

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

**MUNICIPIO DE COAMO**  
**AUDITORIA 2004-2005**  
**30 DE JUNIO DE 2005**

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
**SINGLE AUDIT REPORT**  
**YEAR ENDED JUNE 30, 2005**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2005

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CONTENTS

|   | Page  |
|---|-------|
| <b><u>BASIC FINANCIAL STATEMENTS</u></b>  |       |
| Independent Auditor's Report  | 1-2   |
| Required Supplemental Information (Part 1)<br>Management's Discussion and Analysis  | 3-12  |
| Government-Wide Financial Statements:   |       |
| Statement of Net Assets   | 13    |
| Statement of Activities   | 14    |
| Fund Financial Statements:  |       |
| Governmental Funds:   |       |
| Balance Sheet   | 15    |
| Statement of Revenues, Expenditures and Changes in Fund Balances  | 16    |
| Reconciliation of the Statement of Revenues, Expenditures, and<br>Changes in Fund Balances to the Statement of Activities   | 17    |
| Notes to basic financial statements   | 18-39 |
| <b><u>SUPPLEMENTARY INFORMATION</u></b>   |       |
| Required Supplemental Information (Part II):  |       |
| Budgetary Comparison Schedule-General Fund  | 40    |
| Notes to Budgetary Comparison Schedule-General Fund   | 41    |
| Schedule of expenditures of federal awards  | 42-44 |
| Notes to the schedule of expenditures of federal awards   | 45    |
| <b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b>   |       |
| Independent auditor's report on compliance and on internal control<br>over financial reporting based on an audit of basic financial<br>statements performed in accordance with <i>Government Auditing<br/>Standards</i> | 46-47 |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2005

---

CONTENTS - (CONTINUED)

|  | Page  |
|--|-------|
| <b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS (CONTINUED)</u></b>  |       |
| 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 | 48-50 |
| <b><u>FINDINGS AND QUESTIONED COSTS</u></b>  |       |
| Schedule of findings and questioned cost   | 51-81 |
| Summary schedule of prior year audit findings  | 82-86 |



*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, Puerto Rico**, as of and for the year ended June 30, 2005, 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.

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. Those standards 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 13 to the financial statements, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported value in the 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, Puerto Rico**, as of June 30, 2005, 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, Puerto Rico**, as of June 30, 2005, 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 12 and the Budgetary Comparison Schedule-General Fund on page 40 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 31, 2005 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 31, 2005

Stamp No. 2106118 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2005**

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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, 2005. This 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. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2004, second 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. provides for an evaluation of its financial condition as of the end of fiscal year 2004-2005, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess 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 2005 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total Net Assets of the Municipality as of the end of the indicated fiscal year amounted to \$19,874,448, or fifty one percent (51%) of total assets.
2. The Municipality's total Net Assets increased by \$5,032,305, or a thirty four (34%) from the prior fiscal year-end balance.
3. As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$15,452,139 or \$2,251,814 over the similar figure corresponding to the previous fiscal year 2003-2004.
4. As the end of the current fiscal year, the balance of the Municipality's General Fund amounted to \$1,531,496, or \$667,649 higher than the previous fiscal year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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**FINANCIAL HIGHLIGHTS (CONTINUED)**

5. The actual General Fund budgetary activities resulted in a favorable balance of \$674,630 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.
6. As reflected in the Statement of Activities, the municipal internally generated revenues contributed to the increase in the Net Assets Figure by \$5,032,305.
7. At the end of fiscal year 2005, total liabilities amounted to \$19,157,297. Out of said amount, \$16,054,281 corresponded to long-term liabilities of which \$13,280,000 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.

**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 2005. 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, 2005**

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**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 on 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. In the particular case of the Municipality of Coamo, as of June 30, 2005, such figure amounted to \$19,874,448 and represented fifty one (51%) of the total assets and constitutes a significant positive indicator of the local government financial position. 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, 2005, shows total expenses incurred to afford the cost of all functions and programs amounted to \$18,405,320. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$12,942,750 was derived from the following sources: \$201,164 charges for services; \$3,417,432 from operating grants and contributions; and \$9,324,154 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$10,494,875. When such figure is added to the \$12,942,750 previously mentioned, total revenues available for the financing of activities amounted to \$23,437,625. There was an excess of revenues over expenses in the amount of \$5,032,305 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, 2005**

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**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 of 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)**

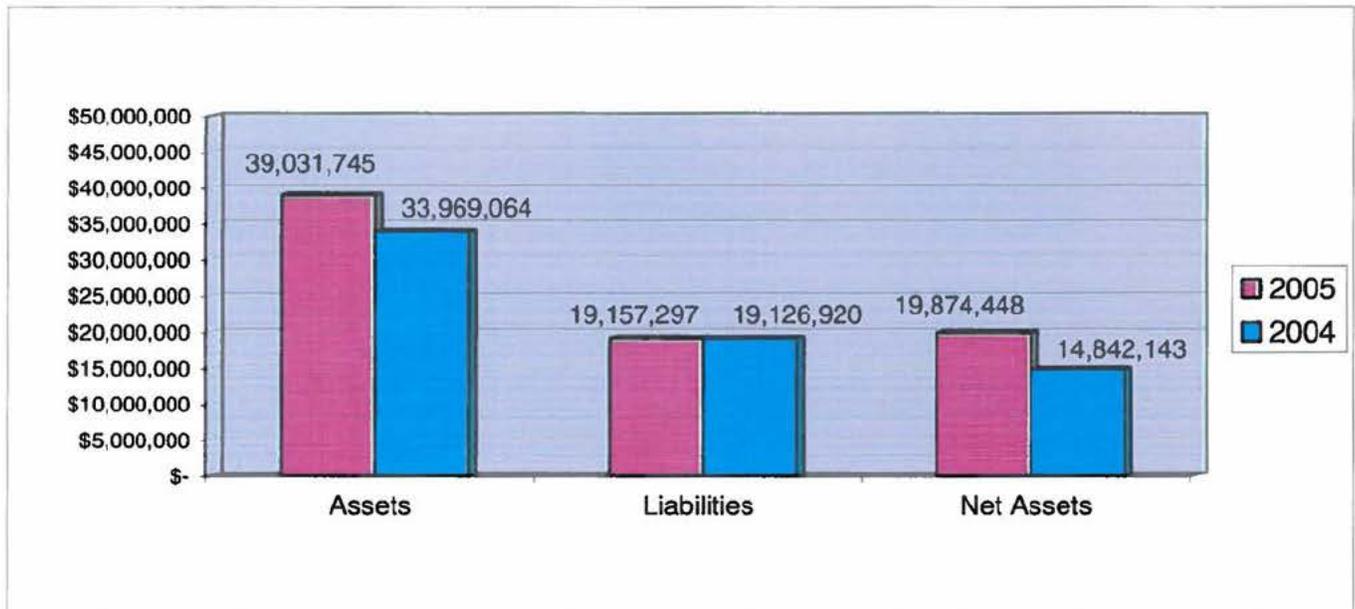
**YEAR ENDED JUNE 30, 2005**

**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 \$19,874,448 at the end of 2005, as compared with \$14,842,143 at the end of the previous year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$5,032,305 increment reflected in the Net Assets figure.

| <b>Condensed Statement of Net Assets</b>        | <b>2005</b>          | <b>2004</b>          | <b>Change</b>       | <b>%</b>   |
|---|----------------------|----------------------|---------------------|------------|
| Current and other assets                        | \$ 18,462,677        | \$ 16,192,249        | \$ 2,270,428        | 14%        |
| Capital assets                                  | 20,569,068           | 17,776,815           | 2,792,253           | 16%        |
| <b>Total assets</b>                             | <b>39,031,745</b>    | <b>33,969,064</b>    | <b>5,062,681</b>    | <b>15%</b> |
| Current and other liabilities                   | 3,103,016            | 2,674,587            | 428,429             | 16%        |
| Long-term liabilities                           | 16,054,281           | 16,452,333           | (398,052)           | (2%)       |
| <b>Total liabilities</b>                        | <b>19,157,297</b>    | <b>19,126,920</b>    | <b>30,377</b>       | <b>-</b>   |
| Invested in capital assets, net of related debt | 15,614,068           | 12,531,815           | 3,082,253           | 25%        |
| Restricted                                      | 13,780,740           | 12,189,495           | 1,591,245           | 13%        |
| Unrestricted deficit                            | (9,520,360)          | (9,879,167)          | 358,807             | (4%)       |
| <b>Total net assets</b>                         | <b>\$ 19,874,448</b> | <b>\$ 14,842,143</b> | <b>\$ 5,032,305</b> | <b>34%</b> |



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Statement of Activities reflects that for fiscal year 2005, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$5,032,305. As previously stated, such amount constituted a positive factor to the Municipality's net assets. Approximately twenty two percent (22%) of the Municipality's total revenue came from taxes, while seventy six percent (76%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2005 and 2004. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

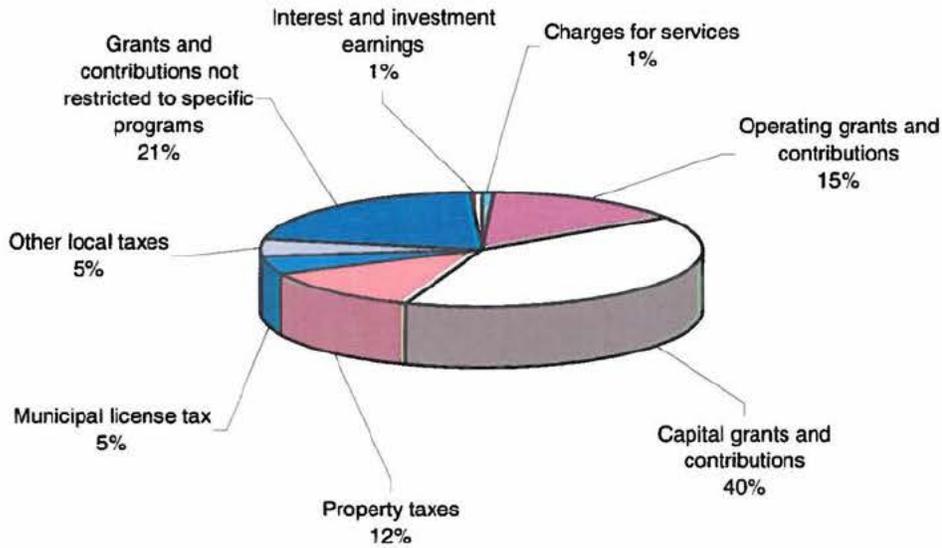
| <b>Condensed Statement of Activities</b>                     | <b>2005</b>          | <b>2004</b>          | <b>Change</b>       | <b>%</b>     |
|--|----------------------|----------------------|---------------------|--------------|
| <b>Program revenues:</b>                                     |                      |                      |                     |              |
| Charges for services   | \$ 201,164           | \$ 207,077           | \$ (5,913)          | (3%)         |
| Operating grants and contributions                           | 3,417,432            | 2,683,935            | 733,497             | 27%          |
| Capital grants and contributions                             | 9,324,154            | 8,546,629            | 777,525             | 9%           |
| <b>General revenues:</b>                                     |                      |                      |                     |              |
| Property taxes   | 2,870,777            | 3,460,056            | (589,279)           | (17%)        |
| Municipal license tax  | 1,172,209            | 1,221,504            | (49,295)            | (4%)         |
| Other local taxes  | 1,177,971            | 1,587,538            | (409,567)           | (26%)        |
| Grants and contributions not restricted to specific programs | 4,881,803            | 4,730,050            | 151,753             | 3%           |
| Interest and investment earnings                             | 224,599              | 116,081              | 108,518             | 93%          |
| Miscellaneous  | 167,516              | 194,524              | (27,008)            | (14%)        |
| <b>Total revenues</b>  | <b>23,437,625</b>    | <b>22,747,394</b>    | <b>690,231</b>      | <b>3%</b>    |
| <b>Expenses:</b>   |                      |                      |                     |              |
| General government   | 4,633,840            | 4,744,015            | (110,175)           | (2%)         |
| Public safety  | 1,122,083            | 1,067,680            | 54,403              | 5%           |
| Public works   | 4,369,886            | 2,651,203            | 1,718,683           | 65%          |
| Culture and recreation                                       | 748,349              | 1,955,620            | (1,207,271)         | (62%)        |
| Health and welfare   | 938,548              | 1,548,763            | (610,215)           | (39%)        |
| Community development  | 2,855,707            | 1,056,895            | 1,798,812           | 170%         |
| Economic development   | 3,036,620            | 1,356,000            | 1,680,620           | 124%         |
| Education  | 37,306               | 881,865              | (844,559)           | (96%)        |
| Urban development  | -                    | 19,106               | (19,106)            | (100%)       |
| Interest on long-term debt                                   | 662,981              | 804,864              | (141,883)           | (18%)        |
| <b>Total expenses</b>  | <b>18,405,320</b>    | <b>16,086,011</b>    | <b>2,319,309</b>    | <b>14%</b>   |
| <b>Change in net assets</b>                                  | <b>5,032,305</b>     | <b>6,661,383</b>     | <b>(1,629,078)</b>  | <b>(24%)</b> |
| <b>Net assets, beginning of year, as restated</b>            | <b>14,842,143</b>    | <b>8,180,760</b>     | <b>6,661,383</b>    | <b>81%</b>   |
| <b>Net assets, end of year</b>                               | <b>\$ 19,874,448</b> | <b>\$ 14,842,143</b> | <b>\$ 5,032,305</b> | <b>34%</b>   |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

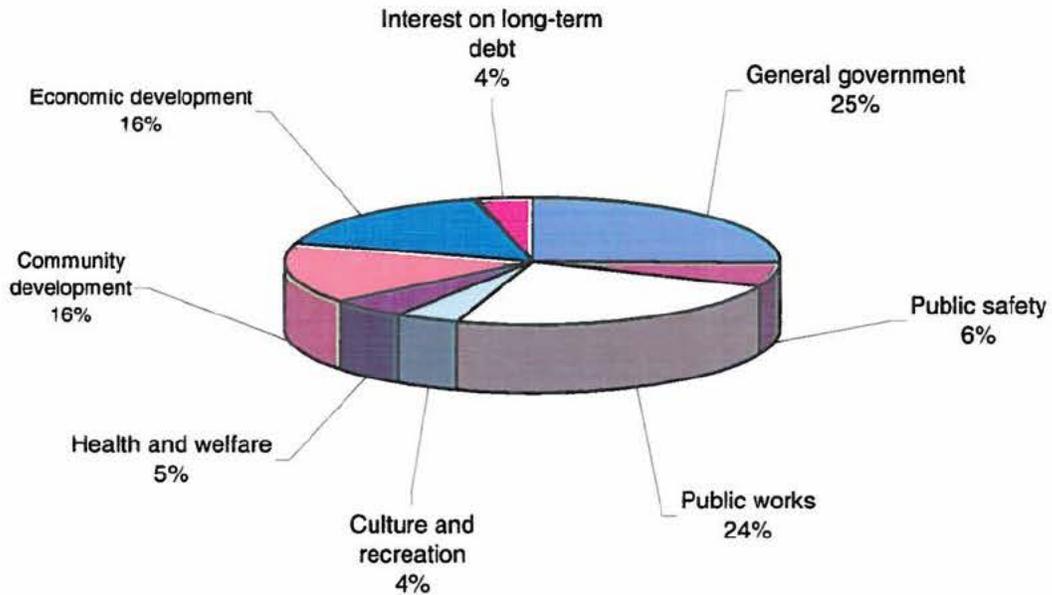
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Revenues 2005



Expenses 2005



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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**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 amounting to \$15,452,139, which represents an increase of \$2,251,814 when compared with the prior year. Out of the indicated balance, \$13,990,226 were reserved or committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$69,583); 2) for debt service payments (\$1,278,519); 3) to pay for capital projects (\$12,136,168); and 4) for other purposes (\$505,956).

As of June 30, 2005, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund balance of \$1,461,913.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During fiscal year 2004-2005, the Municipal Legislature approved revisions to the operational budget to transfer unencumbered balances between budgeted expenditures accounts which represented necessary transactions during the normal course of business. Despite these budgets adjustments and as previously stated, the Municipal administration of Coamo was able to maintain a balanced budget as required by law.

At the end of the fiscal year 2004-2005, the actual General Fund budgetary activities resulted in a favorable balance of \$674,630 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.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality has not maintained complete and adequate records related to Capital Assets acquired and constructed in the past years, but the Municipality expects to compile documents and other information in the next fiscal year in order to attain complete and accurate records of its Capital Assets, and then, comply with such requirements. The Municipal Administration expects to develop a broad and comprehensive identification and assessments projects 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Municipality's investment in capital assets as of June 30, 2005, amounted to \$27,320,686, which upon deduction of accumulated depreciation in the amount of \$10,031,295, produced a net book value attributable to capital assets of \$20,569,068. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately sixteen percent (16%) of net book value. Depreciation charges for the year totaled \$1,169,241.

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, 2005, the Municipality has \$1,427,916 of unexpended proceeds mainly 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" as defined in Act No. 64. Such Act establishes that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption 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.

The Municipality is required under prevailing applicable law to levy a 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. In the particular case of the Municipality of Coamo, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2005-2006.

**FINAL COMMENTS**

The Municipality of Coamo is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community 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.

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 2005. It further contemplates to improve its current levels of Net Assets as indicative of a strong financial position 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, PR 00769, or call (787) 825-1150.

Commonwealth of Puerto Rico  
Municipality of Coamo  
Statement of Net Assets  
June 30, 2005

|  | <b>Governmental<br/>Activities</b> |
|--|------------------------------------|
| <b>Assets</b>  |                                    |
| Cash and cash equivalents  | \$ 14,000,439                      |
| Cash with fiscal agent   | 2,987,827                          |
| Accounts receivable (net of allowance for uncollectible accounts): |                                    |
| Municipal license tax  | 91,436                             |
| Construction tax   | 274,188                            |
| Intergovernmental  | 1,106,204                          |
| Interest   | 2,029                              |
| Prepaid Expenses   | 554                                |
| Capital assets   |                                    |
| Land, improvements, and construction in progress                   | 3,279,677                          |
| Other capital assets, net of depreciation                          | 17,289,391                         |
| Total capital assets   | <u>20,569,068</u>                  |
| <br>   |                                    |
| Total assets   | <u>\$ 39,031,745</u>               |
| <br>   |                                    |
| <b>Liabilities</b>   |                                    |
| Accounts payable and accrued liabilities                           | \$ 1,428,585                       |
| Interest Payable   | 139,903                            |
| Due to other governmental entities                                 | 57,489                             |
| Deferred revenues:   |                                    |
| Municipal license tax  | 737,980                            |
| Federal grant revenues   | 739,059                            |
| Noncurrent liabilities:  |                                    |
| Due within one year  | 697,974                            |
| Due in more than one year  | <u>15,356,307</u>                  |
| <br>   |                                    |
| Total liabilities  | <u>\$ 19,157,297</u>               |
| <br>   |                                    |
| <b>Net Assets</b>  |                                    |
| Invested in capital assets, net of related debt                    | 15,614,068                         |
| Restricted for:  |                                    |
| Capital projects   | 12,136,168                         |
| Debt service   | 1,138,616                          |
| Other purposes   | 505,956                            |
| Unrestricted (deficit)   | <u>(9,520,360)</u>                 |
| <br>   |                                    |
| Total net assets   | <u>\$ 19,874,448</u>               |

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, 2005

| Functions/Programs   | Expenses             | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |
|--|----------------------|-------------------------|--|--|--|
|  |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                         |
| General government   | \$ 4,633,840         | \$ -                    | \$ 181,988                               | \$ -                                   | \$ (4,451,852)                                     |
| Public safety  | 1,122,083            | 16,655                  | 109,582                                  | 18,169                                 | (977,677)  |
| Public works   | 4,369,886            | 35,336                  | 302,161                                  | 1,062,496                              | (2,969,893)  |
| Health and welfare   | 938,548              | 7,620                   | 940,336                                  |  | 9,408  |
| Culture and recreation                                       | 748,349              | 141,553                 | 67,700                                   | 1,633,700                              | 1,094,604  |
| Economic development   | 3,036,620            |                         | 1,340,133                                |  | (1,696,487)  |
| Community development  | 2,855,707            |                         |  | 6,599,789                              | 3,744,082  |
| Education  | 37,306               |                         | 475,532                                  | 10,000                                 | 448,226  |
| Interest on long-term debt                                   | 662,981              |                         |  |  | (662,981)  |
| <b>Total governmental activities</b>                         | <b>\$ 18,405,320</b> | <b>\$ 201,164</b>       | <b>\$ 3,417,432</b>                      | <b>\$ 9,324,154</b>                    | <b>\$ (5,462,570)</b>                              |
| General revenues:  |                      |                         |  |  |  |
| Property taxes   |                      |                         |  |  | 2,870,777  |
| Municipal license tax  |                      |                         |  |  | 1,172,209  |
| Other Local Taxes  |                      |                         |  |  | 1,177,971  |
| Grants and contributions not restricted to specific programs |                      |                         |  |  | 4,881,803  |
| Interest and investment earnings                             |                      |                         |  |  | 224,599  |
| Miscellaneous  |                      |                         |  |  | 167,516  |
| <b>Total general revenues</b>                                |                      |                         |  |  | <b>10,494,875</b>                                  |
| Change in net assets   |                      |                         |  |  | 5,032,305  |
| Net assets - beginning, as restated                          |                      |                         |  |  | 14,842,143   |
| Net assets - ending  |                      |                         |  |  | <b>\$ 19,874,448</b>                               |

**Commonwealth of Puerto Rico**  
**Municipality of Coamo**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

|   | General<br>Fund     | Special Revenue<br>Fund - State &<br>Local Grants | Special<br>Revenue Fund<br>Federal Grants | Capital Project<br>Fund - State &<br>Local Grants | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|---|---|---|--------------------------------|--------------------------------|
| <b>Assets</b>   |                     |   |   |   |                                |                                |
| Cash and cash equivalents   | \$ 872,276          | \$ 1,021,614                                      | \$ 432,400                                | \$ 11,557,322                                     | \$ 116,827                     | \$ 14,000,439                  |
| Cash with fiscal agent  |                     | 2,902   | 499,401                                   | 1,427,916   | 1,057,608                      | 2,987,827                      |
| Accounts receivable:  |                     |   |   |   |                                |                                |
| Municipal License Tax   | 47,099              |   |   |   |                                | 47,099                         |
| Intergovernmental   | 104,500             | 417,182   | 358,376                                   |   | 226,146                        | 1,106,204                      |
| Construction Taxes  | 271,100             |   |   |   |                                | 271,100                        |
| Interest  |                     |   |   |   | 2,029                          | 2,029                          |
| Prepaid Expenditures  | 554                 |   |   |   |                                | 554                            |
| Due from other funds  | 1,284,447           |   |   |   |                                | 1,284,447                      |
| <b>Total assets</b>   | <b>\$ 2,579,976</b> | <b>\$ 1,441,698</b>                               | <b>\$ 1,290,177</b>                       | <b>\$ 12,985,238</b>                              | <b>\$ 1,402,610</b>            | <b>\$ 19,699,699</b>           |
| <b>Liabilities and Fund Balances</b>  |                     |   |   |   |                                |                                |
| <b>Liabilities :</b>  |                     |   |   |   |                                |                                |
| Accounts payable and accrued liabilities  | \$ 253,011          | \$ 63,845   | \$ 262,659                                | \$ 849,070  | \$ -                           | \$ 1,428,585                   |
| Due to other governmental entities  | 57,489              |   |   |   |                                | 57,489                         |
| Due to other funds  |                     | 871,897   | 406,788.00                                |   | 5,762                          | 1,284,447                      |
| Deferred revenues:  |                     |   |   |   |                                |                                |
| Municipal license tax   | 737,980             |   |   |   |                                | 737,980                        |
| Federal grant revenues  |                     |   | 620,730                                   |   | 118,329                        | 739,059                        |
| <b>Total liabilities</b>  | <b>1,048,480</b>    | <b>935,742</b>                                    | <b>1,290,177</b>                          | <b>849,070</b>                                    | <b>124,091</b>                 | <b>4,247,560</b>               |
| <b>Fund balances:</b>   |                     |   |   |   |                                |                                |
| <b>Reserved for:</b>  |                     |   |   |   |                                |                                |
| Encumbrances  | 69,583              |   |   |   |                                | 69,583                         |
| Capital projects  |                     |   |   | 12,136,168  |                                | 12,136,168                     |
| Other purposes  |                     | 505,956   |   |   |                                | 505,956                        |
| <b>Reserved reported in nonmajor funds:</b>   |                     |   |   |   |                                |                                |
| Debt service fund   |                     |   |   |   | 1,278,519                      | 1,278,519                      |
| <b>Unreserved:</b>  |                     |   |   |   |                                |                                |
| Undesigned  | 1,461,913           |   |   |   |                                | 1,461,913                      |
| <b>Total fund balances</b>  | <b>1,531,496</b>    | <b>505,956</b>                                    | <b>-</b>                                  | <b>12,136,168</b>                                 | <b>1,278,519</b>               | <b>15,452,139</b>              |
| <b>Total liabilities and fund balances</b>  | <b>\$ 2,579,976</b> | <b>\$ 1,441,698</b>                               | <b>\$ 1,290,177</b>                       | <b>\$ 12,985,238</b>                              | <b>\$ 1,402,610</b>            |                                |
| <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>   |                     |   |   |   |                                |                                |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds                                  |                     |   |   |   |                                | 20,569,068                     |
| Accrual basis of accounting account receivables used in governmental activities are not financial resources and, therefore, are not reported in the funds |                     |   |   |   |                                | 47,425                         |
| Long-term liabilities and accrue interest are not due and payable in the current period, and therefore, are not reported in the funds                     |                     |   |   |   |                                | (16,194,184)                   |
| <b>Net assets of governmental activities</b>  |                     |   |   |   |                                | <b>\$ 19,874,448</b>           |

**Commonwealth of Puerto Rico**  
**Municipality of Coamo**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

|  | General<br>Fund     | Special Revenue<br>Fund - State &<br>Local Grants | Special<br>Revenue Fund<br>Federal Grants | Capital Project<br>Fund - State &<br>Local Grants | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|---|---|---|--------------------------------|--------------------------------|
| <b>Revenues</b>  |                     |   |   |   |                                |                                |
| Property taxes   | \$ 2,214,269        | \$ -  | \$ -                                      | -   | \$ 656,508                     | \$ 2,870,777                   |
| Municipal license taxes                                      | 1,184,722           |   |   |   |                                | 1,184,722                      |
| Licenses, permits and other local taxes                      | 1,582,351           |   |   |   |                                | 1,582,351                      |
| Charges for services   | 193,544             |   |   |   |                                | 193,544                        |
| Intergovernmental  | 5,488,791           | 1,453,167   | 65,261                                    | 8,507,055   |                                | 15,514,274                     |
| Interest   | 224,463             |   |   |   |                                | 224,463                        |
| Federal grants   |                     |   | 1,845,327                                 |   | 263,788                        | 2,109,115                      |
| Miscellaneous  | 167,516             | 7,756   |   |   |                                | 175,272                        |
| <b>Total revenues</b>  | <b>11,055,656</b>   | <b>1,460,923</b>                                  | <b>1,910,588</b>                          | <b>8,507,055</b>                                  | <b>920,296</b>                 | <b>23,854,518</b>              |
| <b>Expenditures</b>  |                     |   |   |   |                                |                                |
| <b>Current:</b>  |                     |   |   |   |                                |                                |
| General government   | 4,071,857           | 144,270   |   | 344,941   |                                | 4,561,068                      |
| Public safety  | 900,659             | 14,824  | 108,441                                   | 4,224   |                                | 1,028,148                      |
| Public works   | 2,924,738           | 186,993   | 302,161                                   | 994,488   |                                | 4,408,380                      |
| Health and welfare   | 558,653             | 185,770   | 418,568                                   | 88,723  | 263,788                        | 1,515,502                      |
| Culture and recreation                                       | 473,872             | 179,858   | 21,256                                    | 2,385,669   |                                | 3,060,655                      |
| Economic development   | 705,635             | 1,224,724   | 1,054,188                                 |   |                                | 2,984,547                      |
| Community development  | 106,691             |   | 5,974                                     | 2,744,373   |                                | 2,857,038                      |
| Education  |                     |   |   | 37,306  |                                | 37,306                         |
| <b>Debt service:</b>   |                     |   |   |   |                                |                                |
| Principal  |                     |   |   |   | 480,000                        | 480,000                        |
| Interest   |                     |   |   |   | 670,060                        | 670,060                        |
| <b>Total expenditures</b>                                    | <b>9,742,105</b>    | <b>1,936,439</b>                                  | <b>1,910,588</b>                          | <b>6,599,724</b>                                  | <b>1,413,848</b>               | <b>21,602,704</b>              |
| Excess (deficiency) of revenues over<br>(under) expenditures | 1,313,551           | (475,516)   | -   | 1,907,331   | (493,552)                      | 2,251,814                      |
| <b>Other financing sources (uses)</b>                        |                     |   |   |   |                                |                                |
| Transfers in   |                     | 15,000  |   | 72,727  | 573,175                        | 660,902                        |
| Transfers out  | (645,902)           |   |   | (15,000)  | -                              | (660,902)                      |
| <b>Total other financing sources (uses)</b>                  | <b>(645,902)</b>    | <b>15,000</b>                                     | <b>-</b>                                  | <b>57,727</b>                                     | <b>573,175</b>                 | <b>-</b>                       |
| <b>Net change in fund balances</b>                           | <b>667,649</b>      | <b>(460,516)</b>                                  | <b>-</b>                                  | <b>1,965,058</b>                                  | <b>79,623</b>                  | <b>2,251,814</b>               |
| Fund balance beginning                                       | 863,847             | 966,472   |   | 10,171,110  | 1,198,896                      | 13,200,325                     |
| Fund balance, ending   | <u>\$ 1,531,496</u> | <u>\$ 505,956</u>                                 | <u>\$ -</u>                               | <u>\$ 12,136,168</u>                              | <u>\$ 1,278,519</u>            | <u>\$ 15,452,139</u>           |

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**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, 2005**

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**Net Change in Fund Balances - Total Governmental Funds** **\$ 2,251,814**

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. 3,961,545

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. (1,169,241)

Loss on disposal of capital assets 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, loss was not reported as expenditures in Governmental Funds. This is the loss on disposal of capital assets in the current period. (51)

Accounts Receivables reported in the Government-Wide Statement of Activities and Change in Fund Balances but not reported as in the Governmental Funds because were not available to pay current period expenditures. The following amount represents the net change in such Account Receivables. (416,893)

Interest Payable 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 Payable was not reported as expenditures in Governmental Funds. The following amount represented the change in accrued interest from prior year. 7,079

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 period. 480,000

Property tax debt related to current year final liquidation, was reported in the Government-Wide Statements of Activities and Change in Net Assets, also 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. The following represented the change in property tax debt. 24,924

Repayment of long term Department of Labor debt is an expenditure in Governmental Funds, but the repayment reduces long -term debt in the Government-Wide Statement of Net Assets. The following amount represents the amount paid in the current period. 45,080

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 represents the change in long-term compensated absences from prior year. (151,952)

**Change in Net Assets of Governmental Activities** **\$ 5,032,305**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2005**

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**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, 2005**

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**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, 2005

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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 Project 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, 2005

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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 Funds**- Debt Service Funds 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 Project Funds 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, 2005**

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**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, 2005

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**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 represent mostly charge for services rendered to other governmental entities. 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

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.

- 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, 2005**

**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, 2005 amounted to approximately \$302,187. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$222,220 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</u><br><u>Governmental Activities</u> |
|--|--------------------|---|
| <b><u>Net assets invested in capital assets, net of related debt</u></b>                   |                    |   |
| Capital assets, net of depreciation  | \$ 20,569,068      |   |
| Deduct:  |                    |   |
| Bonds Payable  | (4,810,000)        |   |
| Notes Payable  | <u>(45,000)</u>    | \$ 15,614,068   |
| <b><u>Net assets restricted for capital projects</u></b>                                   |                    |   |
| Fund balance restricted for capital projects   |                    | 12,136,168  |
| <b><u>Net assets restricted for debt service</u></b>                                       |                    |   |
| Fund balance restricted for debt service   | \$ 1,278,519       |   |
| Deduct:  |                    |   |
| Interest Payable   | <u>(139,903)</u>   | 1,138,616   |
| <b><u>Net assets restricted for other purposes</u></b>                                     |                    |   |
| Special revenue fund - state and local grants - fund balance restricted for other purposes |                    | 505,956   |
| <b><u>Net assets unrestricted (deficit)</u></b>  |                    |   |
| General fund - total fund balance:   | \$ 1,531,496       |   |
| Add:   |                    |   |
| Accrual Basis Account Receivables  | 47,425             |   |
| Deduct:  |                    |   |
| Note Payable   | (8,325,000)        |   |
| Advance Property Tax Debt  | (1,539,362)        |   |
| Compensated Absences   | <u>(1,234,919)</u> | <u>(9,520,360)</u>  |
| <b>Total net assets - governmental activities</b>  |                    | <b><u>\$ 19,874,448</u></b>                               |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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**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 \$872,276 in the General Fund, the \$1,021,614 in the Special Revenue Fund – State and Local Grants, the \$432,400 in the Special Revenue Fund – Federal Grants, and the \$11,557,322 in the Capital Project Fund – State and Local Grants, were fully collateralized at June 30, 2005. In the Other Governmental Funds there were deposits with commercial banks of approximately \$116,827 that were fully collateralized.

The deposits at GDB of approximately \$2,902 in the Special Revenue Fund – State and Local Grants, the \$499,401 in the Special Revenue Fund – Federal Grants, the \$1,427,916, that is restricted principally for capital projects in the Capital Project Fund – State and Local Grants, and the \$1,057,608 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, 2005, 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, 2005, 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, 2005

3. RECEIVABLES (CONTINUED)

B. *Intergovernmental Receivables* – Intergovernmental receivables in the General Fund principally consist of the amounts due from the Commonwealth of Puerto Rico Department of Education for transportation services and local schools maintenance services provided during the current fiscal year:

| <u>Governmental Entity</u>                                   | <u>Amount</u>            |
|--|--------------------------|
| Department of Education (Transportation Services)            | \$ 85,000                |
| Department of Education (Local Schools Maintenance Services) | <u>19,500</u>            |
| <b>Total</b>   | <b><u>\$ 104,500</u></b> |

Intergovernmental receivables in the Special Revenue Fund – State and Local Grants consist of the amounts due 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>            |
|------------------------------------|--------------------------|
| Department of Labor (Law 52 Grant) | \$ 312,216               |
| Department of Labor (Law 82 Grant) | <u>104,966</u>           |
| <b>Total</b>                       | <b><u>\$ 417,182</u></b> |

Intergovernmental receivables in the Special Revenue Funds – Federal Grants 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 | \$ 238,603               |
| Public Safety and Community Policing Grants         | <u>119,773</u>           |
| <b>Total</b>  | <b><u>\$ 358,376</u></b> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

**3. RECEIVABLES (CONTINUED)**

Intergovernmental receivable in the Other Governmental Funds represents the amounts due from the CRIM resulting from the Debt Service Fund excess of current year property tax collections over current year advances; and from the Special Revenue Fund-Section 8 Program portability move in receivables. Following is a detail of the intergovernmental receivables:

| <u>Governmental Entity</u>                   | <u>Amount</u>            |
|--|--------------------------|
| Municipal Revenue Collection Center ("CRIM") | \$ 224,644               |
| Others                                       | <u>1,502</u>             |
| <b>Total</b>                                 | <b><u>\$ 226,146</u></b> |

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2005, and interfund transfers during the fiscal year ended at June 30, 2005, 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 | \$ 871,897                |
| General Fund           | Special Revenue Fund - Federal Grants         | Reimbursable expenditures | 406,788                   |
| General Fund           | Debt Service Fund                             | Interest not transferred  | <u>5,762</u>              |
| <b>Total</b>           |   |                           | <b><u>\$1,284,447</u></b> |

**b. Transfer in/out to other fund**

| <u>Transfer out</u>                           | <u>Transfer in</u>                            | <u>Purpose</u>                      | <u>Amount</u>            |
|---|---|-------------------------------------|--------------------------|
| General Fund                                  | Debt Service Fund                             | Debt retirement                     | \$ 573,175               |
| General Fund                                  | Capital Project Fund - State and Local Grants | Capital outlays                     | 72,727                   |
| Capital Project Fund - State and Local Grants | Special Revenue Fund - State and Local Grants | Culture and Recreation expenditures | <u>15,000</u>            |
| <b>Total</b>                                  |   |                                     | <b><u>\$ 660,902</u></b> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

**5. CAPITAL ASSETS**

Capital assets; those with an estimated useful live 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 2005, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

| <b>Governmental Activities:</b>                    | <u>Balance</u><br><u>July 1, 2004</u> | <u>Additions</u>           | <u>Retirements</u>      | <u>Balance</u><br><u>June 30, 2005</u> |
|--|---------------------------------------|----------------------------|-------------------------|--|
| <b>Capital asset, not being depreciated:</b>       |                                       |                            |                         |  |
| Land   | \$ 3,181,485                          | \$ -                       | \$ -                    | \$ 3,181,485                           |
| Construction in progress                           | <u>-</u>                              | <u>98,192</u>              | <u>-</u>                | <u>98,192</u>                          |
| <b>Total capital assets not being depreciated</b>  | <b><u>\$ 3,181,485</u></b>            | <b><u>\$ 98,192</u></b>    | <b><u>\$ -</u></b>      | <b><u>\$ 3,279,677</u></b>             |
| <b>Capital assets, being depreciated:</b>          |                                       |                            |                         |  |
| Buildings  | \$ 18,035,998                         | \$ 3,299,007               | \$ -                    | \$ 21,335,005                          |
| Infrastructure                                     | 992,998                               |                            |                         | 992,998                                |
| Equipment  | 991,231                               | 160,168                    | 2,383                   | 1,149,016                              |
| Vehicles   | <u>3,518,714</u>                      | <u>404,178</u>             | <u>79,225</u>           | <u>3,843,667</u>                       |
| <b>Total capital assets being depreciated</b>      | <b><u>\$ 23,538,941</u></b>           | <b><u>\$ 3,863,353</u></b> | <b><u>\$ 81,608</u></b> | <b><u>\$ 27,320,686</u></b>            |
| <b>Less accumulated depreciation for:</b>          |                                       |                            |                         |  |
| Buildings  | \$ 6,028,598                          | \$ 593,503                 | \$ -                    | \$ 6,622,101                           |
| Infrastructure                                     | 133,255                               | 140,467                    |                         | 273,722                                |
| Equipment  | 662,547                               | 100,023                    | 2,332                   | 760,238                                |
| Vehicles   | <u>2,119,211</u>                      | <u>335,248</u>             | <u>79,225</u>           | <u>2,375,234</u>                       |
| <b>Total accumulated depreciation</b>              | <b><u>\$ 8,943,611</u></b>            | <b><u>\$ 1,169,241</u></b> | <b><u>\$ 81,557</u></b> | <b><u>\$ 10,031,295</u></b>            |
| <b>Total capital assets being depreciated, net</b> | <b><u>\$ 14,595,330</u></b>           | <b><u>\$ 2,694,112</u></b> | <b><u>\$ 51</u></b>     | <b><u>\$ 17,289,391</u></b>            |
| <b>Governmental activities capital assets, net</b> | <b><u>\$ 17,776,815</u></b>           | <b><u>\$ 2,792,304</u></b> | <b><u>\$ 51</u></b>     | <b><u>\$ 20,569,068</u></b>            |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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**5. CAPITAL ASSETS (CONTINUED)**

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

**Governmental activities:**

|                        |               |
|------------------------|---------------|
| General government     | \$ 135,673    |
| Public safety          | 108,720       |
| Public works           | 378,590       |
| Culture and recreation | 460,571       |
| Health and welfare     | 31,472        |
| Economic development   | <u>54,215</u> |

**Total depreciation expense-governmental activities** **\$ 1,169,241**

**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.

The CRIM issued a final settlement statement for the fiscal year ended June 30, 2005 which is less than the tax actually collected by \$64,916. The government wide statement of Net Assets includes such debt as an outstanding debt balance as of June 30, 2005.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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, 2005, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$143,778 and is payable as follows:

| <u>Year Ending<br/>June 30,</u> | <u>Amount</u>            |
|---------------------------------|--------------------------|
| 2006                            | \$ 32,554                |
| 2007                            | 32,554                   |
| 2008                            | 32,554                   |
| 2009                            | 32,554                   |
| 2010                            | <u>13,562</u>            |
| <b>Total</b>                    | <b><u>\$ 143,778</u></b> |

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 o 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, 2005

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**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 \$603,043 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>           |
|---------------------------------|-------------------------|
| Department of Labor             | \$ 37,391               |
| General Services Administration | <u>20,098</u>           |
| <b>Total</b>                    | <b><u>\$ 57,489</u></b> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

**8. DEFERRED REVENUES**

- A. Municipal License Tax** - The deferred revenues of approximately \$737,980 in the General Fund relates to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.
- 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                          | \$ 459,161               |
| Child Care and Development Block Grant           | 41,828                   |
| Child and Adult Care Food Program                | 37,065                   |
| Local Law Enforcement Block Grant                | 33,928                   |
| Family Violence Prevention and Services          | 27,202                   |
| Emergency Management Performance Grant           | 6,836                    |
| Juvenile Justice and Delinquency Prevention      | 5,720                    |
| Grants for Public Works and Economic Development | 4,760                    |
| Community Service Block Grant                    | 1,799                    |
| Others   | <u>2,431</u>             |
| <b>Total</b>                                     | <b><u>\$ 620,730</u></b> |

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>\$ 118,329</u>        |
| <b>Total</b>                     | <b><u>\$ 118,329</u></b> |

**9. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2005, was as follows:

| <u>Description</u>   | <u>Beginning<br/>Balance</u> | <u>Borrowings<br/>or Additions</u> | <u>Payments or<br/>Deductions</u> | <u>Ending<br/>Balance</u>   | <u>Due Within<br/>One Year</u> |
|----------------------|------------------------------|------------------------------------|-----------------------------------|-----------------------------|--------------------------------|
| Bonds Payable        | \$ 5,035,000                 | \$ -                               | \$ 225,000                        | \$ 4,810,000                | \$ 250,000                     |
| Notes Payable        | 8,725,000                    |                                    | 255,000                           | 8,470,000                   | 269,000                        |
| Department of Labor  | 45,080                       |                                    | 45,080                            |                             |                                |
| Advance Property Tax | 1,564,286                    | 64,916                             | 89,840                            | 1,539,362                   | 89,843                         |
| Compensated Absences | 1,082,967                    | 237,749                            | 85,797                            | 1,234,919                   | 89,131                         |
| Claims and judgments | -                            |                                    |                                   | -                           |                                |
| <b>Total</b>         | <b><u>\$ 16,452,333</u></b>  | <b><u>\$ 302,665</u></b>           | <b><u>\$ 700,717</u></b>          | <b><u>\$ 16,054,281</u></b> | <b><u>\$ 697,974</u></b>       |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

**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, 2005 are as follows:

| <u>Type of bonds</u>                  | <u>Maturity<br/>Date</u> | <u>Original<br/>Amount</u> | <u>Range of<br/>Interest Rates</u> | <u>Balance at<br/>June 30, 2005</u> |
|---------------------------------------|--------------------------|----------------------------|------------------------------------|-------------------------------------|
| 1992 Series                           | 7-1-2006                 | \$ 790,000                 | 3.26% to 6.36%                     | \$ 185,000                          |
| 1995 Series                           | 7-1-2014                 | 235,000                    | 4.70% to 6.88%                     | 170,000                             |
| 1995 Series                           | 7-1-2014                 | 1,430,000                  | 6.11% to 7.71%                     | 1,000,000                           |
| 1997 Series                           | 7-1-2017                 | 300,000                    | 4.87% to 7.81%                     | 240,000                             |
| 1999 Series                           | 7-1-2013                 | 205,000                    | 4.87% to 6.31%                     | 145,000                             |
| 2000 Series                           | 7-1-2024                 | 405,000                    | 5.88% to 7.50%                     | 375,000                             |
| 2003 Series                           | 7-1-2027                 | 810,000                    | 6.00% to 7.25%                     | 780,000                             |
| 2003 Series                           | 7-1-2026                 | 2,015,000                  | 5.00% to 7.00%                     | <u>1,915,000</u>                    |
| <b>Total general obligation bonds</b> |                          |                            |                                    | <b><u>\$ 4,810,000</u></b>          |

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<br/>June 30,</u> | <u>Principal</u>           | <u>Interest</u>            |
|---------------------------------|----------------------------|----------------------------|
| 2006                            | \$ 250,000                 | \$ 268,382                 |
| 2007                            | 275,000                    | 253,476                    |
| 2008                            | 200,000                    | 239,937                    |
| 2009                            | 210,000                    | 228,213                    |
| 2010                            | 220,000                    | 215,483                    |
| 2011-2015                       | 1,385,000                  | 841,464                    |
| 2016-2020                       | 795,000                    | 512,263                    |
| 2021-2025                       | 990,000                    | 281,072                    |
| 2026-2030                       | <u>485,000</u>             | <u>32,620</u>              |
| <b>Total</b>                    | <b><u>\$ 4,810,000</u></b> | <b><u>\$ 2,872,910</u></b> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

**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<br/>Date</u> | <u>Original<br/>Amount</u> | <u>Range of<br/>Interest rates</u> | <u>Balance at<br/>June 30, 2004</u> |
|----------------------------|--------------------------|----------------------------|------------------------------------|-------------------------------------|
| 2004 Series                | 7-1-2029                 | \$ 10,000,000              | 4.50% to 6.00%                     | \$ 8,325,000                        |
| 2000 Series                | 7-1-2006                 | 435,000                    | 5.88% to 7.81%                     | <u>145,000</u>                      |
| <b>Total notes payable</b> |                          |                            |                                    | <u>\$ 8,470,000</u>                 |

These notes, except the 2004 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.

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

| <u>Year Ending<br/>June 30,</u> | <u>Principal</u>    | <u>Interest</u>     |
|---------------------------------|---------------------|---------------------|
| 2006                            | \$ 269,000          | \$ 378,044          |
| 2007                            | 283,000             | 366,874             |
| 2008                            | 218,000             | 356,310             |
| 2009                            | 228,000             | 346,500             |
| 2010                            | 238,000             | 448,320             |
| 2011-2015                       | 1,362,000           | 2,013,960           |
| 2016-2020                       | 1,697,000           | 1,566,960           |
| 2021-2025                       | 2,114,000           | 1,010,040           |
| 2026-2030                       | <u>2,061,000</u>    | <u>315,960</u>      |
| <b>Total</b>                    | <u>\$ 8,470,000</u> | <u>\$ 6,802,968</u> |

- 4. Property Tax Debt** - These amounts represent the balance owed to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2005 as described in Note 6.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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**9. LONG-TERM LIABILITIES (CONTINUED)**

- 5. Compensated absences-** The Government-Wide Statement of Net Assets includes approximately \$767,033 of accrued sick leave benefits, and approximately \$467,886 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, 2005 amounted to approximately \$298,535 and \$334,611, respectively.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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**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, 2005, 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, 2005**

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**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 GOVERNMENTAL ACTIVITIES NET ASSETS RESTATEMENT:**

The beginning Governmental Activities Net Assets has been restated by approximately \$98,593 to properly present the previously reported net assets at June 30, 2004. The restatement is mainly due to changes in the beginning Capital Assets balances.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

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

**YEAR ENDED JUNE 30, 2005**

|   | <u>Budgeted Amounts</u> |                   | <u>Actual Amounts</u>                           | <u>Variance with</u>  |
|---|-------------------------|-------------------|---|---|
|   | <u>Original</u>         | <u>Final</u>      | <u>(Budgetary Basis)</u><br><u>(See Note 1)</u> | <u>Final Budget</u><br><u>Positive</u><br><u>(Negative)</u> |
| <b>REVENUES AND OTHER FINANCING SOURCES:</b>  |                         |                   |   |   |
| Property taxes  | \$ 2,216,204            | \$ 2,216,204      | \$ 2,264,720                                    | \$ 48,516   |
| Municipal license tax   | 1,054,740               | 1,054,740         | 1,186,179                                       | 131,439   |
| Licenses, permits and other local taxes   | 1,498,500               | 1,498,500         | 1,515,468                                       | 16,968  |
| Charges for service   | 189,000                 | 189,000           | 193,544   | 4,544   |
| Intergovernmental   | 5,227,224               | 5,227,224         | 5,522,410                                       | 295,186   |
| Interest  | 119,000                 | 119,000           | 220,398   | 101,398   |
| Miscellaneous   | 425,000                 | 425,000           | 272,344   | (152,656)   |
| <b>Total revenues and other financing sources</b>   | <u>10,729,668</u>       | <u>10,729,668</u> | <u>11,175,063</u>                               | <u>445,395</u>  |
| <b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>   |                         |                   |   |   |
| Current:  |                         |                   |   |   |
| General government  | \$ 4,079,905            | \$ 4,210,804      | \$ 4,194,962                                    | \$ 15,842   |
| Public safety   | 1,023,746               | 1,017,551         | 979,647   | 37,904  |
| Public works  | 3,302,571               | 3,006,209         | 2,891,963                                       | 114,246   |
| Health and welfare  | 558,788                 | 560,789           | 559,753   | 1,036   |
| Culture and recreation  | 518,131                 | 496,055           | 476,561   | 19,494  |
| Economic development  | 518,665                 | 726,087           | 717,682   | 8,405   |
| Community development   | 154,687                 | 130,683           | 106,690   | 23,993  |
| Operating transfer to other fund  | 573,175                 | 581,490           | 573,175   | 8,315   |
| <b>Total expenditures, encumbrances and other financing uses</b>  | <u>10,729,668</u>       | <u>10,729,668</u> | <u>10,500,433</u>                               | <u>229,235</u>  |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)<br/>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING<br/>SOURCES (USES)</b>               |                         |                   |   |   |
|   | -                       | -                 | <u>674,630</u>                                  | <u>674,630</u>  |
| <b>Explanation of Differences:</b>  |                         |                   |   |   |
| <b>Sources/inflows of resources:</b>  |                         |                   |   |   |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule                                   |                         |                   | \$ 11,175,063                                   |   |
| Differences-budget to GAAP:   |                         |                   |   |   |
| GAAP adjustments to revenues  |                         |                   |   | <u>(119,407)</u>  |
| <b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>  |                         |                   |   | <u>\$ 11,055,656</u>  |
| <b>Uses/outflows of resources:</b>  |                         |                   |   |   |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule                               |                         |                   | \$ 10,500,433                                   |   |
| Differences-budget to GAAP:   |                         |                   |   |   |
| Reclassification of expenditures to Special Revenue Fund  |                         |                   |   | (167,846)   |
| Net change in encumbrances  |                         |                   |   | (17,307)  |
| Non-budgeted operating transfer to other fund   |                         |                   |   | <u>72,727</u>   |
| <b>Total expenditures and other financial uses as reported on the statement of revenues, expenditures, and changes in fund balances</b> |                         |                   |   | <u>\$ 10,388,007</u>  |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2005

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**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, 2005 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2005.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2005**

| <u>Federal Grantor/Pass-through<br/>Grantor/Program or Cluster Title</u>  | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-through<br/>Entity Identifying<br/>Number</u>                                     | <u>Expenditures</u> |
|---|------------------------------------|---|---------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE:</b>  |                                    |   |                     |
| Pass-through the Commonwealth of<br>Puerto Rico - Department of Education:<br>Child and Adult Care Food Program   | 10.558                             | CCC-131   | \$ 6,884            |
| <b>Total U.S. Department of Agriculture</b>   |                                    |   | <u>6,884</u>        |
| <b>U.S. DEPARTMENT OF HOUSING AND<br/>URBAN DEVELOPMENT:</b>  |                                    |   |                     |
| Direct Program:<br>Section 8 Housing Choice Vouchers  | 14.871                             |   | 263,788             |
| Pass-through the Commonwealth of<br>Puerto Rico - Office of the Commissioner<br>of Municipal Affairs:<br>Community Development Block Grants<br>-State's Program | 14.228                             | 94-FD-18<br>99-FD-18<br>00-FD-18<br>01-FD-18<br>02-FC-AB-18<br>03-FC-AB-18<br>04-FC-AB-18 | <u>1,075,444</u>    |
| <b>Total U.S. Department of Housing and<br/>Urban Development</b>   |                                    |   | <u>1,339,232</u>    |
| <b>U.S. DEPARTMENT OF JUSTICE:</b>  |                                    |   |                     |
| Direct Program:<br>Public Safety Partnership and<br>Community Policing Grants   | 16.710                             |   | 78,044              |
| Pass-through the Commonwealth of<br>Puerto Rico - Department of Justice:<br>Local Law Enforcement Block Grants<br>Program                                       | 16.592                             | 2000-LB-BX-1085   | <u>18,169</u>       |
| <b>Total U.S. Department of Justice</b>   |                                    |   | <u>96,213</u>       |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

| <u>Federal Grantor/Pass-through<br/>Grantor/Program or Cluster Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-through<br/>Entity Identifying<br/>Number</u> | <u>Expenditures</u>   |
|--|------------------------------------|---|-----------------------|
| <b>U.S. DEPARTMENT OF EDUCATION:</b>   |                                    |   |                       |
| Pass-through the Commonwealth of<br>Puerto Rico - Department of Education:<br>Library Service and Technology Grant                 | N/A                                | Not Available   | <u>5,974</u>          |
| <b>Total U.S. Department of Education</b>  |                                    |   | <u><b>5,974</b></u>   |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN<br/>SERVICES:</b>   |                                    |   |                       |
| Pass-through the Commonwealth of<br>Puerto Rico - Family Department:<br>Community Services Block Grant                             | 93.569                             | Not Available   | 34,166                |
| Pass-through the Commonwealth of<br>Puerto Rico - Family Department:<br>Community Food and Nutrition<br>Programs                   | 93.571                             | Not Available   | 6,250                 |
| Pass-through the Commonwealth of<br>Puerto Rico - Family Department:<br>Child Care and Development Block<br>Grant                  | 93.575                             | Not Available   | 318,785               |
| Pass-through the Commonwealth of<br>Puerto Rico - Family Department:<br>Family Violence Prevention and<br>Services                 | 93.591                             | Not Available   | <u>52,483</u>         |
| <b>Total U.S. Department of Health and<br/>Human Services</b>  |                                    |   | <u><b>411,684</b></u> |
| <b>U.S. DEPARTMENT OF HOMELAND<br/>SECURITY:</b>   |                                    |   |                       |
| Pass-through the Commonwealth of<br>Puerto Rico - Emergency Management<br>Agency:<br>Pre-Disaster Mitigation Competitive<br>Grants | 97.017                             | Not Available   | 17,200                |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

| <u>Federal Grantor/Pass-through<br/>Grantor/Program or Cluster Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-through<br/>Entity Identifying<br/>Number</u> | <u>Expenditures</u>        |
|--|------------------------------------|---|----------------------------|
| Pass-through the Commonwealth of<br>Puerto Rico - Office of the Governor<br>Authorized Representative (GAR):<br>Public Assistance Grants | 97.036                             | 1501-DR-PR<br>1552-DR-PR                              | 219,700                    |
| Pass-through the Commonwealth of<br>Puerto Rico - Emergency Management<br>Agency:<br>Emergency Management Performance<br>Grants          | 97.042                             | Not Available   | <u>12,228</u>              |
| <b>Total U.S. Department of Homeland<br/>Security</b>  |                                    |   | <u><b>249,128</b></u>      |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>  |                                    |   | <u><b>\$ 2,109,115</b></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, 2005**

**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:

| <u>Description</u>                                     | <u>Special<br/>Revenue Fund<br/>- Federal<br/>Grants</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total</u>        |
|--|--|---|---------------------|
| Per Schedule of Expenditures<br>of Federal Awards      | \$ 1,845,327   | \$ 263,788                              | \$ 2,109,115        |
| Non federal programs<br>Expenditures                   | <u>65,261</u>  | <u>1,150,060</u>                        | <u>1,215,321</u>    |
| Total expenditures in the<br>fund financial statements | <u>\$ 1,910,588</u>                                      | <u>\$ 1,413,848</u>                     | <u>\$ 3,324,436</u> |



*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 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, 2005, and have issued our report thereon dated October 31, 2005, 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 **05-01** through **05-03**.

**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 **05-01** 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 31, 2005.

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 31, 2005

Stamp No. 2106119 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

Member of:

• American Institute of  
Certified Public Accountants

• Puerto Rico Society of  
Certified Public Accountants

**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, 2005. The **Municipality of Coamo's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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, 2005. 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, **05-04** through **05-14**.

**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 **05-04** through **05-14**.

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 **05-04, 05-05, 05-07, 05-08, 05-12, and 05-14** 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 February 3, 2006.



**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  
February 3, 2006

Stamp No. 2106120 of the Puerto Rico  
Society of Certified Public Accountants  
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, 2005

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

**Financial Statements**

|   |   |               |
|---|---|---------------|
| Type of auditor’s report issued:  | <b>Unqualified, except for adverse<br/>for government-wide financial<br/>statements</b> |               |
| Internal control over financial reporting:                                    |   |               |
| Material weakness identified?   | Yes X   | No            |
| Reportable conditions identified not considered to<br>be material weaknesses? | Yes X   | None reported |
| Noncompliance material to financial statements<br>noted?                      | Yes   | No X          |

**Federal awards**

|   |                    |               |
|---|--------------------|---------------|
| Internal Control over major programs:   |                    |               |
| Material weakness identified?   | Yes X              | No            |
| Reportable conditions identified not considered to<br>be material weaknesses?   | Yes X              | None reported |
| Type of auditor’s report issued on compliance for<br>major programs:  | <b>Unqualified</b> |               |
| Any audit findings disclosed that are required<br>to be reported in accordance with Circular<br>A-133, Section .510(a)? | Yes X              | No            |

Identification of major programs:

| <u>CFDA Number</u>   | <u>Name of Federal Program or Cluster</u>               |
|--|---|
| 14.228   | Community Development Block Grants – State’s<br>Program |
| 93.575   | Child Care and Development Block Grant                  |
| Dollar threshold used to distinguish<br>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, 2005

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**Section II - Financial Statements Findings**

|  |  |
|--|--|
| <b>Finding Reference</b>                         | <b>05-01</b>   |
| <b>Requirement</b>                               | <b>Fixed\ Capital Assets and Expenditures - Subsidiary Ledger</b>  |
| <b>Statement of Condition</b>                    | 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.       |
| <b>Criteria</b>                                  | 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. |
| <b>Cause of Condition</b>                        | Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.   |
| <b>Effect of Condition</b>                       | 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.  |
| <b>Recommendation</b>                            | 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.  |
| <b>Questioned Costs</b>                          | None   |
| <b>Management Response and Corrective Action</b> | Actually, the Municipality's Finance Department staffs are updating the capital assets subsidiary ledger with the support of our financial consultants in order to comply with the GASB No. 34 capital assets requirements for the fiscal year ended on June 30, 2006.   |

Implementation Date: June 30, 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, 2005

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**Section II - Financial Statements Findings**

|  |  |
|--|--|
| <b>Finding Reference</b>                         | <b>05-02</b>   |
| <b>Requirement</b>                               | <b>Financial Reporting - Accounting Records</b>  |
| <b>Statement of Condition</b>                    | 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.  |
| <b>Criteria</b>                                  | 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.   |
| <b>Cause of Condition</b>                        | The Municipality accounting data is not summarized in the form of a double-entry General Ledger record.  |
| <b>Effect of Condition</b>                       | 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.   |
| <b>Recommendation</b>                            | 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.  |
| <b>Questioned Costs</b>                          | None   |
| <b>Management Response and Corrective Action</b> | The Municipality maintains two set of accounting records; a manual system and a computerized system provided in the past by the Office of the Commissioner of Municipal Affairs (OCAM). Actually, all of the transactions were recorded in both systems, but the manual system is the primary financial records for financial statements preparation purposes at the end of each fiscal year due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation. |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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Section II - Financial Statements Findings

Finding Reference      05-02 (Continued)

Some of the manual accounting records maintained by the Municipality consist of the following records, which provide information based on cash and budgetary basis:

- a. Cash Receipt Books - To record all receipts issued by the Official and Auxiliary Cash Collectors; each receipt is posted under each account of fund column title, and at the end of the month each column total is posted to the General Ledger.
- b. Cash Disbursement Book - To record all cash disbursements made by the Official Payer; each cash disbursement is charged to an account or to a fund, and at the end of the month each account or fund total is posted to the General Ledger.
- c. General Ledger - To summarize monthly cash receipt and cash disbursement transactions charged to each account or fund.
- d. Purchase Orders and Contracts Register - To record purchase orders and contracts issued against the budgeted amounts for each account or fund.

The computerized accounting records consist of the following modules; (a) Budget module, (b) Disbursements module, (c) General accounting module, (d) Volume of business tax module, (e) Accounts Receivable module, (f) Cash receipts module, and (g) Payroll module. All of these modules are in full operation, but as described in the first paragraph, the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.

But, we are considering alternatives to improve our accounting system, including the acquisition of new accounting software, and therefore, we will hope to solve our accounting system condition in a near future.

Implementation Date: June 30, 2007

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, 2005**

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**Section II - Financial Statements Findings**

**Finding Reference**      **05-03**

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

**Statement of Condition** We performed a cash disbursement test and examined forty nine (49) disbursement vouchers which belonged to Community Development Block Grant (CDBG)-State Program, ten (10) which belonged to Child Care Development Grant Program, five (5) which belonged to Government Development Bank (GDB) Loan \$2,015,000 account, eight (8) which belonged to GDB Loan \$810,000 account and twenty one (21) which belonged to Joint Resolutions. The following will summarize the internal control exceptions noted:

- a. Twelve (12) disbursement vouchers did not have all of its supporting documents stamped as paid. (Eight (8) of these were related to CDBG-State Program, two (2) related to GDB Loan \$810,000 account and two (2) related to Joint Resolutions);
- b. In twenty one (21) disbursement vouchers, we noted that for the partial payments of seven (7) construction projects and two (2) professional services, the Municipality did not reserve the necessary budgetary credits for the payment of services, at the time of formalizing the contracts. (Six (6) of these were related to CDBG-State Program, two (2) related to GDB Loan \$2,015,000 account, five (5) related to GDB Loan \$810,000 account and eight (8) related to Joint Resolutions);
- c. Related to the twenty one (21) disbursement vouchers indicated in point b, we observed that in ten (10) these, the Municipality emitted the purchase order after the services were made. (One (1) of these was related to GDB Loan \$2,015,000 account, three (3) related to GDB Loan \$810,000 account and six (6) related to Joint Resolutions). Also, in one (1) of these, related to Joint Resolutions, we observed that the contract was formalized after the services were made;

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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**Section II – Financial Statements Findings**

**Finding Reference**      **05-03 (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. Also, Chapter Eight (8), Part Five (5) of this regulation establishes that the municipalities will have to reserve the necessary budgetary credits before carrying out the purchases, in order to maintaining the available balance to cover the payments when the materials or equipments purchases are received or the service are made.

**Cause of Condition**        The Municipality internal control procedures failed to assure 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), Part Five (5) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.

**Recommendation**         We recommend to the Municipality’s management to improve its internal control and procedures in order to instruct personnel to follow the disbursements and purchase procedures established by laws and regulations.

**Questioned Cost**            None

**Management Response and Corrective Action**    To reduce to a low level the probability that a condition as described on Finding 05-03 (a) occur again in the future, we are going to instruct the Official Payer to improve your procedures in order to assure that all of disbursement vouchers and its supporting documents were stamped as paid whenever a check is issued.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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**Section II - Financial Statements Findings**

**Finding Reference**      **05-03 (Continued)**

To reduce to a low level the probability that a conditions as described on Findings 05-03 (b) and (c) occur again in the future, we are going to instruct the Municipal Secretary Department staff, who process and maintain the contract register, to submit each contract executed immediately to the Finance Department in order to assure that the budget reservation transaction be posted as soon as possible. But, although for some contracts tested by the external auditors the budget reservation was not made at the time of each contract execution, this budget reservation was posted later, and each contract was financed with funds restricted for specific capital projects (Federal grants, Bond and\or Notes proceeds, and Legislative Resolutions).

Implementation Date: March 23, 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, 2005

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Section III – Mayor Federal Award Program Finding and Questioned Cost

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>05-04</b>  |
| <b>Program</b>                | <b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>  |
| <b>Requirement</b>            | <b>Allowable Activities</b>   |
| <b>Statement of Condition</b> | <p>We performed a housekeeper activities test of fifteen (15) participant’s files and found the following exceptions:</p> <ul style="list-style-type: none"><li>a) In eight (8) participant’s files, we noted that the application form (OCAM-AH-002) was not completed by the participants;</li><li>b) In ten (10) participant’s files, we noted that the eligibility determination form (OCAM-AH-003) was not completed by the program staff;</li><li>c) In thirteen (13) participant’s files, we noted that the eligibility approval form (OCAM-AH-004A) was not completed by the program staff;</li><li>d) In five (5) participant’s files, we noted that the participation contract (OCAM-AH-005) was not completed;</li><li>e) In thirteen (13) participant’s files, we did not find evidence that demonstrate if the program staff visited at least two times per month the participant housing unit to ensure the quality of services;</li><li>f) Two (2) participant’s files were not available for our examination.</li></ul> |
| <b>Criteria</b>               | <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, 2005

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

|  |  |
|--|--|
| <b>Finding Reference</b>                         | <b>05-04 (continued)</b>   |
| <b>Cause of Condition</b>                        | 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.   |
| <b>Effect of Condition</b>                       | 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").  |
| <b>Recommendation</b>                            | 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. |
| <b>Questioned Costs</b>                          | None   |
| <b>Management Response and Corrective Action</b> | To remedy the transactions reported in the external auditors' condition, we are going to assign Program staff to review the participants' files to correct, if possible, any condition observed in each file to assure compliance the Program regulations.                               |

Also, as a prospective measure, we are going to give specific instructions to our Program staff and to monitor your performance closely in order to assure adherence to the procedures established by the Office of the Commissioner of Municipal Affairs (OCAM) in the procedures guide titled in Spanish as "Guía Operacional para la Prestación del Servicio de Auxiliares en el Hogar".

Implementation Date: June 30, 2006

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, 2005**

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

**Finding Reference**      **05-05**

**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**    We performed a housing rehabilitation test of fifteen (15) participant files and found the following exceptions:

- a) In eleven (11) participant’s files, we noted that the pre-rehabilitation inspection form (OCAM-RMV-01-004) was not completed in all its parts by the program staff;
- b) In seven (7) participant’s files, we did not observe the rehabilitation contract (OCAM-RMV-01-006);
- c) In six (6) participant’s files, we did not observe the eligibility application form (OCAM-RMV-01-003);
- d) In two (2) participant’s files, we did not observe evidence of the family income;
- e) In four (4) participant’s files, we did not observe evidence of the residence existence;
- f) In six (6) participant’s files, the applicant eligibility or non-eligibility determination was not documented (OCAM-RMV-01-005);
- g) In fifteen (15) participant’s files, we did not observe evidence of the program’s inspector visits to follow up the rehabilitation works (OCAM-RMV-01-009);
- h) In nine (9) participant’s files, we did not observe evidence of the program’s inspector final visit. Only, the files include photos of the termination of works;

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference      05-05 (Continued)

|                     |   |
|---------------------|---|
| Criteria            | Code of Federal Regulations 24, Section 570.506 (b) state that at a minimum, the grantee should maintain records demonstrating that each activity undertaken meets one of the three national objectives of the CDBG Program, i.e., benefit low- and moderate-income persons, prevent or eliminate slums or blight, or meet community development needs having a particular urgency. Also, Code of Federal Regulations 24, Section 570.506 (b) (9) states that when CDBG- Entitlement Grant funds are used for residential rehabilitation activity to aid in the prevention or elimination of slums or blight in a slum or blighted area, the grantee must maintain records to support the local definition of “substandard”, must document a pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated, and must document the details and scope of CDBG assisted rehabilitation, by structure. |
| 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 and to assure that inspections to monitor the rehabilitation activities were conducted, as established in the program’s operational guide.  |
| Effect of Condition | The Municipality is not in compliance with Code of Federal Regulations 24, Section 570.506 (b) and 570.506 (b) (9).   |
| Recommendation      | We recommend the Program to establish the following procedures: (a) ascertain that the participant housing unit deficiencies to be corrected are incorporated into the rehabilitation contract; (b) realize pre-rehabilitation inspections describing the participant housing unit deficiencies to be corrected; (c) assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contracts specifications; (d) assure that all participant files include all required documentation and; (e) ascertain eligibility determination and adequate evidence of family income.   |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

**Finding Reference**      05-05 (Continued)

**Questioned Costs**      None

**Management Response  
and Corrective Action**

To remedy the transactions reported in the external auditors' condition, we are going to assign Program staff to review the participants' files to correct, if possible, any condition observed in each file to assure compliance the Program regulations.

Also, as a prospective measure, we are going to give specific instructions to our Program staff and to monitor your performance closely in order to assure adherence to the procedures established by the Office of the Commissioner of Municipal Affairs (OCAM) in the procedures guide titled in Spanish as "Guía Operacional para el Programa de Rehabilitación de Viviendas".

Implementation Date: June 30, 2006

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, 2005

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Section III – Major Federal Award Program Findings and Questioned Costs

|  |   |
|--|---|
| <b>Finding Reference</b>                         | <b>05-06</b>  |
| <b>Program</b>                                   | <b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>  |
| <b>Requirement</b>                               | <b>Cash Management</b>  |
| <b>Statement of Condition</b>                    | During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. In a sample of ten (10) requisitions of funds (a total of \$623,664), we observed that the Municipality made the disbursements between four (4) and fifty (50) days after the deposits. Also, the Program cash account maintained a monthly average cash balance of \$33,456 in books. |
| <b>Criteria</b>                                  | 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.   |
| <b>Cause of Condition</b>                        | 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.  |
| <b>Effect of Condition</b>                       | The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).  |
| <b>Recommendation</b>                            | 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.  |
| <b>Questioned Costs</b>                          | None  |
| <b>Management Response and Corrective Action</b> | To correct the condition reported by the external auditors we are going to start the disbursement process when the requisitions of funds were submitted to the Office of the Commissioner of Municipal Affairs (OCAM) in order to assure that when the funds were transferred by the Pass-through Grantor we will disburse its immediately.   |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

Finding Reference      05-06 (Continued)

Implementation Date: June 30, 2006

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, 2005**

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

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>05-07</b>  |
| <b>Program</b>                | <b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>  |
| <b>Requirement</b>            | <b>Davis-Bacon Act</b>  |
| <b>Statement of Condition</b> | <p>During our Davis-Bacon Act test, we verified the construction projects 00-FD-18-001, 01-FD-18-001, 03-FC-18-001 and 04-FC-18-001. The following summarizes the situations founded:</p> <ul style="list-style-type: none"><li>a) For the construction projects 01-FD-18-001, 03-FC-18-001 and 04-FC-18-001, related to streets improvement activities, the Municipality did not perform procedures in order to determine if the contractors complied with the dispositions established in the Davis Bacon Act; contractor’s laborers interviews were not made and contractor’s weekly payrolls were not requested during construction period;</li><li>b) For the construction project 00-FD-18-001, the Municipality did not perform the required visits for monitoring the classifications of the workers and the wage rates paid. Also, the payrolls provided by the contractor were not monitored to verify the compliance with the prevailing wage rates.</li></ul> |
| <b>Criteria</b>               | <b>Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7)</b>  |
| <b>Cause of Condition</b>     | <b>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.</b>  |
| <b>Effect of Condition</b>    | <b>The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).</b>  |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

**Finding Reference** 05-07 (continued)

**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.

**Questioned Costs** None

**Management Response and Corrective Action** To correct the condition reported by the external auditors we are going to assign to one of our Program staff the duties of a labor standards officer. Also, we will contact the Pass-through Grantor to request a formal training to our Program staff in order to assure compliance with the Davis-Bacon Act requirements.

Implementation Date: June 30, 2006

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, 2005**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>05-08</b>   |
| <b>Program</b>                | <b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b> |
| <b>Requirement</b>            | <b>Equipment and Real Property Management</b>  |
| <b>Statement of Condition</b> | <b>Section II – Financial Statements Findings – Finding Reference 05-01</b>  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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

|  |  |
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| <b>Finding Reference</b>                         | <b>05-09</b>   |
| <b>Program</b>                                   | <b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>   |
| <b>Requirement</b>                               | <b>Procurement and Debarment</b>   |
| <b>Statement of Condition</b>                    | In our procurement test, we noted that for two (2) professional services contracts (for design and supervision of construction works related to projects 94-FD-001 and 04-FC-002) the Municipality did not document the contractors’ selection.  |
| <b>Criteria</b>                                  | Common Rule Subpart C __.36 (9) states that grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following; rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.  |
| <b>Cause of Condition</b>                        | The Municipality internal control procedures failed to assure that proper documentation detailing procurement and contractor selection or rejection process is maintained for each project.  |
| <b>Effect of Condition</b>                       | The Municipality is not in compliance with Common Rule Subpart C __.36 (9).  |
| <b>Recommendation</b>                            | We recommend management to maintain detailed files documenting the public notice requesting professional services, the quotations received for each project and the subsequent analysis to select or reject a contractor.  |
| <b>Questioned Costs</b>                          | None   |
| <b>Management Response and Corrective Action</b> | The Municipality of Coamo use competitive proposal procedures for architectural/engineering professional services whereby competitors’ qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. Each year, we request proposals for architectural/engineering professional services through a publication in general circulation newspapers in the Commonwealth of Puerto Rico. |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

**Finding Reference**      **05-09**

But, to correct the condition reported by the external auditors, we are going to evaluate and modify our method of conducting technical evaluations of the proposals received and for selecting awardees in order to assure that each stage of the process has documented in sufficient detail to assure that each record reflect the significant history of the procurement.

Implementation Date: June 30, 2006

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, 2005

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Section III – Major Federal Award Program Findings and Questioned Costs

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>05-10</b>  |
| <b>Program</b>                | <b>Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>   |
| <b>Requirement</b>            | <b>Procurement and Suspension and Debarment</b>   |
| <b>Statement of Condition</b> | <p>During our contract provision test, we verified three (3) contracts for the Community Development Block Grants – State’s Program, formalized during the fiscal year ended June 30, 2005. The following summarizes the situations found:</p> <ul style="list-style-type: none"><li>a. Two (2) contracts did not include a provision for compliance with Executive Order 11246 “Equal Employment Opportunity”;</li><li>b. Two (2) contracts did not include a provision for compliance with Davis Bacon;</li><li>c. Two (2) contracts did not include a provision for compliance with Sections 103 and 107 of the Contract Work Hours &amp; Safety Standards Act;</li><li>d. Three (3) contracts did not include a provision for granting accesses to GAO or other federally agency, to books and other documents;</li><li>e. One (1) contract did not include a provision for compliance with Clean Air Act and Water Act;</li><li>f. Three (3) contracts did not include a provision for compliance with Energy Policy and Conservation Act;</li><li>g. Two (2) contracts did not include a provision for compliance with the Copeland “Anti-Kickback”;</li><li>h. Three (3) contracts did not include a provision for retention of all required records for three years;</li><li>i. Three (3) contracts did not include a provision for compliance with EO-1991-55 (certification of income tax).</li></ul> |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

|  |  |
|--|--|
| <b>Finding Reference</b>                         | <b>05-10</b>   |
| <b>Criteria</b>                                  | Code of Federal Regulations 24, Subpart I, Section 570.489 (g) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations.  |
| <b>Cause of Condition</b>                        | The Municipality's internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.  |
| <b>Effect of Condition</b>                       | The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Section 570.489 (g).  |
| <b>Recommendation</b>                            | We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.  |
| <b>Questioned Costs</b>                          | None   |
| <b>Management Response and Corrective Action</b> | To correct the condition reported by the external auditors, we are going to prepare a uniform Federal required contract clauses attachment in order to attach it to each contract granted and related to Federal grants.<br><br>Implementation Date: June 30, 2006<br><br>Responsible Person: Mrs. Rita Rodríguez Rivera<br>Federal Programs Department Director |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

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

**Finding Reference**      **05-11**

**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**    Our examination of the reporting requirements of the Community Development Block Grant – State’s Program revealed the following:

- a. We verified the Financial Quarterly Report ended on June 30, 2005. The following summarize the differences between the amounts presented in the Financial Quarterly Report and the amounts presented in the program’s General Ledger:

| Cash Disbursements<br>Accounting Number | Amount per<br>Quarterly<br>Report | Amount per<br>General<br>Ledger | Difference |
|---|-----------------------------------|---------------------------------|------------|
| 01-FD-ADM (703)                         | \$ 721                            | \$ 1,281                        | \$ (560)   |
| 00-FD-ADM (709)                         | 3,676                             | 4,775                           | (1,099)    |
| 00-FD-ADM(709)                          | 2,051                             | 2,071                           | (20)       |
| 99-FD-ADM (714)                         | 1,343                             | 1,388                           | (45)       |
| 98-FD-ADM (703)                         | 7,335                             | 7,365                           | (30)       |
| 98-FD-ADM (719)                         | 1,691                             | 1,741                           | (50)       |
| 97-FD-ADM (703)                         | 3,100                             | 3,117                           | (17)       |
| 97-FD-ADM (719)                         | 2,219                             | 2,430                           | (211)      |
| 97-FD-18-001 (505)                      | 145,300                           | 185,300                         | (40,000)   |
| 97-FD-18-001 (510)                      | 93,000                            | 53,000                          | 40,000     |
| 96-FD-ADM (703)                         | 5972                              | 5,993                           | (21)       |
| 95-FD-ADM (703)                         | 2,292                             | 2,302                           | (10)       |
| 94-AF-ADM (703)                         | 3,228                             | 3,229                           | (1)        |
|   |                                   |                                 |            |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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Section III – Major Federal Award Program Findings and Questioned Costs

|                            |  |
|----------------------------|--|
| <b>Finding Reference</b>   | <b>05-11 (continued)</b><br><br>b. For the periods ended 9/30/2004, 12/31/04 and 6/30/05, we did not obtain evidence to assure us that the Financial Quarterly Reports were timely submitted to the Office of Commissioner of Municipal Affairs.<br><br>c. The Financial Quarterly Report for the period ended 3/31/05 was not submitted in the stipulated time to the Office of Commissioner of Municipal Affairs.  |
| <b>Criteria</b>            | 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 funds 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. |
| <b>Cause of Condition</b>  | The Municipality financial management system failed to assure accurate, current, and complete disclosure of the financial results of financially assisted activities.  |
| <b>Effect of Condition</b> | The Municipality did not report on time accurate financial results to the Office of Commissioner of Municipal Affairs.   |
| <b>Recommendation</b>      | 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 management to maintain evidence about the submission date of the Financial Quarterly Report to the Office of Commissioner of Municipal Affairs.   |
| <b>Questioned Costs</b>    | None   |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

**Finding Reference**      **05-11 (continued)**

**Management Response  
and Corrective Action**

To remedy the condition reported by the external auditors, we are going to instruct the Program accountant to reconcile the differences identified by them.

Also, as a prospective measure, we are going to give specific instructions to our Program Accountant to reconcile each quarterly report draft to the accounting records prior to submission of final report to the Office of the Commissioner of Municipal Affairs (OCAM) in order to assure that transactions and amounts reported to the Pass-through Grantor were fully supported and agree with the accounting records; and to submit quarterly reports in time and maintain in file reasonable evidence of each report submission.

Implementation Date: June 30, 2006

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, 2005

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Section III – Major Federal Award Program Findings and Questioned Costs

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>05-12</b>  |
| <b>Program</b>                | <b>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)</b>  |
| <b>Requirement</b>            | <b>Financial Administration–Standard for Financial Management System Reporting</b>  |
| <b>Statement of Condition</b> | 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. |
| <b>Criteria</b>               | 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.  |
| <b>Cause of Condition</b>     | 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.  |
| <b>Effect of Condition</b>    | 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, 2005

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Section III - Major Federal Award Program Findings and Questioned Costs

**Finding Reference** 05-12 (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: (a) Develop a chart of accounts (including real and nominal accounts) based on reporting requirements established by the pass-through grantor; (b) Maintain General Ledger which includes all necessary accounts to properly report financial results as required by the pass-through grantor; (c) Maintain a General Journal Ledger to summarize the Revenue and Disbursement Registers transactions using the double entry accounting procedure; (d) Maintain a Revenue Register to support transactions to be posted in the General Ledger; (e) Maintain a Disbursement Register to support transactions to be posted in the General Ledger.

**Questioned Cost** None.

**Management Response and Corrective Action** To correct the condition reported by the external auditors, we are going to modify our Program accounting records with the support of our financial consultants in order to assure that the accounting records present the financial position and the results of operation in sufficient detail to permit an easily audit trial of financial reports to the accounting records.

Implementation Date: June 30, 2006

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, 2005**

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

|  |   |
|--|---|
| <b>Finding Reference</b>                         | <b>05-13</b>  |
| <b>Program</b>                                   | <b>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)</b>  |
| <b>Requirement</b>                               | <b>Cash Management</b>  |
| <b>Statement of Condition</b>                    | During our Cash Management test we noted that the Program cash account maintained a monthly average cash balance of \$119,836 in books. Also, we observed that the program reimbursed to the pass-through grantor on March 28, 2005, a total of \$18,943.   |
| <b>Criteria</b>                                  | 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.   |
| <b>Cause of Condition</b>                        | The Municipality request funds in excess of its immediate needs.  |
| <b>Effect of Condition</b>                       | The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7).   |
| <b>Recommendation</b>                            | 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.   |
| <b>Questioned Costs</b>                          | None.   |
| <b>Management Response and Corrective Action</b> | The requisition of funds system established by the Commonwealth of Puerto Rico Child Care and Development Administration (ACUDEN) has been designed to request funds quarterly. Therefore, each quarter, we complete and submit the request of funds form provided by ACUDEN, reporting the amounts of funds received to date, the total award expended to date, a forecast of expenditures for the next three months (payroll, fringe benefits, contractual services, etc.), and the total amount of cash requested based on the referenced information. |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference      **05-13 (Continued)**

The funds requested and received from ACUDEN each quarter are disbursed during each quarter period principally to reimburse the payroll and fringe benefits paid by the General Fund and to pay the monthly portion of contractual services.

Therefore, is our opinion that the requisition of funds system established by the Pass-through Grantor, who is the non-federal entity who maintain closely monitoring to our Program operations, has been followed by us in compliance with the grant agreement clauses.

Also, is our opinion that the Cash Management requirement information, as described in the OMB A-133 Compliance Supplement, is applicable to the Commonwealth of Puerto Rico Child Care and Development Administration (ACUDEN) as a direct recipient of Program funds from the Federal Government.

Implementation Date: Pending to discuss condition with ACUDEN

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, 2005

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Section III – Major Federal Award Program Findings and Questioned Costs

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>05-14</b>   |
| <b>Program</b>                | <b>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)</b>   |
| <b>Requirement</b>            | <b>Period of Availability of Funds</b>   |
| <b>Statement of Condition</b> | <p>We performed a cash disbursement test and examined the payment vouchers of nine (9) checks issued by the Child Care and Development Block Grant Program. We noted the following situation;</p> <p>In July 30, 2003, the program issued two (2) purchase orders for the amount of \$9,353.85 and \$6,332.50 respectively, for the acquisition of plastic chairs, plastic tables and educative materials. We noted that these obligations were liquidated on December 2, 2004, approximately eleven (11) months after the end of the period of availability of funds.</p> |
| <b>Criteria</b>               | <p>Common Rule Subpart C, Section 23 states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.</p>   |
| <b>Cause of Condition</b>     | <p>The Municipality internal controls and procedures failed to assure that all the obligations issued under Child Care and Development Block Grant Program were liquidate within the period of availability of funds.</p>  |
| <b>Effect of Condition</b>    | <p>The Municipality is not in compliance with Common Rule Subpart C, Section 23.</p>   |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

**Finding Reference**      **05-14 (Continued)**

**Recommendation**      We recommend management to strengthen its controls and procedures in order to not liquidate obligations issued under Child Care and Development Block Grant Program after the period of availability of funds.

**Questioned Costs**      None

**Management Response  
and Corrective Action**

The Municipality of Coamo has been administering this Program efficiently in the past years, providing high quality services to increase the availability, affordability, and quality of child-care services for low-income families where the parents are working or attending training or educational programs.

Is our opinion that the condition reported by the external auditors is an unusual and infrequent transaction in which the Municipality, for an involuntary error, did not request a time extension (a waiver) to the Pass-through Grantor to liquidate the obligations with a supplier after the period established in the Grant Agreement. Both transactions were for purchase of goods to the same supplier who did not submit your invoice promptly (invoice was received in the Municipality on October 22, 2004). The Municipality, protecting the public interest, and complying with the disbursement process procedures required by the State Act Number 81 of August 30, 1991, did not process the payment to the supplier until the invoices for goods delivered were received by the Municipality and properly authorized for payment by designed employees.

Also, if important to comment that although the Grant Agreement formalized between the Municipality and ACUDEN provide for a period of 90 days to liquidate Program's obligations after year end, the Program regulations has established that for Discretionary Funds (CFDA 93.575) must be obligated by the end of the succeeding fiscal year after award, and expended by the end of the third fiscal year after award (42 USC 9858h(c); 45 CFR section 98.60).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

**Finding Reference**      **05-14 (Continued)**

But, to reduce to a low level the probability that a similar situation occur again in the future, we are going to instruct Program accountant to process for payment all of the obligations pending at the Program year ended within the period established to do so, and if necessary, to request a time extension to the Pass-through Grantor within the period of availability of funds established in the Grant Agreement.

Implementation Date: March 23, 2006

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2005**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)  |
|-------------------------|----------|---|
| 04-06                   | 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> <p>No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-04.</p>   |
| 04-07                   | 14.228   | <p><u>The Municipality's monitoring procedures failed to assure that the assistance for housing rehabilitations were been used for allowed activities.</u></p> <p>No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-05.</p>   |
| 04-08                   | 14.228   | <p><u>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.</u></p> <p>No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-06.</p>   |
| 04-09                   | 14.228   | <p><u>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, the Municipality did not inform the contractor, in the procurement process and prior to contractual agreement signature about the applicability of Davis Bacon Act.</u></p> <p>No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-07.</p> |
| 04-10                   | 14.228   | <p><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></p> <p>No corrective action has been taken. The Auditors reissued the finding</p>  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)   |
|-------------------------|----------|--|
|                         |          | for the current year. Finding Reference 05-08.   |
| 04-11                   | 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><br><br>No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-11.  |
| 04-12                   | 93.575   | <u>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.</u><br><br>No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-12. |
| 04-13                   | 93.575   | <u>The Municipality maintained in the Child Care and Development Block Grant's cash account, a monthly average cash balance of \$219,645. Also, 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.</u><br><br>No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-13.   |
| 04-14                   | 93.575   | <u>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).</u><br><br>Full corrective action has been taken.   |
| 03-06                   | 14.871   | <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</u>  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)   |
|-------------------------|----------|--|
|                         |          | <u>in fund balance.</u>  |
|                         |          | Full corrective action has been taken.   |
| 03-09                   | 14.871   | <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>  |
|                         |          | Full corrective action has been taken.   |
| 03-10                   | 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 has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-04.  |
| 03-11                   | 14.228   | <u>The Municipality requested funds that were not disbursed on a reasonable lapse of time.</u>   |
|                         |          | No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-06.  |
| 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 has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-07.  |
| 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>  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2005**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)  |
|-------------------------|----------|---|
|                         |          | No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-08.   |
| 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>  |
|                         |          | No corrective action has been taken. The Auditors reissued the finding for the current year. Finding Reference 05-11.   |
| 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>   |
|                         |          | 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.  |
| 02-09                   | 14.228   | <u>The Municipality requested funds that were not disbursed on a reasonable lapse of time.</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.  |
| 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> |
|                         |          | 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.  |
| 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>  |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2005

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(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. |