value 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 reasonably determinable.

In our opinion, because of the effects of the matter discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Coamo**, as of June 30, 2004, and the changes in financial position, thereof for the year then ended.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Coamo**, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 13 and the Budgetary Comparison Schedule-General Fund on page 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2004 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 19, 2004

Stamp No. 2019451 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**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2004

This discussion and analysis of the Municipality of Coamo (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2004. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2003, first year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments." This MD & A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. asses management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2004 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$34,067,656 which represents an increase of 22% compared to prior fiscal year;
2. At the end of fiscal year 2004, total liabilities amounted to \$19,126,920. Out of said amount, \$16,452,333 corresponded to long-term liabilities of which \$13,760,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues;
3. Total net assets of the Municipality amounted to \$14,940,736 which represents an increase of 80% compared to prior fiscal year;
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$22,747,394, derived from the following sources: \$207,077 charges for services; \$2,683,935 from operating grants and contributions; \$8,546,629 from capital grants and contributions obtained from other sources, and \$11,309,753 from general revenues available;

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL HIGHLIGHTS (continued)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$16,086,011;
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to the increase in the Net Assets Figure by \$6,661,383;
7. As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of 13,200,325;
8. As the end of the current fiscal year the Municipality's General Fund balance amounted to \$863,847. It is pertinent to note that it is the municipal administration's contention that the importance of such figure should not be overestimated since it has adopted the policy to use internal generated resources to increase services to Municipality's community rather than let them unused in the accounted records;
9. In accordance with the aforementioned policy, during fiscal year 2004 the Municipality used \$1,000,000 available in the General Fund Balance Account of previous year for further increases in capital assets and for the extension of several municipal services to Coamo's communities.
10. The actual General Fund budgetary activities resulted in a favorable balance of \$125,787 which is indicative of full compliance with the balanced budget principle applicable to all municipalities of the Commonwealth Government of Puerto Rico as required by the Municipal Autonomous Act enacted in August 1991.
11. In response to the continued increments in the municipal operating revenues, the Municipal Legislature approved a revision to the General Fund Budget for fiscal year 2004 which amounted to \$921,099.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2004. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of Coamo constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net assets at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of The Statements of Activities of the Municipality at June 30, 2004, shows total expenses incurred to afford the cost of all functions and programs amounted to \$16,086,011. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$11,437,641 was derived from the following sources: \$207,077 charges for services; \$2,683,935 from operating grants and contributions; and \$8,546,629 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$11,309,753. When such figure is added to the \$11,437,641 previously mentioned, total revenues available for the financing of activities amounted to \$22,747,394. There was an excess of revenues over expenses in the amount of \$6,661,383 which contributed to the figure of net assets attained at the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENTS COMPONENTS (continued)

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As explained in the Capital Assets and Debt Administration Section of this MD&A, on July 1, 2002, the Municipality commenced partially the prospective reporting of infrastructure assets. The Municipality expects to retroactively report historical costs of infrastructure assets during the fiscal year beginning on July 1, 2006.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

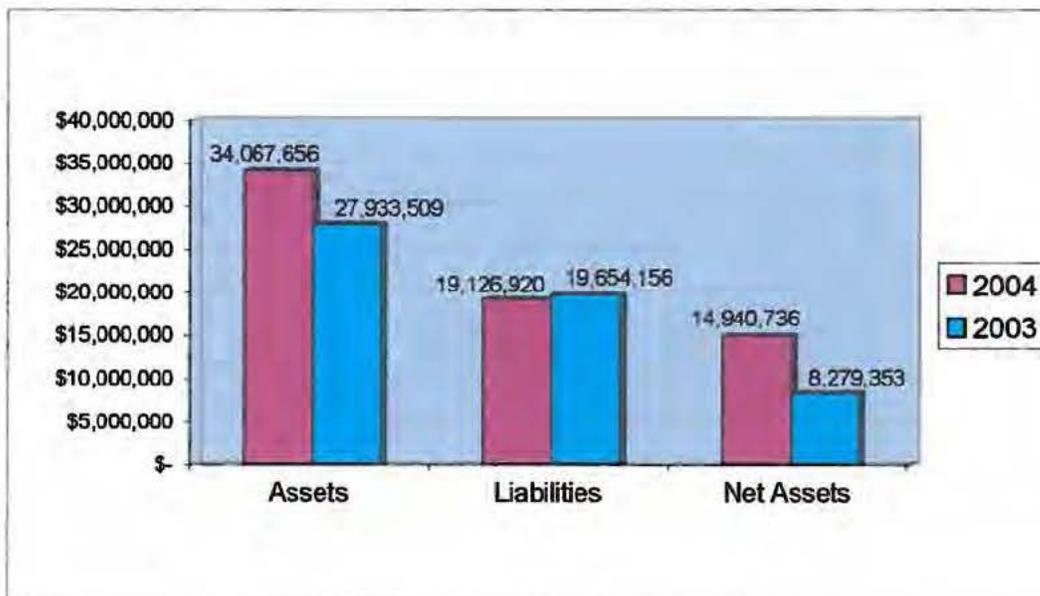
YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets 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, primary government assets exceeded total liabilities by \$14,940,736 at the end of 2004, compared to \$8,279,353 at the end of the previous year, as showed in the following condensed Statement of Net Assets of the Primary Government.

Condensed Statement of Net Assets	2004	2003	Change	%
Current and other assets	\$ 16,192,249	\$ 12,190,152	\$ 4,002,097	33%
Capital assets	17,875,407	15,743,357	2,132,050	14%
Total assets	34,067,656	27,933,509	6,134,147	22%
Current and other liabilities	2,674,587	2,796,092	(121,505)	(4%)
Long-term liabilities	16,452,333	16,858,064	(405,731)	(2%)
Total liabilities	19,126,920	19,654,156	(527,236)	(3%)
Invested in capital assets, net of related debt	12,630,407	10,228,357	2,402,050	23%
Restricted	12,189,496	7,601,267	4,588,229	60%
Unrestricted deficit	(9,879,167)	(9,550,271)	(328,896)	3%
Total net assets	\$ 14,940,736	\$ 8,279,353	\$ 6,661,383	80%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2004, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$6,661,383. Approximately 27 percent of the Municipality's total revenue came from taxes, while 70 percent resulted from grants and contributions, including federal aid. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works, culture and recreation, health and welfare services, economic development, community development and public safety. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

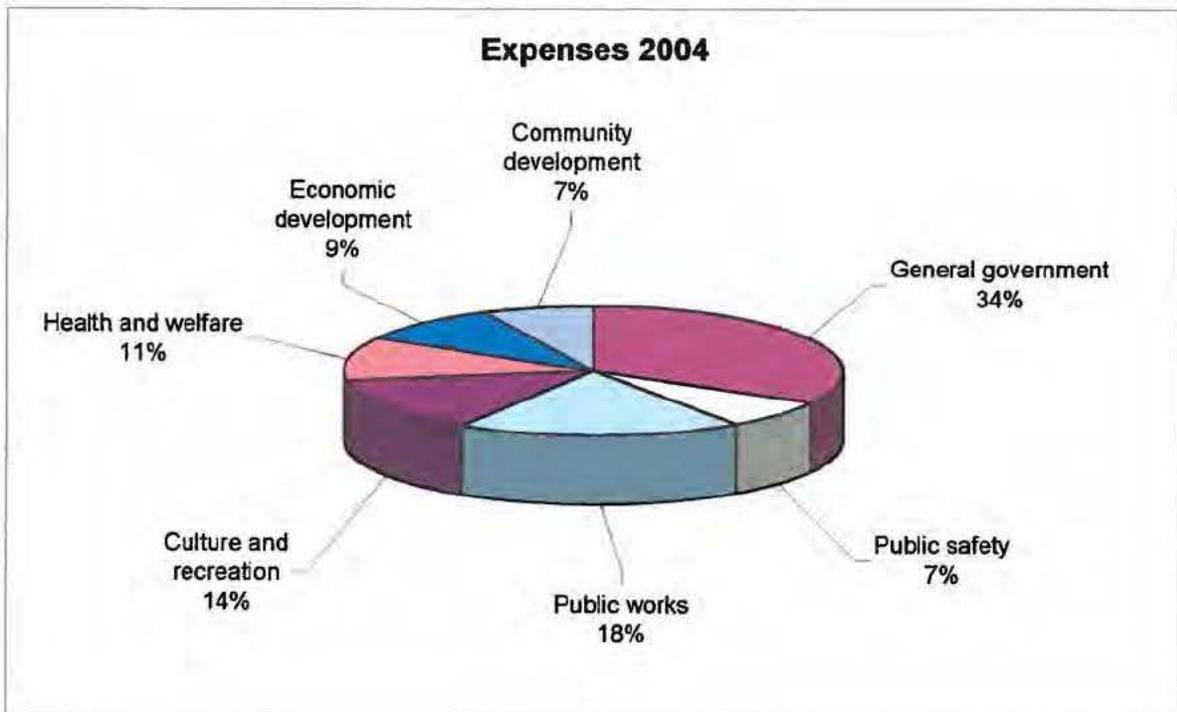
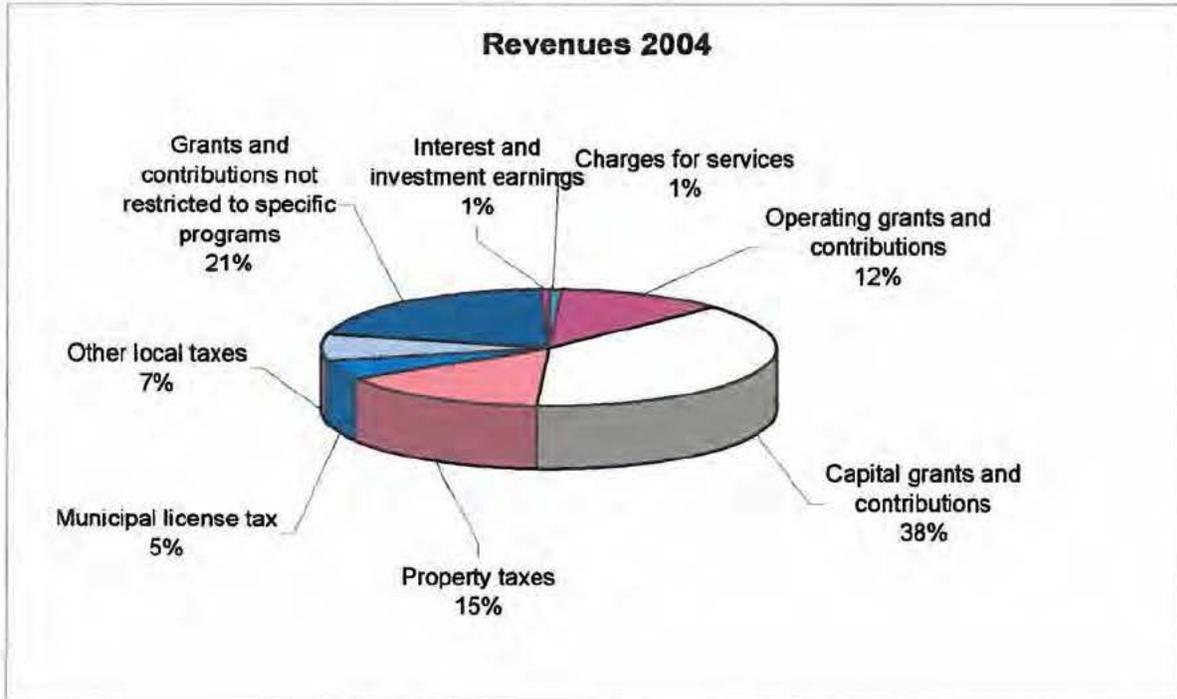
Condensed Statement of Activities	2004	2003	Change	%
Program revenues:				
Charges for services	\$207,077	\$632,193	(\$425,116)	(67%)
Operating grants and contributions	2,683,935	2,362,057	321,878	14%
Capital grants and contributions	8,546,629	1,836,194	6,710,435	365%
General revenues:				
Property taxes	3,460,056	2,603,211	856,845	33%
Municipal license tax	1,221,504	1,030,682	190,822	19%
Other local taxes	1,587,538	1,742,047	(154,509)	(9%)
Grants and contributions not restricted to specific programs	4,730,050	5,201,643	(471,593)	(9%)
Interest and investment earnings	116,081	192,524	(76,443)	(40%)
Miscellaneous	194,524	590,986	(396,462)	(67%)
Total revenues	22,747,394	16,191,537	6,555,857	40%
Expenses:				
General government	4,744,015	5,003,278	(259,263)	(5%)
Public safety	1,067,680	845,157	222,523	26%
Public works	2,651,203	2,812,980	(161,777)	(6%)
Culture and recreation	1,955,620	1,606,196	349,424	22%
Health and welfare	1,548,763	956,939	591,824	62%
Economic development	1,356,000	59,068	1,296,932	2196%
Community development	1,056,895	785,557	271,338	35%
Education	881,865	49,302	832,563	1689%
Urban development	19,106	24,048	(4,942)	(21%)
Interest on long-term debt	804,864	833,909	(29,045)	(3%)
Total expenses	16,086,011	12,976,434	3,109,577	24%
Change in net assets	6,661,383	3,215,103	3,446,280	107%
Net assets, beginning of year	8,279,353	5,064,250	3,215,103	63%
Net assets, end of year	\$14,940,736	\$8,279,353	\$6,661,383	80%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$13,200,325, an increase of \$3,834,351 in comparison with the prior year. There are reservations of fund balance amounting to \$12,471,938. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$135,460), 2) to pay debt service (\$1,198,896), 3) to pay for capital projects (\$10,171,110) and 4) for other purposes (\$966,472).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has an undesignated fund balance of \$728,387.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the fiscal year 2004 the Municipality used \$1,000,000 available in the General Fund Undesignated Fund Balance Account of previous year for further increases in capital assets and for the extension of several municipal services to Coamo's communities.

In response to the increments in the municipal operating revenues, the Municipal Legislature approved a revision to the General Fund Budget for fiscal year 2004 which amounted to \$921,099. Such increments were used to provide further increases in capital assets and for the extension of several municipal services to Coamo's communities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality has not maintained complete and adequate records related to the Capital Assets acquired and constructed in the past years, but the Municipality expects to compile documents and other information in the next fiscal years in order to attain complete and accurate records of its Capital Assets, and then, comply with such requirement. The Municipal Administration expects to develop a broad and comprehensive identification and assessments project of all fixed assets owned by the local government in order to capitalize them in its Statement of Net Assets, and then, reflects the correct net assets figure of the Municipality as a whole.

The Municipality's investment in capital assets as of June 30, 2004, amounts to \$26,643,676, net of accumulated depreciation of \$8,768,269, leaving a net book value of \$17,875,407. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2004, the Municipality has \$1,568,986 of unexpended proceeds from bond and notes issuances that are committed to future construction activities.

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". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

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

ECONOMIC FACTORS AND NEXT 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 also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2004-2005.

FINAL COMMENTS

The Municipality 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 development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

On September 7, 2004, Public Law 255 was enacted amending Public Law 83 of May 2, 1941, as amended. This Law stipule a new formula to determine the contribution in lieu of taxes to be distributed by the Puerto Rico Electric Power Authority (PREPA), which, pays the municipalities as contributions in lieu of taxes greater of the following amounts: (a) twenty percent (20%) of its net revenues as defined in the Trust Indenture signed with the Trustee as representative of the bondholders, adjusted by subsidies granted by the PREPA; (b) an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities during the current year; or (c) an average of the contribution in lieu of taxes paid by PREPA to each municipality during the past five fiscal years. Also, in addition to the new formula established for the calculation of the contribution in lieu of taxes as described above, applicable on fiscal year 2004-2005 and each subsequent fiscal year, the Law provides for quarterly revisions to be prepared by PREPA of its estimates

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINAL COMMENTS (continued)

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. Such has been the case of the financial operation corresponding to fiscal year 2004. It further contemplates to improve its current figure of net assets, which has been identified as one of the main short and long-term objectives of the Municipality.

FINANCIAL CONTACT

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, Puerto Rico 00769, or call (787) 825-1150.

Commonwealth of Puerto Rico
Municipality of Coamo
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 11,090,136
Cash with fiscal agent	3,258,129
Accounts receivable (net of allowance for uncollectible accounts):	
Municipal license tax	95,890
Construction tax	611,684
Intergovernmental	1,134,828
Interest	611
Prepaid Expenses	971
Capital assets	
Land, improvements, and construction in progress	4,495,367
Other capital assets, net of depreciation	13,380,040
Total capital assets	17,875,407
Total assets	34,067,656
 Liabilities	
Accounts payable and accrued liabilities	887,167
Due to other governmental entities	29,610
Deferred revenues:	
Municipal license tax	679,432
Federal grant revenues	931,396
Interest Payable	146,982
Noncurrent liabilities:	
Due within one year	507,517
Due in more than one year	15,944,816
Total liabilities	19,126,920
 Net Assets	
Invested in capital assets, net of related debt	12,630,407
Restricted for:	
Capital projects	10,171,110
Debt service	1,051,914
Other purposes	966,472
Unrestricted (deficit)	(9,879,167)
Total net assets	\$ 14,940,736

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

**Commonwealth of Puerto Rico
Municipality of Coamo
Statement of Activities
For the Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 4,744,015	\$ -	\$ 172,437	\$ 700	\$ (4,570,878)
Public safety	1,067,680	14,000	231,530		(822,150)
Public works	2,651,203	26,333	158,622	1,411,061	(1,055,187)
Health and welfare	1,548,763	11,602	963,063	9,150.00	(564,948)
Culture and recreation	1,955,620	155,142		1,412,460	(388,018)
Economic development	1,356,000		752,688		(603,312)
Community development	1,056,895		403,645	4,832,659	4,179,409
Urban development	19,106				(19,106)
Education	881,865		1,950	880,599	684
Interest on long-term debt	804,864				(804,864)
Total governmental activities	\$ 16,086,011	\$ 207,077	\$ 2,683,935	\$ 8,546,629	(4,648,370)
General revenues:					
Property taxes					3,460,056
Municipal license tax					1,221,504
Other Local Taxes					1,587,538
Grants and contributions not restricted to specific programs					4,730,050
Interest and investment earnings					116,081
Miscellaneous					194,524
Total general revenues					11,309,753
Change in net assets					6,661,383
Net assets - beginning, as restated					8,279,353
Net assets - ending					\$ 14,940,736

Commonwealth of Puerto Rico
Municipality of Coamo
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Projects Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 789,764	\$ 1,076,147	\$ 250,903	\$ 8,864,333	\$ 108,989	\$ 11,090,136
Cash with fiscal agent		2,902	681,917	1,568,986	1,004,324	3,258,129
Accounts receivable:						
Municipal License Tax	39,040					39,040
Intergovernmental	156,767	514,255	101,154	166,965	195,657	1,134,828
Construction Taxes	204,216					204,216
Interest					611	611
Prepaid Expenses	971					971
Due from other funds	643,372					643,372
Total assets	\$ 1,834,160	\$ 1,593,304	\$ 1,033,974	\$ 10,600,284	\$ 1,309,581	\$ 16,371,303
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 261,271	\$ 150,162	\$ 53,601	\$ 422,133	\$ -	\$ 887,167
Due to other governmental entities	29,610					29,610
Due to other funds		476,870	157,965	7,041	1,696	643,372
Deferred revenues:						
Municipal license tax	679,432					679,432
Federal grant revenues			822,407		108,989	931,396
Total liabilities	970,313	626,832	1,033,973	429,174	110,685	3,170,977
Fund balances:						
Reserved for:						
Encumbrances	135,460					135,460
Capital projects				10,171,110		10,171,110
Other purposes		966,472				966,472
Reserved reported in nonmajor funds:						
Debt service fund					1,198,896	1,198,896
Unreserved:						
Undesignated	728,387					728,387
Total fund balances	863,847	966,472	-	10,171,110	1,198,896	13,200,325
Total liabilities and fund balances	\$ 1,834,160	\$ 1,593,304	\$ 1,033,973	\$ 10,600,284	\$ 1,309,581	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	17,875,407
Accrual basis of accounting account receivables used in governmental activities are not financial resources and, therefore, are not reported in the funds	464,316
Long-term liabilities and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds	(16,599,314)
Net assets of governmental activities	\$ 14,940,736

Commonwealth of Puerto Rico
Municipality of Coamo
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Projects Fund - State & Local Grants		
Revenues						
Property taxes	\$ 2,671,472					\$ 3,460,056
Municipal license taxes	1,167,132					1,167,132
Licenses, permits and other local taxes	1,199,903					1,199,903
Charges for services	201,475					201,475
Intergovernmental	4,902,488	1,145,349	2,093	8,546,629	26,852	14,623,211
Fines and forfeitures	14,000					14,000
Interest	116,081					116,081
Federal grants			1,073,261		264,143	1,337,404
Miscellaneous	232,539	12,253				244,792
Total revenues	10,505,090	1,157,602	1,073,354	8,546,629	1,079,379	22,364,054
Expenditures						
Current:						
General government	4,415,583	482,343		1,400		4,899,326
Public safety	780,939	135,628	117,453			1,034,020
Public works	2,355,268	527,668	8,371	2,245,706		5,137,041
Health and welfare	670,347	118,535	494,890		9,057	1,583,424
Culture and recreation	346,528			1,274,197		1,620,725
Economic development	464,455	800,681	51,388			1,316,524
Community development	117,577		403,645		535,673	1,056,895
Urban development	19,106					19,106
Education			1,950	879,916		881,866
Debt service:						
Principal					270,000	270,000
Interest					811,332	811,332
Total expenditures	9,169,803	2,084,885	1,077,497	4,945,949	1,372,127	18,630,261
Excess (deficiency) of revenues over (under) expenditures	1,335,287	(967,283)	(2,143)	3,600,680	(292,748)	3,733,793
Other financing sources (uses)						
Transfers in		240,000	2,143	1,431,528	750,900	2,424,569
Transfers out	(2,184,569)				(240,000)	(2,424,569)
Total other financing sources (uses)	(2,184,569)	240,000	2,143	1,431,528	510,900	
Net change in fund balances	(849,282)	(667,283)		5,032,206	218,152	3,733,793
Fund balance beginning, as restated	1,713,129	1,633,755		5,138,904	980,744	9,466,532
Fund balance, ending	\$ 863,847	\$ 966,472	\$	\$ 10,171,110	\$ 1,198,896	\$ 13,200,325

The notes to the 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 of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 3,733,793
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	3,003,637
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(871,587)
Municipal license tax reported in the Government-Wide Statement of Activities as revenues do not provide current financial resources in Governmental Funds. The following amount represents the change in accounts receivable.	383,340
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from prior year.	6,469
Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount paid in the current year.	270,000
Repayment of long term unemployment tax debt is an expenditure in Governmental Funds, but the repayment reduces long -term unemployment tax debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	61,484
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	93,617
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represented the change in long-term compensated absences from prior year.	(49,370)
Long-term claims and judgements are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represented the change in long-term claims and judgments from prior year.	30,000
Change in Net Assets of Governmental Activities	\$ <u>6,661,383</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Coamo** (the Municipality) was founded on the year 1579. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2003. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality has elected to delay the capitalization of infrastructure.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following is a summary of the significant accounting policies of the Municipality:

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by GASB Statement No. 39. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and others.

Special Revenue Fund – State and Local Grants – is the accounting entity in which revenues derived from local funds, state or other restricted revenue source is accounted for the uses and limitations specified by Municipality ordinances or state statutes.

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.

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.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Fund – State and Local Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Section 8 - Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund- Debt Service Fund are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds – State and Local Grants - Capital Projects Fund are used to account for financial resources used for the acquisition or construction of major capital facilities.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the General Fund represents mostly contributions from the Puerto Rico Electric Power Authority (PREPA), which, pays the municipalities as contributions in lieu of taxes greater of the following amounts: (a) twenty percent (20%) of its net revenues as defined in the Trust Indenture signed with the Trustee as representative of the bondholders, adjusted by subsidies granted by the PREPA; (b) an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities during the current year; or (c) an average of the contribution in lieu of taxes paid by PREPA to each municipality during the past five fiscal years. The contribution in lieu of tax revenue and related receivable recorded in the General Fund for the current fiscal year was determined based on the preliminary liquidation made by the PREPA. Such liquidation is subject to final results of the PREPA financial statements audit. Intergovernmental receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. **Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 7. Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
- 8. Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The municipality has the following reservations of fund balance:

 - a. Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - b. Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - c. Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
 - d. Debt Service Fund-** Represents net assets available to finance future debt service payments.
- 9. Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:

 - a. Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
- 10. Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2004 amounted to approximately \$323,669. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$216,341 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 17,875,407	
Deduct:		
Bonds Payable	(5,035,000)	
Notes Payable	<u>(210,000)</u>	\$ 12,630,407
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		10,171,110
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	\$ 1,198,896	
Deduct:		
Interest Payable	<u>(146,982)</u>	1,051,914
<u>Net assets restricted for other purposes</u>		
Other governmental funds - fund balance restricted for other purposes		966,472
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	\$ 863,847	
Add:		
Accrual Basis Account Receivables	464,318	
Deduct:		
Bonds and Notes Payable	(8,515,000)	
Unemployment Tax - Department of Labor	(45,079)	
Advance Property Tax Debt	(1,564,286)	
Compensated Absences	<u>(1,082,967)</u>	<u>(9,879,167)</u>
Total net assets - governmental activities		<u>\$ 14,940,736</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

2. DEPOSITS

Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$789,764 in the general fund, the \$1,076,147 in the special revenue fund – state and local grants, the \$250,903 in the special revenue fund – federal grants, and the \$8,864,333 in the capital project fund – state and local grants, were fully collateralized at June 30, 2004. In the other governmental funds there were deposits with commercial banks of approximately \$108,989 that were fully collateralized.

The deposits at GDB of approximately \$2,902 in the special revenue fund – state and local grants, the \$681,917 in the special revenue fund – federal grants, the \$1,568,986, that is restricted principally for capital projects in the capital project fund – state and local grants, and the \$1,004,324 that is restricted for debt service fund in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax* – The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2004, the tax rates were as follows:

1. Financial business – 1.50% of gross revenues.
2. Other organizations – 0.50% of gross revenues.

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

3. RECEIVABLES (CONTINUED)

B. Intergovernmental Receivables - Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes over actual cost of electric power consumed by the Municipality during the current fiscal year, and the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from the excess of current year property tax collections over current year advances. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$ 33,619
Municipal Revenue Collection Center ("CRIM")	<u>123,178</u>
Total	<u>\$ 156,797</u>

On September 7, 2004, Act Num. 255 was enacted and a new formula as described in Note 1 (E) (2), was established for the calculation of the contribution in lieu of taxes to be paid to the municipalities by PREPA. Since the final liquidation following such formula was not available for fiscal year 2003-2004, the PREPA issued a preliminary liquidation, which could be affected by final results of the PREPA financial statements audit.

Intergovernmental receivables in the special revenue fund - state and local grants consist of the amounts due from the CRIM resulting from the reimbursements to the Municipality of the Operational Loan principal retentions during the current fiscal year, and from expenditures incurred not yet reimbursed by the Department of Labor. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ 240,000
Department of Labor	<u>274,255</u>
Total	<u>\$ 514,255</u>

Intergovernmental receivable in special revenue funds - federal grant represent expenditures incurred not yet reimbursed by the federal government or the pass-through grantor. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant - State's Program	\$ 57,001
Public Safety and Community Policing Grants	41,729
Family Violence Prevention and Services	<u>2,424</u>
Total	<u>\$ 101,154</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in capital project funds - state and local grants represent expenditures incurred not yet reimbursed by other governmental entities. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Education	\$ 145,500
Puerto Rico Housing Administration	21,465
Total	<u>\$ 166,965</u>

Intergovernmental receivable in the debt service fund represents the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ 195,657
Total	<u>\$ 195,657</u>

- c. **Construction Taxes Receivables** - Construction taxes receivables in the general fund principally consist of the amounts due from private contractors performing housing and urban development construction projects.

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2004, and interfund transfers during the fiscal year ended at June 30, 2004, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - State and Local Grants	Reimbursable expenditures	\$ 476,670
General Fund	Special Revenue Fund - Federal Grants	Reimbursable expenditures	157,965
General Fund	Capital Projects Fund - State and Local Grants	Reimbursable expenditures	7,041
General Fund	Debt Service Fund	Interest not transferred	1,696
Total			<u>\$ 643,372</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Federal Grants	Matching contribution	\$ 2,143
General Fund	Capital Projects Fund - State and Local Grants	Capital outlays	1,431,526
General Fund	Debt Service Fund	Debt retirement	750,900
Debt Service	Special Revenue Fund - State and Local Grants	Capital outlays	240,000
Total			<u>\$ 2,424,569</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2004, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2004</u>
Capital asset, not being depreciated:				
Land	\$ 3,181,485	\$ -	\$ -	\$ 3,181,485
Construction in progress	<u>1,313,882</u>	<u>-</u>	<u>-</u>	<u>1,313,882</u>
Total capital assets not being depreciated	\$ 4,495,367	\$ -	\$ -	\$ 4,495,367
Capital assets, being depreciated:				
Buildings	\$ 14,307,558	\$ 2,589,834	\$ -	\$ 16,897,392
Infrastructure	740,971			740,971
Equipment	893,266	96,976		990,242
Vehicles	<u>3,202,876</u>	<u>316,828</u>	<u>-</u>	<u>3,519,704</u>
Total capital assets being depreciated	\$ 19,144,671	\$ 3,003,638	\$ -	\$ 22,148,309
Less accumulated depreciation for:				
Buildings	(\$ 5,542,938)	(\$ 433,353)	\$ -	(\$ 5,976,291)
Infrastructure	(10,255)			(10,255)
Equipment	(566,241)	(96,251)		(662,492)
Vehicles	<u>(1,777,247)</u>	<u>(341,984)</u>	<u>-</u>	<u>(2,119,231)</u>
Total accumulated depreciation	(\$ 7,896,681)	(\$ 871,588)	\$ -	(\$ 8,768,269)
Total capital assets being depreciated, net	\$ 11,247,990	\$ -	\$ -	\$ 13,380,040
Governmental activities capital assets, net	\$ 15,743,357	\$ -	\$ -	\$ 17,875,407

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 126,339
Public safety	109,005
Public works	241,497
Culture and Recreation	334,895
Health and welfare	19,618
Economic development	<u>40,234</u>
Total depreciation expense-governmental activities	<u>\$ 871,588</u>

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the Municipal Revenue Collection Center (CRIM), a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The 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 amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

6. PROPERTY TAXES (CONTINUED)

On December 1994 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2004, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$176,332 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 32,554
2005	32,554
2006	32,554
2007	32,554
2008	32,554
Thereafter	<u>13,562</u>
Total	<u>\$ 176,332</u>

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2003, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

On June 26 1997, Public Law Num. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law 146 was approved and enacted.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

6. PROPERTY TAXES (CONTINUED)

Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law.

The Government-Wide Statement of Net Assets includes an outstanding debt balance of \$660,329 and \$727,625 related to Law 42 and Law 146 respectively.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the general fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
General Services Administration	<u>\$ 29,610</u>
Total	<u>\$ 29,610</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

8. DEFERRED REVENUES

- A. Municipal License Tax-** The deferred revenues of approximately \$679,432 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.
- B. Federal Government-** The deferred revenues presented in the special revenue funds - federal grant represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Public Assistance Grant	\$ 721,507
Child Care and Development Block Grant	34,710
Child and Adult Care Food Program	30,000
Emergency Management Performance Grant	11,393
Library Service and Technology Grant	5,973
Community Service Block Grant	5,960
Juvenile Justice and Delinquency Prevention	5,718
Grants for Public Works and Economic Development	4,759
Others	<u>2,387</u>
Total	<u>\$ 822,407</u>

The deferred revenues presented in the other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Voucher	<u>\$ 108,989</u>
Total	<u>\$ 108,989</u>

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 5,245,000	\$ -	\$ 210,000	\$ 5,035,000	\$ 225,000
Notes Payable	8,785,000		60,000	8,725,000	255,000
Department of Labor	106,564		61,484	45,080	45,080
Advance Property Tax	1,657,903		93,617	1,564,286	89,842
Compensated Absences	1,033,597	138,748	89,378	1,082,967	82,595
Claims and judgments	<u>30,000</u>		<u>30,000</u>	<u>-</u>	
Total	<u>\$ 16,858,064</u>	<u>\$ 138,748</u>	<u>\$ 544,479</u>	<u>\$ 16,452,333</u>	<u>\$ 697,517</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable, is paid with unrestricted funds.
2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2004 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2004</u>
1992 Series	7-1-2006	\$ 790,000	3.26% to 6.36%	\$ 260,000
1995 Series	7-1-2014	235,000	4.70% to 6.88%	180,000
1995 Series	7-1-2014	1,430,000	6.11% to 7.71%	1,060,000
1997 Series	7-1-2017	300,000	4.87% to 7.81%	250,000
1999 Series	7-1-2013	205,000	4.87% to 6.31%	155,000
2000 Series	7-1-2024	405,000	5.88% to 7.50%	385,000
2003 Series	7-1-2027	810,000	6.00% to 7.25%	795,000
2003 Series	7-1-2026	2,015,000	5.00% to 7.00%	<u>1,950,000</u>
Total general obligation bonds				<u>\$ 5,035,000</u>

These bonds are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 225,000	\$ 281,545
2006	250,000	268,382
2007	275,000	253,476
2008	200,000	239,937
2009	210,000	228,213
2010-2014	1,300,000	924,641
2015-2019	935,000	558,627
2020-2024	925,000	333,413
2025-2029	<u>715,000</u>	<u>66,220</u>
Total	<u>\$ 5,035,000</u>	<u>\$ 3,154,454</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

- 3. Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2004</u>
1997 Series	7-1-2029	\$ 10,000,000	4.50% to 6.00%	\$ 8,515,000
2000 Series	7-1-2006	435,000	5.88% to 7.81%	<u>210,000</u>
Total notes payable				<u>\$ 8,725,000</u>

These notes, except the 1997 Series note, are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

On June 16, 2004, the Municipal Assembly issued the Resolution No. 56, 2004 Series, authorizing the Municipality Major to accept the terms and conditions approved by the Government Development Bank for Puerto Rico (GDB) to refinance the \$10,000,000 Note (1997 Series), in order to extend the maturity date of the Note from July 1, 2021 to July 1, 2029, and therefore, to reduce the annual debt service cash requirements for principal and interest payments.

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 255,000	\$ 388,515
2006	269,000	378,044
2007	283,000	365,974
2008	218,000	356,310
2009	228,000	346,500
2010-2014	1,303,000	2,092,140
2015-2019	1,624,000	1,664,400
2020-2024	2,023,000	1,131,420
2025-2029	<u>2,522,000</u>	<u>467,280</u>
Total	<u>\$ 8,725,000</u>	<u>\$ 7,190,583</u>

- 4. Department of Labor** - These amounts represent the balance own to the Department of Labor at June 30, 2004 from unemployment benefits paid. The Municipality agreed with the Department of Labor to pay this debt in monthly installments on a long term basis.
- 5. Property Taxes Debt-** These amounts represent the balance own to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2004 as described in Note 6.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

6. Compensated absences- The government-wide statement of net assets includes approximately \$582,384 of accrued sick leave benefits, and approximately \$500,583 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

10. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2004 amounted to approximately \$278,669 and \$248,624, respectively.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

10. PENSION PLAN (CONTINUED)

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, San Juan, PR 00940.

11. RISK MANAGEMENT

The Finance Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department Division compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

12. CONTINGENCIES

The Municipality 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.

It is management's opinion, 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.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

13. CAPITAL ASSETS REPORTED VALUE:

The Municipality has not maintained complete and adequate records related to the Capital Assets reported in governmental activities of the government-wide financial statements and, therefore, such condition would affect the amounts of assets, net assets, and expenses of the governmental activities. The Municipality expects to compile documents and other information in the next fiscal years in order to attain complete and accurate records of its Capital Assets.

14. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$1,990 to properly presents the previously reported fund balance at June 30, 2003. The restatement is mainly due to recognition of interfund receivable from the Debt Service Fund.

The beginning Fund Balance for Debt Service Fund has been restated by approximately \$98,568 to properly presents the previously reported fund balances at June 30, 2003. The restatement is mainly due to the recognition of the amount due from CRIM related to the Final Liquidation of the fiscal year 2002-2003.

The beginning Governmental Activities Net Assets has been restated by approximately \$52,892 to properly present the previously reported net assets at June 30, 2003. The restatement is mainly due to fund balances restatements described above, and the recognition of bond and notes accrued interest as of the beginning of the current fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

15. SUBSEQUENT EVENTS

On September 7, 2004, Public Law 255 was enacted amending Public Law 83 of May 2, 1941, as amended. In addition to the new formula established for the calculation of the contribution in lieu of taxes as described in Note 1 (E) (2), applicable on fiscal year 2002-2003 and each subsequent fiscal year, the Law provides for quarterly revisions to be prepared by PREPA of its estimates corresponding to the contribution in lieu of taxes for the current fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		Actual Amounts	Variance
	Original	Final	(Budgetary Basis) (See Note 1)	with Final Budget Positive (Negative)
REVENUES:				
Property taxes	\$2,035,868	\$ 2,235,065	\$ 2,235,065	
Municipal license tax	1,080,251	1,080,251	1,128,093	\$ 47,842
Licenses, permits and other local taxes	1,376,151	1,376,151	1,199,903	(176,248)
Charges for service	187,900	187,900	201,475	13,575
Intergovernmental	4,783,984	4,991,460	4,902,488	(88,972)
Fines and forfeitures	5,000	5,000	14,000	9,000
Interest	177,055	177,055	120,367	(56,688)
Miscellaneous	340,137	854,563	1,063,789	209,226
Total revenues before carryover	<u>9,986,346</u>	<u>10,907,445</u>	<u>10,865,180</u>	<u>(42,265)</u>
Budget carryover (1)		1,000,000	1,000,000	
Total revenues after carryover	<u>9,986,346</u>	<u>11,907,445</u>	<u>11,865,180</u>	<u>(42,265)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	4,156,762	4,768,383	4,667,790	\$ 100,593
Public safety	830,877	867,166	861,536	5,630
Public works	2,607,139	2,431,747	2,393,226	38,521
Health and welfare	668,100	673,360	671,341	2,019
Culture and recreation	325,165	358,583	351,522	7,061
Economic development	490,046	477,447	471,996	5,451
Community development	137,357	126,190	118,307	7,883
Urban development	20,000	20,000	19,106	894
Operating transfer to other fund	750,900	2,184,569	2,184,569	-
Total expenditures, encumbrances and other financing uses	<u>9,986,346</u>	<u>11,907,445</u>	<u>11,739,393</u>	<u>168,052</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,787</u>	<u>\$ 125,787</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$ 11,865,180
Differences-budget to GAAP:				
Budget carryover				(1,000,000)
Reversal of prior year Accounts Receivables				(363,260)
Recognition of current year Accounts Receivable				162,218
Reclassification of revenues to Special Revenue Fund				(101,397)
Reversal of revenues recorded at 06/30/03				(40,212)
Reclassification of an error in revenue recognition				(17,439)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 10,505,090</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 11,739,393
Differences-budget to GAAP:				
Reclassification of expenditures to Special Revenue Fund				(179,441)
Net change in encumbrances				(236,449)
Nonbudgeted expenditures				30,869
Total expenditures and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 11,354,372</u>

(1) Represents fund balance carried over from prior year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2004

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. 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, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	CCC-131	\$ 20,633
Total U.S. Department of Agriculture			<u>20,633</u>
U.S. DEPARTMENT OF COMMERCE:			
Direct Program: Grant for Public Works and Economic Development	11.300		22,500
Total U.S. Department of Commerce			<u>22,500</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Section 8 Housing Choice Voucher Program	14.871		264,143
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: Community Development Block Grants - State's Program	14.228	94-AF-FD-18 95-FD-18 96-FD-18 97-FD-18 98-FD-18 99-FD-18 00-FD-18 01-FD-18 02-FC-AB-18 03-FC-AB-18	432,533
Total U.S. Department of Housing and Urban Development			<u>696,676</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710		78,044
Pass-through the Commonwealth of Puerto Rico – Department of Justice:			
Local Law and Enforcement Block Grants	16.592	2000-LB-BX-1085	33,521
Total U.S. Department of Justice			111,565
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico – Emergency Management Agency:			
Emergency Management Performance Grant	83.552	Not Available	5,888
Pass-through the Commonwealth of Puerto Rico – Office of the Governor Authorized Representative (GAR):			
Public Assistance Grants	97.036	1501-DR-PR	6,278
Total U.S. Department of Homeland Security			12,166
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico – Department of Education:			
Library Service and Technology Grant	N/A	Not Available	1,950
Pass-through the Commonwealth of Puerto Rico – Family Department:			
Community Services Block Grant	93.569	Not Available	26,356
Pass-through the Commonwealth of Puerto Rico – Family Department:			
Child Care and Development Block Grant	93.575	Not Available	443,126

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico - Family Department: Family Violence Prevention and Services	93.671	Not Available	<u>2,431</u>
Total U.S. Department of Health and Human Services			<u>473,863</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,337,403</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Coamo and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. 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:

Description	Special Revenue Fund Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 1,073,260	\$ 264,143	\$ 1,337,403
Non federal programs Expenditures	<u>4,237</u>	<u>815,236</u>	<u>819,473</u>
Total expenditures in the fund financial statements	<u>\$ 1,077,497</u>	<u>\$ 1,079,379</u>	<u>\$ 2,156,876</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

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

We have audited the basic financial statements of the **Municipality of Coamo** as of and for the year ended June 30, 2004, and have issued our report thereon dated October 19, 2004, which was unqualified at the fund financial level, but adverse at the government-wide financial statements level because we were unable to obtain competent evidential matter related to the Capital Assets reported in the governmental activities. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Coamo's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

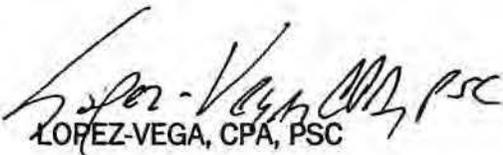
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Coamo's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Coamo's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items 04-01 through 04-05.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe item 04-01 of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Municipality of Coamo in a separate letter dated October 19, 2004.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 19, 2004

Stamp No. 2019452 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

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

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

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of 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. Our audit does not provide a legal determination on the **Municipality of Coamo's** compliance with those requirements.

In our opinion, the **Municipality of Coamo** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, 04-06 through 04-14.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133
(CONTINUED)**

Internal Control Over Compliance

The management of the **Municipality of Coamo** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Coamo's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

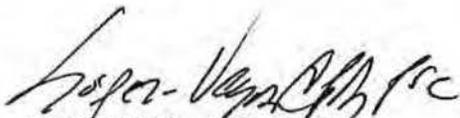
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Coamo's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **04-06** through **04-14**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **04-09**, **04-10** and **04-12** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Coamo** in a separate letter dated March 28, 2005.



**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133
(CONTINUED)**

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 28, 2005

Stamp No. 2019453 of the Puerto Rico
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was affixed to the record copy of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified, except for adverse
for government-wide financial
statements

Internal control over financial reporting:

Material weakness identified? Yes X No

Reportable conditions identified not considered to
be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes No X

Federal awards

Internal Control over major programs:

Material weakness identified? Yes X No

Reportable conditions identified not considered to
be material weaknesses? Yes X None reported

Type of auditors’ report issued on compliance for major programs: Unqualified

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 Grant – State’s Program
93.575	Child Care and Development Block Grant

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)

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference	04-01
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, to comply with the requirements of the GASB Statement No. 34.
Questioned Costs	None
Management Response and Corrective Action	The Municipality Management will continue with the compilation of evidence to support the cost assigned to all of capital assets recorded in the fixed asset subsidiary ledger. Implementation Date: June 2006 Responsible Person: Mr. Julio Acevedo Santiago Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference 04-02

Requirement **Financial Reporting – Accounting Records**

Statement of Condition During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds.

Criteria Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.

Cause of Condition The Municipality accounting data is not summarized in the form of a double-entry General Ledger record.

Effect of Condition The Municipality's accounting system did not provide updated and complete financial information that presents the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.

Recommendation We recommend to the Municipality's management to implement internal control and procedures in order to maintain a double entry accounting system that contains accurate information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

Questioned Costs None

Management Response and Corrective Action The Municipality's Finance Department personnel were instructed to strengthen the control and procedures to assure that the accounting system will provide information regarding authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

Implementation Date: July 2005

Responsible Person: Mr. Julio Acevedo Santiago
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II - Financial Statements Findings

Finding Reference 04-03

Requirement **Expenditures for Goods and Services and Account Payables -
Purchasing and Receiving**

Statement of Condition During our examination of the Municipality's disbursement procedures related to the expenditures for goods and services and account payables process, we noted the following situations:

- a. Twenty four (24) disbursement vouchers and supporting documents were not stamped as paid.
- b. Thirteen (13) disbursement vouchers did not have all of its supporting documents stamped as paid.
- c. Four (4) disbursement vouchers did not include all the approvals.
- d. In sixteen (16) disbursement vouchers the purchase order was issued after the receiving of goods of services.
- e. In one (1) disbursement voucher the purchase order was missing.
- f. Two (2) receiving reports (asphalt) related to road improvements projects were not signed by the project inspector.
- g. One (1) disbursement voucher was not available for our audit procedures.
- h. In three (3) disbursement vouchers we observe that only two quotations were obtained.
- i. In two (2) disbursement vouchers we observe that the invoice was dated after the check issuance date.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference **04-03 (Continued)**

Criteria The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in Chapter Four (4) that the Finance Director will be responsible to account and to prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Chapter Eight (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the quotations for the purchase of goods or services. Also, the Article 10.007 of State Act Number 81 of August 30, 1991 establishes procedures to request and obtain quotation from the suppliers

Cause of Condition The Municipality internal control procedures failed to assure that all transactions include all the required documentation, and that the required procedures were properly followed by the personnel.

Effect of Condition The Municipality is not in compliance with Chapter Four (4) and Eight (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico and with the State Act Number 81 of August 30, 1991.

Recommendation We recommend to the Municipality's management to improve its internal control and procedures in order to assure that all disbursement vouchers were properly safeguarded, and to instruct personnel to follow the disbursements and purchase procedures established by laws and regulations.

Questioned Cost None

Management Response and Corrective Action The Municipality's Management instructed Finance Department personnel in order to strengthen disbursements and purchases related control and procedures to assure that conditions as observed by the auditors does not occurred again.

Implementation Date: April 2005

Responsible Person: Mr. Julio Acevedo Santiago
Finance Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference	04-04
Requirement	Expenditures for Goods and Services and Account Payables – Purchasing
Statement of Condition	During our examination of the Municipality's procedures related to the formal procurement process we examined twenty five (25) formal bid files and we did not find evidence regarding the mailing of adjudication or non-adjudication letters through certified mail for eight (8) bidders who participated in the formal bids.
Criteria	Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids for the purchase of goods or services.
Cause of Condition	The Municipality's procedures failed to assure that the evidence regarding the mailing of letters through certified mail has been retained in a file as evidence of compliance with the procurement requirements.
Effect of Condition	The Municipality is not in compliance with Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend to the Municipality's Management to instruct to staff in charge of bid files to improve the recordkeeping procedures in order to assure that formal bid files includes all required documents.
Questioned Costs	None
Management Response and Corrective Action	The personnel were instructed to strengthen controls and procedures to assure that all of required documents were properly safeguarded in the bid files.

Implementation Date: April 2005

Responsible Person: Mrs. Rosa Reyes Díaz
Municipal Secretary Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference **04-05**

Requirement **Payroll and Related Liabilities – Payroll Preparation and Timekeeping**

Statement of Condition We performed a payroll test and examined a sample of 60 personnel files, and the related payroll documents of these employees. For forty (40) of those employees we verified the documents related with the semi-monthly payroll ended April 30, 2003, and for twenty (20) we verified the documents related with the semi-monthly payroll ended on June 30, 2003. The following summarize the exceptions observed:

- a. In nine (9) employee's files the Immigration Form (I-9) was incomplete; employer section was left blank.
- b. In five (5) employee's files the Immigration Form (I-9) was missing.
- c. One (1) compensated absences card was not available for our examination.
- d. In four (4) employee's files the Income Tax Withholding Form (W-4) was missing.
- e. For two (2) employees the compensated absences balance per compensated absences cards did not agree with the Accrued Compensated Absences Detail prepared by client, and used to support the liability reported in the government-wide statement of net assets.

Criteria The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files. Also, Article 11.023 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated employee files.

Cause of Condition The Municipality's procedures and controls failed to assure the proper preparation and payment of payroll, the exactitude of compensated absences balances and the maintenance of updated employee's file.

Effect of Condition The Municipality is not in compliance with the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1), and the Article 11.023 of State Act Number 81 of August 30, 1991.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference **04-05 (continued)**

Recommendation We recommend the Municipality to instruct employees to strengthen its procedure to assure that the employees files and compensated absences card were maintained as required by law and regulations..

Questioned Costs None

**Management Response
and Corrective Action** The personnel were instructed to strengthen controls and procedures to assure that all of required documents were properly safeguarded in the employees files, and to assure that compensated assistance cards were properly safeguarded and updated.

Implementation Date: April 2005

Responsible Person: Mrs. Lilliam Carattini
Human Resources Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Finding and Questioned Cost

Finding Reference	04-06
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	Allowable Activities
Statement of Condition	<p>During our examination of five (5) participant’s files of the housekeeping assistance project, we noted the following exceptions:</p> <ul style="list-style-type: none">a) Two (2) files contained the application form (OCAM-AH-002) without the applicant and the program staff signatures. One (1) file contained the application form (OCAM-AH-002) without the applicant signature.b) In one (1) case the family monthly income was improperly determined; pay stub net income was used instead of gross income.c) In five (5) files the application approval letter (OCAM –AH-004A) was missing.d) In five (5) files the participation contracts form (OCAM-AH-005) establishing the service plan to be offered by the CDBG program was missing.e) In five (5) cases, the participant file did not include evidence to support if the Services Coordinator visited at least two times per month the participant housing unit to ensure the quality of services.f) In five (5) cases, the participant file did not include evidence to support if the Services Cordinator assessed (through OCAM-AH-006) the housekeeper performance when visited the participant housing unit.
Criteria	<p>Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Office of Commissioner of Municipal Affairs (“OCAM”) issued a procedures manual for housekeeper activities.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	04-06 (continued)
Cause of Condition	The Municipality's controls and procedures failed to assure that the participant's files include all the required documents to comply with the program requirements.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Section 570.484 and with the procedures manual issued by the Office of Commissioner of Municipal Affairs ("OCAM").
Recommendation	We recommended management to follow the procedures established by the Office of the Commissioner of Municipal Affairs (OCAM) in the procedures guide title "Guía Operacional para la Prestación del Servicio de Auxiliaries en el Hogar", including the use of the forms included on it.
Questioned Costs	None
Management Response and Corrective Action	The Municipality's Management instructed program staff in order to follow the procedures guide title "Guía Operacional para la Prestación del Servicio de Auxiliaries en el Hogar", including the use of forms included on it, to assure that conditions as observed by the auditors does not occur again.

Implementation Date: April 2005

Responsible Person: Mrs. Rita Rodríguez Rivera
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-07
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Allowable Activities
Statement of Condition	<p>During our examination of fifteen (15) Housing Rehabilitation Participant's files, we noted the following:</p> <ul style="list-style-type: none">a. In six (6) examined files we observe that the program staff did not inspect promptly the rehabilitation work upon completion to assure that it is carried out in accordance with authorized rehabilitation works.b. In seven (7) examined files we observe that the follow-up visit and final visit forms were in blank.c. In two (2) examined files we observe photos obtained by the program staff in field visits in January and February 2005 evidencing that the participant did not correct deficiencies to be corrected; approximately five months elapsed between the purchase order issuance date and the program staff field visit date.d. In one (1) examined file we observe a photo obtained by the program staff and noted that the participant exchange construction materials without the Municipality's authorization.e. In one (1) examined file we observe that the case was determined as closed by the program staff as result of his field visit on January 2005, but according to documents and photos in the file, the participant housing unit construction, which was totally destroyed by a fire prior to the Municipality's assistance granted, was in progress and some construction materials donated by the Municipality were not been used.f. In one (1) examined file the contract form used to formalize the agreement between the Municipality and the participant left in blank.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-07 (Continued)

g. In one (1) examined file we observe that the program staff did not consider evidence of income (pay stub) submitted by the participant during the eligibility determination process.

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.

Cause of Condition The Municipality's monitoring procedures failed to assure that the assistance for housing rehabilitations were been used for allowed activities

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

Recommendation We recommend management to instruct program staff to follow procedures established through the Municipal Housing Regulation for the Housing Rehabilitation Section. Also, the Municipality will consider the assignment of additional program staffs to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contracts specifications.

Questioned Costs None

Management Response
and Corrective Action The Municipality Management concurs with the finding. Specific instructions will be given to program staff in order to assure that the procedures and forms adopted through approved manual be followed as part of the housing rehabilitation activities.

Implementation Date: April 2005

Responsible Person: Mrs. Rita Rodríguez Rivera
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-08
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
Statement of Condition	During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, the Program cash account maintained a monthly average cash balance of \$21,308 in books.
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality’s disbursements procedures failed to assure that funds requested and received from the Pass-through Grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and the disbursements made by the Municipality.
Questioned Costs	None
Management Response and Corrective Action	The Municipality’s Management instructed Program accounting staff and Finance Department staff in order to strengthen disbursements control and procedures to assure that conditions as observed by the auditors does not occur again.

Implementation Date: April 2005

Responsible Person: Mrs. Rita Rodríguez Rivera
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-09
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	Davis-Bacon Act
Statement of Condition	During our Davis-Bacon Act test for the municipal roads and streets improvement activities related to the project 02-FC-18-002, we noted that the Municipality did not apply during the fiscal year 2003-2004 the monitoring system developed to assure contractors compliance with payment of prevailing wages rates to employees; contractor’s laborers interviews were not made and contractor’s weekly payrolls were not requested during construction period. Also, no evidence was observed by us about if the contractors were informed in the procurement process and prior to contractual agreement signature about the applicability of Davis Bacon Act.
Criteria	Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7)
Cause of Condition	The Municipality’s did not have a labor standards officer in charge to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Recommendation	We recommend management to assign a program staff as labor standards officer, and then, instruct him to follow monitoring system procedures developed, including informing contractors in the procurement process and prior to contractual agreement signature about the applicability of Davis Bacon Act, through field visits, realize contractors and subcontractors interviews, obtaining contractor’s and subcontractor’s weekly payrolls to be reviewed on a weekly basis to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-09 (continued)**

Questioned Costs **None**

**Management Response
and Corrective Action**

The Municipality management will assign program staff to assume the responsibilities of a labor standards officer. We will comply with this compliance requirement in the next fiscal year.

Implementation Date: April 2005

Responsible Person: Mrs. Rita Rodríguez Rivera
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-10
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	Equipment and Real Property Management
Statement of Condition	Section II – Financial Statements Findings – Finding Reference 04-01

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-11
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	Reporting
Statement of Condition	<p>During our examination of the program’s Financial Quarterly Reports, we noted the following situations:</p> <ul style="list-style-type: none">a. The Municipality did not maintain evidence to demonstrate if the Financial Quarterly Reports were submitted on a timely basis to the Pass-through Grantor (OCAM).b. The totals reported as cash requested for each project awarded or for administrative funds awarded for each program year could not be traced individually to the general ledgers because the Municipality maintains a revenue control account at the grant level, but not at each project or administration level.c. The Financial Quarterly Reports ended on June 30, 2004 present the following differences when compared with the general ledgers account balances:<ul style="list-style-type: none">i. <u>Project 94-AF-18-Administration</u>: the quarterly report shows cash outlays by \$3,227.56 in the account number 703, but the general ledger shows outlays by \$3,238.33.ii. <u>Project 95-FD-18-Administration</u>: the quarterly report shows cash outlays by \$2,292.48 in the account number 703, but the general ledger shows outlays by \$2,302.08.iii. <u>Project 96-FD-18-Administration</u>: the quarterly report shows cash outlays by \$5,972.37 in the account number 703, but the general ledger shows outlays by \$5,993.43.iv. <u>Project 97-FD-18-Administration</u>: the quarterly report shows cash outlays by \$3,099.76 in the account number 703, but the general ledger shows outlays by \$3,116.91.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference

04-11 (continued)

- v. Project 98-FD-18-Administration: the quarterly report shows cash outlays by \$7,334.84 in the account number 703, but the general ledger shows outlays by \$7,364.59.
- vi. Project 00-FD-18-Administration: the quarterly report shows cash outlays by \$3,914.37 in the account number 703, but the general ledger shows outlays by \$3,921.59.
- vii. Project 03-FC-18-Administration: the quarterly report shows cash outlays by \$4,841.90 in the account number 705, but the general ledger shows outlays by \$7,000.00.
- viii. Project 03-FC-18-Administration: the quarterly report shows a budget of \$289,029.86, but the general ledger and the grant award shows a budget of \$54,000.00 for program administration purposes.
- ix. Project 03-AB-18-Administration: the quarterly report shows a budget of \$888,580.10, but the general ledger and the grant award shows a budget of \$80,000.00 for program administration purposes.

Criteria

Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.

Cause of Condition

The Municipality financial management system failed to assure accurate, current, and complete disclosure of the financial results of financially assisted activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-11 (continued)
Effect of Condition	The Municipality did not report on time accurate financial results to OCAM for the quarter ended June 30, 2004.
Recommendation	We recommend to the Municipality's Management to instruct program accountant to reconcile differences between the financial quarterly reports and the general ledgers before report submission to the OCAM. Also, we recommend to the Municipality's to instruct program accountant modify the general ledgers to maintain revenue control accounts at each project and administration award level. In addition, we recommend to maintain evidence about the submission date of the Financial Quarterly Report to OCAM.

Questioned Costs	None
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Management Response and Corrective Action	The Municipality's Management instructed program accountant to reconcile differences observed by the auditors, and to modify the general ledgers to maintain revenue control accounts at each project and administration award level approved by each program year. Also, all of quarterly reports remittal sheets will be safeguarded to maintain evidence of reports submission dates.
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Implementation Date: June 2005

Responsible Person: Mrs. Rita Rodríguez Rivera
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-12
Program	Child Care and Development Block Grant (CFDA No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico – Family Department (ACUDEN)
Requirement	Financial Administration–Standard for Financial Management System Reporting
Statement of Condition	During our audit we noted that the Municipality did not maintain, for the Child Care and Development Block Grant Program, a reliable set of accounting records that present the financial position of the program and the results of operations. The accounting records maintained by the Program accountant were not in sufficient detail which adequately identify the use of funds at the budgetary level authorized by the pass-through grantor, and therefore, the quarterly reports could not be prepared and submitted promptly to the pass-through grantor, and could not permit an easily audit trial of such reports to the accounting records.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
Cause of Condition	The accounting records maintained by the Program accountant consist only of a budgetary control register designed using the chart of account adopted by the Municipality in its computerized accounting system, instead of a set of accounting records adapted to the pass-through grantor budgetary level and reporting requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (2). Also, such condition did not permit a timely submission of financial reports to the pass-through grantor.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-12 (continued)**

Recommendation We recommend to the Municipality management to instruct, and if necessary, to provide technical support to the program accountant to develop a full set of accounting records adapted to the pass-through grantor budgetary level and reporting requirements which include, as a minimum, the following records:

- Develop a chart of accounts (including real and nominal accounts) based on reporting requirements established by the pass-through grantor.
- Maintain General Ledger which includes all necessary accounts to properly report financial results as required by the pass-through grantor.
- Maintain a General Journal Ledger to summarize the Revenue and Disbursement Registers transactions using the double entry accounting procedure.
- Maintain a Revenue Register to support transactions to be posted in the General Ledger.
- Maintain a Disbursement Register to support transactions to be posted in the General Ledger.

Questioned Cost None.

Management Response and Corrective Action The Municipality's Management instructed the program accountant to develop a full set of accounting records as recommended by the auditors. Also, we will request technical support to the pass-through grantor.

Implementation Date: June 2005

Responsible Person: Mr. Efraín Negrón Otero
Program Coordinator

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-13
Program	Child Care and Development Block Grant (CFDA No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Family Department (ACUDEN)
Requirement	Cash Management
Statement of Condition	During our Cash Management test we noted that the Program cash account maintained a monthly average cash balance of \$219,645 in books. Also, we observed that the program years 2001-2002 and 2002-2003 fund balances, amounting to \$16,325 and \$263, 239 respectively, were reimbursed to the pass-through grantor on April 2004 and January 2004 respectively.
Criteria	Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7) state that the Municipality must maintain procedures in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
Cause of Condition	The Municipality request funds in excess of its immediate needs.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7).
Recommendation	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the pass-through grantor and the disbursements made by the Municipality.
Questioned Costs	None.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-13**

**Management Response
and Corrective Action**

The Municipality's Management instructed the program accountant and Finance Department staff in order to strengthen disbursements control and procedures to assure that conditions as observed by the auditors does not occur again. Also, fund balances will be reimbursed to the pass-through grantor as established in the grant agreement.

Implementation Date: April 2005

Responsible Person: Mr. Efraín Negrón Otero
Program Coordinator

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-14
Program	Child Care and Development Block Grant (CFDA No. 93.575); U.S. Department of Health and Human Services; Pass through Commonwealth of Puerto Rico - Family Department (ACUDEN)
Requirement	Equipment and Real Property Management
Statement of Condition	The Program capital assets subsidiary ledger did not include the following required specifications required by the Code of Federal Regulations: (a) the source of property, (b) who holds the title, (c) percentage of Federal participation in the cost of the property, (d) the location, (e) and use and condition of the property.
Criteria	Code of Federal Regulation 45, Subpart C, Part 92.32 (d) (1), states that the property records must be maintained to include a description of the property, serial number or other identification number, the source of property, who holds the title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.
Cause of Condition	The Municipality's internal control and procedures failed to assure that capital assets records includes all necessary information as required by Code of Federal Regulation 45, Subpart C, Part 92.32 (d) (1).
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.32 (d) (1).
Recommendation	We recommend the Municipality's Management to instruct program staff to add to its capital assets subsidiary ledger format the additional information required by the Federal regulations. Also, a physical inventory should be taken at least annually to test completeness of such subsidiary ledger.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-14**

**Management Response
and Corrective Action**

The Municipality's Management instructed program staff to add to the Program capital assets subsidiary ledger format the additional information required by the Federal regulations.

Implementation Date: April 2005

Responsible Person: Mr. Efraín Negrón Otero
Program Coordinator

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-06	14.871	<p><u>The Municipality did not maintain for the Section 8 Housing Choice Vouchers Program a reliable set of accounting records that present the financial position of the program, the results of operations and changes in fund balance.</u></p> <p>Partial corrective action was taken. On September 2003, an accountant was appointed to manage accounting matters of Section 8. From this date we have been gathering data to create such books and to post monthly to the General Ledger. Up to this date we have completed 75% of 42 months work load.</p>
03-07	14.871	<p><u>There is an inconsistency in the minimum Total Tenant Payment (TTP) used during the current year as part of the Housing Assistance Payment calculations.</u></p> <p>Full corrective action was taken.</p>
03-08	14.871	<p><u>Controls and procedures failed to assure that annual inspections and quality control re-inspections were properly performed and documented in participants files and to assure that adequate follow up was realized by the management to assure that the exceptions detailed in the inspection report are corrected in the required period as required in the Housing Quality Standards Enforcement.</u></p> <p>Full corrective action was taken.</p>
03-09	14.871	<p><u>The Municipality did not maintain and up-to-date utility allowance schedule for the audit period ending June 30, 2003. There is no evidence of the last time that the Utility Allowance Schedule was actualized.</u></p> <p>No corrective action was taken. We obtained quotations from Harrison Consulting Group and Paul Van Buskirk. Due to the high cost of such services, we are considering to perform such duties with the program staff.</p>
03-10	14.228	<p><u>The Municipality's controls and procedures failed to assure that the housekeeper participant's files include all the required documents to comply with the program requirements.</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action was taken. See corrective action planned on Finding 04-06.
03-11	14.228	<u>The Municipality requested funds that were not disbursed on a reasonable lapse of time.</u>
		No corrective action was taken. See corrective action planned on Finding 04-08.
03-12	14.228	<u>The Municipality did not apply during the fiscal year 2002-2003 the monitoring system developed to assure contractors compliance with payment of prevailing wages rates to employees; contractor's laborers interviews were not made periodically and contractor's weekly payrolls were not requested promptly during construction period to be reviewed by the Municipal Employee responsible for applying monitoring procedures (projects 01-FD-18-002 and 01-FD-18-004).</u>
		No corrective action was taken. See corrective action planned on Finding 04-09.
03-13	14.228	<u>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.</u>
		No corrective action was taken. See corrective action planned on Finding 04-10.
03-14	14.228	<u>The Municipality's internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.</u>
		Full corrective action was taken.
03-15	14.228	<u>The Municipality financial management system failed to ensure accurate, current, and complete disclosure of the financial results of financially assisted activities.</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action was taken. See corrective action planned on Finding 04-11.
02-08	14.228	<u>The Municipality's controls and procedures failed to assure that the housekeeper participant's files include all the required documents to comply with the program requirements.</u> No corrective action was taken. See corrective action planned on Finding 04-06.
02-09	14.228	<u>The Municipality requested funds that were not disbursed on a reasonable lapse of time.</u> No corrective action was taken. See corrective action planned on Finding 04-08.
02-10	14.228	<u>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.</u> No corrective action was taken. See corrective action planned on Finding 04-10.
02-11	14.228	<u>The Municipality's internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.</u> Full corrective action was taken.
02-12	14.228	<u>The Municipality financial management system failed to ensure accurate, current, and complete disclosure of the financial results of financially assisted activities.</u> No corrective action was taken. See corrective action planned on Finding 04-11.
01-07	14.228	<u>The Municipality requested funds that were not disbursed on a reasonable lapse of time.</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-08	14.228	<u>The Municipality did not apply monitoring procedures to assure contractors compliance with Davis-Bacon Act.</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-09	14.228	<u>Inadequate Property Records and Reports</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-10	14.228	<u>Reporting failures</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-11	83.544	<u>The files maintained by each Project Worksheet were not maintained as required by the GAR</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
98-4	14.857 14.855	<u>Inspection of Section 8 Lease Units</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

