

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

**MUNICIPIO DE COAMO
AUDITORÍA 2009-2010
30 DE JUNIO DE 2010**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
BASIC FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2010

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

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

YEAR ENDED JUNE 30, 2010

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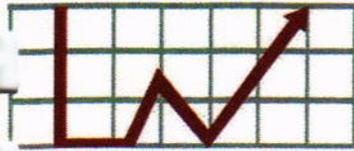
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

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

YEAR ENDED JUNE 30, 2010

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

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

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, 2010, 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 and the standards applicable to financial audits contained in the *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 **14** 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 matters 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, 2010, and the changes in financial position, thereof for the year then ended.

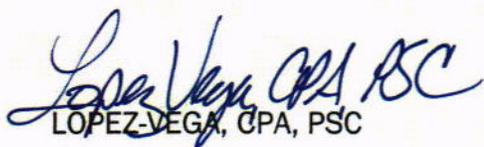
In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2010, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 44 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Coamo's** financial statements, as a 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 also not a required part of the financial statements.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 29, 2010

Stamp No. 2575439 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



Certified Public Accountants / Management Advisors

López-Vega, CPA, PSC

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2010

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, 2010. 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, 2009. This MD&A is prepared in order to comply with the Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments.*" 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 2009-2010 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. asses management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2010 deserve special mention:

1. Total Net Assets of the Municipality as of the end of the indicated fiscal year amounted to \$21,059,471, or forty seven percent (47%) of total assets.
2. The Municipality's total Net Assets decreased by \$2,639,550, or an eleven percent (11%) 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 \$11,985,086 or \$3,516,763 under the similar figure corresponding to the previous fiscal year 2008-2009.
4. As the end of the current fiscal year, the balance of the Municipality's General Fund amounted to \$1,446,324, or \$64,939 more than the previous fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS (CONTINUED)

5. The actual General Fund budgetary activities resulted in a favorable balance of \$219,737 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. At the end of fiscal year 2010, total liabilities amounted to \$23,647,853. Out of said amount, \$20,710,848 corresponded to long-term liabilities of which \$17,939,000 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 2010. 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, 2010

FINANCIAL STATEMENTS COMPONENTS

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

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. In the particular case of the **Municipality of Coamo**, as of June 30, 2010, such figure amounted to \$21,059,471 and represented forty seven percent (47%) 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, 2010, shows total expenses incurred to afford the cost of all functions and programs amounted to \$21,458,202. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$5,653,984 was derived from the following sources: \$171,433 from charges for services; \$2,369,237 from operating grants and contributions; and \$3,113,314 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$13,164,668. When such figure is added to the \$5,653,984 previously mentioned, total revenues available for the financing of activities amounted to \$18,818,652. There was an excess of expenses over revenues in the amount of \$2,639,550 which contributed to the reduction of 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, 2010

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 totally 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 June 30, 2010, the Municipality is not reporting totally its infrastructure assets. The Municipality expects to report historical costs of all of its infrastructure assets in the next fiscal year financial statements.

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 expects to elect the use of recognizing depreciation under the useful life method.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

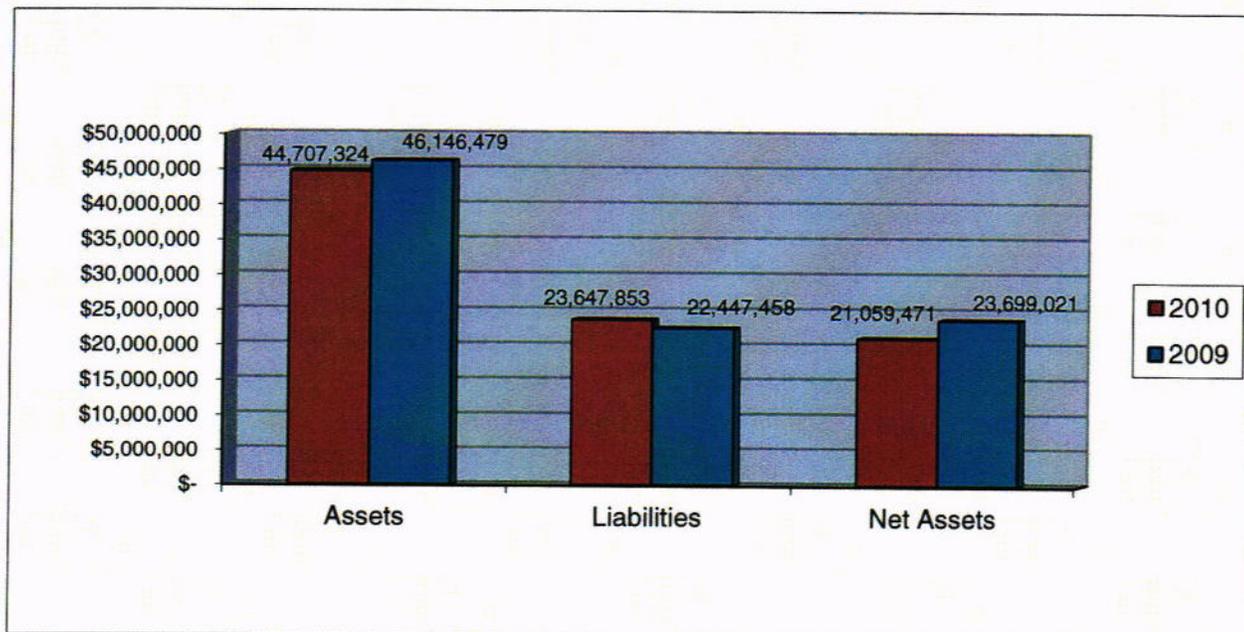
YEAR ENDED JUNE 30, 2010

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 \$21,059,471 at the end of 2010, as compared with \$23,699,021 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 \$2,639,550 decrease reflected in the Net Assets figure.

Condensed Statement of Net Assets	2010	2009	Change	%
Current and other assets	\$ 14,922,091	\$ 18,287,829	\$(3,365,738)	(18%)
Capital assets	29,785,233	27,858,650	1,926,583	7%
Total assets	44,707,324	46,146,479	(1,439,155)	(3%)
Current and other liabilities	2,937,005	2,785,980	151,025	5%
Long-term liabilities	20,710,848	19,661,478	1,049,370	5%
Total liabilities	23,647,853	22,447,458	1,200,395	5%
Invested in capital assets, net of related debt	19,080,233	18,405,650	674,583	4%
Restricted	10,372,190	13,938,435	(3,566,245)	(26%)
Unrestricted deficit, as restated	(8,392,952)	(8,645,064)	252,112	(3%)
Total net assets	\$ 21,059,471	\$ 23,699,021	\$(2,639,550)	(11%)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2010, the net effect of the revenues derived from several programs plus current operating revenues result in a decrease in net assets figure amounted to \$2,639,550. Approximately thirty five percent (35%) of the Municipality's total revenue came from taxes, while fifty eight percent (58%) 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, public works, community development, culture and recreation, economic development, health and welfare services 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, 2010 and 2009. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

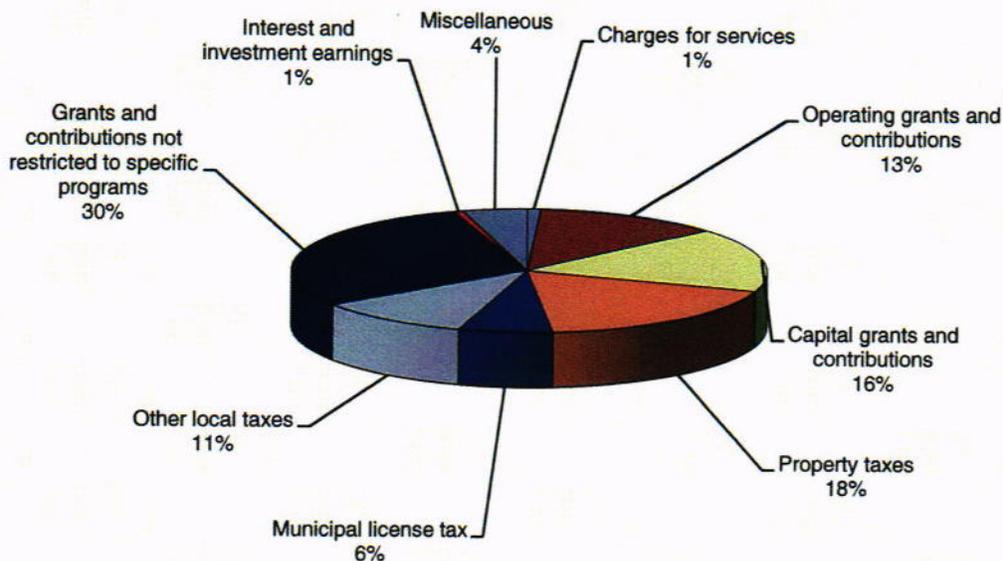
Condensed Statement of Activities	2010	2009	Change	%
Program revenues:				
Charges for services	\$ 171,433	\$ 187,127	\$ (15,694)	(8%)
Operating grants and contributions	2,369,237	2,913,899	(544,662)	(19%)
Capital grants and contributions	3,113,314	5,696,765	(2,583,451)	(45%)
General revenues:				
Property taxes	3,416,753	3,081,991	334,762	11%
Municipal license tax	1,217,388	1,242,474	(25,086)	(2%)
Other local taxes	2,006,224	1,900,181	106,043	6%
Grants and contributions not restricted to specific programs	5,568,555	5,755,854	(187,299)	(3%)
Interest and investment earnings	120,213	466,957	(346,744)	(74%)
Miscellaneous	835,535	694,508	141,027	20%
Total revenues	18,818,652	21,939,756	(3,121,104)	(14%)
Expenses:				
General government	5,552,126	6,022,695	(470,569)	(8%)
Public safety	1,240,914	1,062,645	178,269	17%
Public works	5,790,031	3,884,174	1,905,857	49%
Culture and recreation	2,196,835	2,498,568	(301,733)	(12%)
Health and welfare	1,089,457	582,197	507,260	87%
Community development	2,765,918	1,588,742	1,177,176	74%
Economic development	1,989,824	4,604,790	(2,614,966)	(57%)
Education	67,695	123,063	(55,368)	(45%)
Interest on long-term debt	765,402	701,777	63,625	9%
Total expenses	21,458,202	21,068,651	389,551	2%
Change in net assets	(2,639,550)	871,105	(3,510,655)	(403%)
Net assets, beginning of year	23,699,021	22,827,916	871,105	4%
Net assets, end of year	\$ 21,059,471	\$ 23,699,021	\$ (2,639,550)	(11%)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

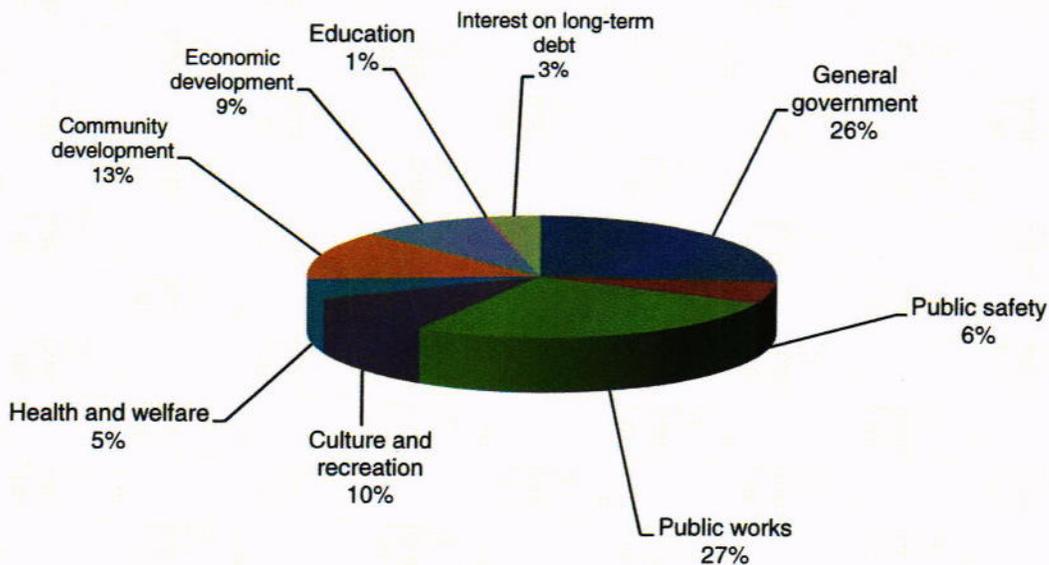
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

Revenues 2010



Expenses 2010



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 \$11,985,086, which represents a decrease of \$3,516,763 when compared with the prior year. Out of the indicated balance, \$10,603,893 were reserved or committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$65,131); 2) for debt service payments (\$2,198,772); 3) to pay for capital projects (\$8,000,851); and 4) for other purposes (\$339,139).

As of June 30, 2010, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund balance of \$1,381,193.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2009-2010, 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 2009-2010, the actual General Fund budgetary activities resulted in a favorable balance of \$219,737 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, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets as of June 30, 2010, amounted to \$40,311,650, which upon deduction of accumulated depreciation in the amount of \$10,526,417, produced a net book value attributable to capital assets of \$29,785,233. Said investment includes land, buildings, structures and improvements, machinery and equipment, furniture and fixtures, and licensed vehicles. Depreciation charges for the year totaled \$1,000,715.

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, 2010, the Municipality has \$4,790,691 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 Funds and the annual amounts collected with respect to such Municipality's Sales and Use Tax and Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 2010-2011.

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, education and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, construction excises taxes, sales and use 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 2010. 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, 2010

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 6,963,186
Cash with fiscal agent	6,948,890
Accounts receivable (net of allowance for uncollectible accounts):	
Property tax	12,490
Municipal license tax	1,757
Municipal sales and use tax	137,409
Construction tax	148,977
Intergovernmental	690,747
Others	18,635
Capital assets	
Land, improvements, and construction in progress	8,464,969
Other capital assets, net of depreciation	21,320,264
Total capital assets	<u>29,785,233</u>
 Total assets	 <u>\$ 44,707,324</u>
 Liabilities	
Accounts payable and accrued liabilities	\$ 1,847,590
Interest Payable	166,572
Due to other governmental entities	43,974
Deferred revenues:	
Municipal license tax	737,689
Federal grant revenues	307,752
Noncurrent liabilities:	
Due within one year	978,472
Due in more than one year	19,589,194
 Total liabilities	 <u>\$ 23,671,243</u>
 Net Assets	
Invested in capital assets, net of related debt	19,080,233
Restricted for:	
Capital projects	8,000,851
Debt service	2,032,200
Other purposes	339,139
Unrestricted (deficit)	<u>(8,416,342)</u>
 Total net assets	 <u>\$ 21,036,081</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, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$ 5,575,516	\$ -	\$ 156,492	\$ -	\$ (5,419,024)
Public safety	1,240,914	52,734	93,782	45,344	(1,049,054)
Public works	5,790,031	66,741		1,654,744	(4,068,546)
Health and welfare	2,196,835		1,610,176	5,768	(580,891)
Culture and recreation	1,089,457	51,958		72,000	(965,499)
Economic development	2,765,918		101,092	113,543	(2,551,283)
Community development	1,989,824			1,221,915	(767,909)
Education	67,695		407,695		340,000
Interest on long-term debt	765,402				(765,402)
Total governmental activities	\$ 21,481,592	\$ 171,433	\$ 2,369,237	\$ 3,113,314	(15,827,608)
General revenues:					
Property taxes					3,416,753
Municipal license tax					1,217,388
Other Local Taxes					2,006,224
Grants and contributions not restricted to specific programs					5,568,555
Interest and investment earnings					120,213
Miscellaneous					835,535
Total general revenues					13,164,668
Change in net assets					(2,662,940)
Net assets - beginning of the year					23,699,021
Net assets - ending					\$ 21,036,081

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

Commonwealth of Puerto Rico
Municipality of Coamo
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Special Revenue Fund Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,408,297	\$ 772,812	\$ 4,358,500	\$ -	\$ 423,577	\$ 6,963,186
Cash with fiscal agent			4,790,691			6,948,890
Accounts receivable:				2,158,199		
Property tax						
Municipal license tax	1,757			12,490		12,490
Municipal sales and use tax	109,326					1,757
Intergovernmental	114,047			28,083		137,409
Construction taxes	148,977	439,340			137,360	690,747
Other	18,635					148,977
Due from other funds	1,063,761					18,635
Total assets	\$ 2,864,800	\$ 1,212,152	\$ 9,149,191	\$ 2,198,772	\$ 560,937	\$ 15,985,852
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 636,813	\$ 270,645	\$ 879,819	\$ -	\$ 60,313	\$ 1,847,590
Due to other governmental entities	43,974					43,974
Due to other funds		633,755	268,521			1,063,761
Deferred revenues:					161,485	
Municipal license tax	737,689					737,689
Federal grant revenues		307,752				307,752
Total liabilities	1,418,476	1,212,152	1,148,340	-	221,798	4,000,766
Fund balances:						
Reserved for:						
Encumbrances	65,131					65,131
Capital projects			8,000,851			8,000,851
Debt service fund				2,198,772		2,198,772
Reserved reported in nonmajor funds:						
Other purposes						
Unreserved:						
Undesignated	1,381,193				339,139	339,139
Total fund balances	1,446,324		8,000,851	2,198,772	339,139	11,985,086
Total liabilities and fund balances	\$ 2,864,800	\$ 1,212,152	\$ 9,149,191	\$ 2,198,772	\$ 560,937	\$ 15,985,852

Commonwealth of Puerto Rico
Municipality of Coamo
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General Fund	Special Revenue Fund Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 2,776,887	\$ -	\$ -	\$ 639,866	\$ -	\$ 3,416,753
Municipal license taxes	1,217,388					1,217,388
Municipal sales and use tax	1,118,081					1,439,881
Licenses, permits and other local taxes	566,343			321,800		566,343
Charges for services	171,433					171,433
Intergovernmental	6,065,047	2,773,380	1,746,483		466,196	11,051,106
Interest	120,213					120,213
Miscellaneous	466,222		340,045			835,535
Total revenues	<u>12,501,614</u>	<u>2,773,380</u>	<u>2,086,528</u>	<u>961,666</u>	<u>495,464</u>	<u>18,818,652</u>
Expenditures						
Current:						
General government	\$ 5,495,218	\$ -	\$ -	\$ -	\$ 1,117	\$ 5,496,335
Public safety	1,052,800	93,449			45,695	1,191,944
Public works	3,569,938	77,420	2,167,164		5,800	5,820,322
Health and welfare	545,598	1,318,399			322,420	2,186,417
Culture and recreation	742,108		318,395		47,000	1,107,503
Economic development	71,306	123,438	3,764,599		260,818	4,220,161
Community development	116,455	1,092,979	1,268,745			2,478,179
Education		67,695				67,695
Debt service:						
Principal						
Interest				601,000		601,000
Total expenditures	<u>\$ 11,593,423</u>	<u>\$ 2,773,380</u>	<u>\$ 7,518,903</u>	<u>\$ 1,381,859</u>	<u>\$ 682,850</u>	<u>\$ 23,950,415</u>
Excess (deficiency) of revenues over (under) expenditures	908,191		(5,432,375)	(420,193)	(187,386)	(5,131,763)
Other financing sources (uses)						
Transfers in						
Transfers out	(843,252)			643,252	200,000	843,252
Proceed from bond issuance			1,615,000			(843,252)
Total other financing sources (uses)	<u>\$ (843,252)</u>	<u>\$ -</u>	<u>\$ 1,615,000</u>	<u>\$ 643,252</u>	<u>\$ 200,000</u>	<u>\$ 1,615,000</u>
Net change in fund balances	64,939		(3,817,375)	223,059	12,614	(3,516,763)
Fund balance beginning of the year	1,381,385		11,818,226	1,975,713	326,525	15,501,849
Fund balance, ending	<u>\$ 1,446,324</u>	<u>\$ -</u>	<u>\$ 8,000,851</u>	<u>\$ 2,198,772</u>	<u>\$ 339,139</u>	<u>\$ 11,985,086</u>

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

Commonwealth of Puerto Rico
Municipality of Coamo
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
For the Year Ended June 30, 2010

Total Fund Balances - Governmental Funds		\$ 11,985,086
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital Assets used in Governmental Activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	\$ 8,464,969	
Depreciable Capital Assets	31,846,681	
Accumulated Depreciation	<u>(10,526,417)</u>	
Total Capital Assets		29,785,233
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:		
General Bonds and Notes Payable	17,939,000	
Interest Payable	166,572	
Compensated Absences	1,162,329	
Advance Property Tax	1,265,992	
Retirement System Debt	<u>200,345</u>	
Total Long-Term Liabilities		<u>(20,734,238)</u>
Total Net Assets of Governmental Activities		<u><u>\$ 21,036,081</u></u>

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

Commonwealth of Puerto Rico
Municipality of Coamo
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ (3,516,763)
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.	2,927,298
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.	(1,000,715)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represented the change in accrued interest from prior year.	15,457
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	601,000
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	80,581
Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets.	(1,615,000)
Advance property tax in excess of actual collections are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, advance property tax in excess of actual collections are not reported as expenditures in Government Funds. This is the change in estimate of the amount of advance property tax in excess of actual collection for the fiscal year 2008-2009.	(38,502)
Long term note payable issued to PR Retirement System increase long-term liabilities in the Government-Wide statement of Net Assets.	(200,345)
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 represent the change in long-term compensated absences from prior year.	84,049
Change in Net Assets of Governmental Activities	<u>\$ (2,662,940)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Coamo** (the Municipality) is a local municipal government constituted in 1579 in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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. Based on the above criteria the Municipality does not have component units to include within its reporting entity.

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, 2010

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 - 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.

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

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, 2010

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 expenditures in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, other 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, 2010

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 service 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. Also, cash with fiscal agent consist of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

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.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

4. **Capital assets** - Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$100 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	50 years	\$100
Infrastructure	50 years	\$100
Works of art	10 years	\$100
Vehicles	7 years	\$100
Furniture and fixtures	5 to 20 years	\$100
Machinery and equipment	5 to 20 years	\$100

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

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

6. **Compensated absences** - Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

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. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

- 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 when the liability is incurred.
- 8. Reservations 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. Net Assets**- In the government-wide statements, net assets are segregated into three categories:
- a. Invested in capital assets, net of related debt: Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

- b. Restricted net assets: Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. Unrestricted net assets: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

10. 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.

11. 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.

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, 2010 amounted to approximately \$368,879. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$170,086 for workers compensation insurance covering all municipal employees.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

12. Future Adoption of Accounting Pronouncements

The GASB has issued the following standards that have effective dates after June 30, 2010:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54). This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement is effective for periods beginning after June 15, 2010.
- GASB Statement No. 57, *Fund OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB No. 57). The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).. : The provisions of Statement No. 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.
- GASB Statement No. 59, *Financial Instruments Omnibus* (GASB No. 59). The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement is effective for periods beginning after June 15, 2010.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB No. 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement is effective for periods beginning after December 15, 2011.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

12. Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (GASB No. 61). The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement is effective for periods beginning after June 15, 2012.

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

2. DEPOSITS

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

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

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2010.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

2. DEPOSITS (CONTINUED)

- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investments portfolio at June 30, 2010, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2010, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$6,948,890 at June 30, 2010, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2010. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2010, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.
- **Foreign exchange risk** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2010.

Under Commonwealth of 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).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

2. DEPOSITS (CONTINUED)

The Municipality's bank balances in commercial banks of \$1,408,296 in the General Fund, the \$772,812 in the Special Revenue Fund - Federal Grants, and the \$4,358,500 in the Capital Project Fund - State and Local Grants, were fully collateralized at June 30, 2010. In the Other Governmental Funds there were deposits with commercial banks of \$423,577 that were fully collateralized.

The deposits at GDB of \$4,790,691, that is restricted principally for capital projects in the Capital Projects Fund - State and Local Grants, and the \$2,158,199 that is restricted for Debt Service Fund 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 \$3,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2010, 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, 2010, net of allowance for uncollectibles.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. RECEIVABLES (CONTINUED)

B. Intergovernmental Receivables – Intergovernmental receivables in the General Fund principally consist of the amounts due from the fiscal year 2009-2010 preliminary settlement due from the Municipal Revenue Collection Center (CRIM):

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 114,047
Total	<u>\$ 114,047</u>

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	\$ 311,756
Federal Transit – Formula Grant	61,429
Community Learning Center	43,254
Title III	9,988
Juvenile Justice and Delinquency Prevention	7,755
Public and Indian Housing (“Residencial Las Palmas”)	5,158
Total	<u>\$ 439,340</u>

Intergovernmental receivables in the Other Governmental Funds consist of the amounts due from expenditures incurred not yet reimbursed by the Commonwealth of Puerto Rico Department of Labor, by the Puerto Rico Housing Department, and by the Office of the Commissioner of Municipal Affairs. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Labor (Law 52, Law 82 and “PR en Forma” Grants)	\$ 52,863
Puerto Rico Housing Department	63,912
Office of the Commissioner of Municipal Affairs	20,585
Total	<u>\$ 137,360</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. RECEIVABLES (CONTINUED)

C. *Municipal sales and use tax* – On July 29, 2007, an amendment to Act. No. 117 of July 4, 2006, known as the “Tax Fairness Act of 2006”, was enacted to impose a mandatory sale and use tax of 1.50% at the Municipal Level. The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations applicable to the portion collected by the Treasury Department. The Act provides an optional surtax on the unprocessed food. This surtax must be approved by the Municipal Legislature. The treasury Department is responsible to collect the remaining .5%, and to distribute it according to the Law. Receivables in the governmental funds include approximately \$137,409 of accrued sales and use taxes. The Municipality collected approximately \$1,439,881 during the year ended June 30, 2010.

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2010, and interfund transfers during the fiscal year ended at June 30, 2010, 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	Other Governmental Funds	Reimbursable expenditures	\$ 161,485
General Fund	Special Revenue Fund – Federal Grants	Reimbursable expenditures	633,755
General Fund	Capital Projects Fund – State and Local Grants	Reimbursable expenditures	<u>268,521</u>
Total			<u>\$1,063,761</u>

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	\$ 643,252
General Fund	Other Governmental Funds	To finance Fund expenditures	<u>200,000</u>
Total			<u>\$ 843,252</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$100 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2010, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Capital asset, not being depreciated:				
Land	\$ 3,825,878	\$ 285,000	\$ -	\$ 4,110,878
Construction in progress	<u>2,854,828</u>	<u>1,499,263</u>	<u>-</u>	<u>4,354,091</u>
Total capital assets not being depreciated	\$ 6,680,706	\$ 1,784,263	\$ -	\$ 8,464,969
Capital assets, being depreciated:				
Buildings, structures and improvements	\$ 23,901,756	\$ 816,654	\$ -	\$ 24,718,410
Infrastructure	1,216,116	-	-	1,216,116
Equipment, and furniture and fixtures	1,539,451	94,755	-	1,634,206
Machinery and licensed vehicles	<u>4,046,323</u>	<u>231,626</u>	<u>-</u>	<u>4,277,949</u>
Total capital assets being depreciated	\$ 30,703,646	\$ 1,143,035	\$ -	\$ 31,846,681
Less accumulated depreciation for:				
Buildings, structures and improvements	\$ 6,754,398	\$ 521,154	\$ -	\$ 7,275,552
Infrastructure	60,805	60,640	-	121,445
Equipment, and furniture and fixtures	555,993	105,146	-	661,139
Machinery and licensed vehicles	<u>2,154,506</u>	<u>313,775</u>	<u>-</u>	<u>2,468,281</u>
Total accumulated depreciation	\$ 9,525,702	\$ 1,000,715	\$ -	\$ 10,526,417
Total capital assets being depreciated, net	\$ 21,177,944	\$ 142,320	\$ -	\$ 21,320,264
Governmental activities capital assets, net	\$ 27,858,650	\$ 1,926,583	\$ -	\$ 29,785,233

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 72,836
Public safety	74,586
Public works	330,755
Health and welfare	10,418
Culture and recreation	453,249
Economic development	45,020
Community development	<u>13,851</u>
Total depreciation expense-governmental activities	<u>\$ 1,000,715</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010 are summarized as follows:

Description	General Fund	Special Revenue Fund - Federal Grants	Capital Projects Fund	Debt Service Fund	Other Governmental Fund	Total
Accounts payable	\$ 509,127	\$ 270,645	\$ 879,819	\$ -	\$ 60,313	\$ 1,719,904
Accrued liabilities	<u>127,686</u>	-	-	-	-	<u>127,686</u>
Total	<u>\$ 636,813</u>	<u>\$ 270,645</u>	<u>\$ 879,819</u>	<u>\$ -</u>	<u>\$ 60,313</u>	<u>\$ 1,847,590</u>

7. 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

7. PROPERTY TAXES (CONTINUED)

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 the final liquidation noting that the advances exceeded collections by \$ 23,390.

On January 26, 2000, Public Law No. 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 No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2003, Public Law No. 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 No. 42 enacted on January 26, 2000. As of June 30, 2010, Government Wide Statement of Net Assets includes an outstanding debt balance of \$690,868 related to property tax advances in excess of actual collections through fiscal year ended June 30, 2001,

On June 26 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

7. PROPERTY TAXES (CONTINUED)

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 No. 146 was approved and enacted.

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.

Also, through the enacted Public Law No. 146, the CRIM was authorized to obtain a loan from any qualified financial institution, and to enter into a repayment agreements with the Municipalities for the payment of the Municipality's share of the cost of an information management system (LIMS), acquired by CRIM on behalf of all municipalities, for the management of a digital database of taxpayers properties located in Puerto Rico.

As of June 30, 2010, the Government Wide Statement of Net Assets includes an outstanding debt balance of \$363,444 related to tax receivables sold, and \$59,091 related to LIMS.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

7. PROPERTY TAXES (CONTINUED)

municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

8. 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>
Puerto Rico Department of Labor	\$ 18,233
Puerto Rico Aqueduct and Sewer Authority	25,121
Puerto Rico General Services Administration	<u>620</u>
Total	<u>\$ 43,974</u>

9. DEFERRED REVENUES

A. Municipal License Tax - The deferred revenues of approximately \$737,689 in the General Fund relates to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

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>
Energy Efficiency and Conservation Block Grant Program	\$ 87,705
Child and Adult Care Food Program	63,487
Child Care and Development Block Grant	44,604
Homelessness Prevention and Rapid Re-Housing Program	29,022
NACDD	24,307
NIMS	21,518
Family Violence Prevention and Services	18,128
Public and Indian Housing ("Coamo Housing")	5,638
Health and Human Services (Disabilities Assistance)	7,097
Title III	1,420
Local Law Enforcement Block Grant	3,188
Others	<u>1,638</u>
Total	<u>\$ 307,752</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2010, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 7,946,000	\$ 1,615,000	\$ 310,000	\$ 9,251,000	\$ 315,000
Notes Payable	8,979,000	-	291,000	8,688,000	264,000
Advance Property Tax	1,308,072	15,112	80,581	1,242,603	199,300
Compensated Absences	1,246,377	13,741	97,789	1,162,329	100,000
Retirement System Debt	-	200,345	-	200,345	100,173
Total	<u>\$ 19,479,449</u>	<u>\$ 1,844,198</u>	<u>\$ 779,370</u>	<u>\$ 20,544,277</u>	<u>\$ 978,473</u>

- 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 special 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, 2010 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2010</u>
1995 Series	7-1-2014	\$ 235,000	4.70% to 6.88%	\$ 105,000
1995 Series	7-1-2014	1,430,000	6.11% to 7.71%	600,000
1997 Series	7-1-2017	300,000	4.87% to 7.81%	175,000
1999 Series	7-1-2013	205,000	4.87% to 6.31%	75,000
2000 Series	7-1-2024	405,000	5.88% to 7.50%	325,000
2003 Series	7-1-2027	810,000	6.00% to 7.25%	685,000
2003 Series	7-1-2026	2,015,000	5.00% to 7.00%	1,690,000
2006 Series	7-1-2031	310,000	6.50% to 7.25%	295,000
2007 Series	7-1-2031	1,010,000	6.60% to 7.50%	955,000
2008 Series	7-1-2032	370,000	7.00% to 7.50%	360,000
2008 Series	7-1-2032	1,660,000	7.00% to 7.25%	1,615,000
2009 Series	7-1-2034	791,000	2.42% to 7.50%	766,000
2010 Series	7-1-2034	705,000	4.75% to 7.50%	695,000
2010 Series	7-1-2035	910,000	6.00% to 7.00%	910,000
Total general obligation bonds				<u>\$ 9,251,000</u>

These bonds are payable from the special ad valorem property tax of 1.75% and from the 0.3% of sales and use taxes collected by the Treasury Department on behalf of the Municipality, which are restricted for debt service and transferred to the Government Development Bank for Puerto Rico for such purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

10. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 330,000	\$ 427,439
2012	370,000	588,562
2013	400,000	563,747
2014	420,000	536,809
2015	445,000	508,005
2016-2020	1,605,000	2,223,487
2021-2025	2,150,000	1,633,357
2026-2030	2,140,000	195,800
2031-2035	<u>1,391,000</u>	<u>195,800</u>
Total	<u>\$ 9,251,000</u>	<u>\$ 6,873,006</u>

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

<u>Type of note</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2010</u>
2004 Series	7-1-2029	\$ 10,000,000	4.50% to 6.00%	\$ 7,234,000
2009 Series	7-1-2034	190,000	2.40% to 7.00%	180,000
2009 Series	7-1-2034	1,317,000	2.40% to 7.00%	<u>1,274,000</u>
Total note payable				<u>\$ 8,688,000</u>

The 2004 Series note is payable from General Fund resources. The 2009 Series notes are payable from the 0.3% of sales and use taxes collected by the Treasury Department on behalf of the Municipality, which are restricted for debt service and transferred to 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 June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 278,000	\$ 534,805
2012	291,000	517,765
2013	304,000	499,960
2014	318,000	481,330
2015	333,000	461,840
2016-2020	1,912,000	1,983,845
2021-2025	2,414,000	1,337,990
2026-2030	2,486,000	517,035
2031-2035	<u>352,000</u>	<u>38,500</u>
Total	<u>\$ 8,688,000</u>	<u>\$ 6,373,070</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

10. LONG-TERM LIABILITIES (CONTINUED)

4. **Advance Property Tax** - These amounts represent the balance owed to the Municipal Revenue Collection Center (CRIM) at June 30, 2010 as described in Note 7.
5. **Compensated absences**- The Government-Wide Statement of Net Assets includes approximately \$1,162,329, of which \$701,640 represents accrued sick leave benefits, and approximately \$460,689 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
6. **Retirement System Debt** - This amount represent the balance owed to the Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) at June 30, 2010, for reimbursement of benefits provided by the Retirement System pursuant to legislation enacted by the Commonwealth's legislature.

11. 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 OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

11. PENSION PLAN (CONTINUED)

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, 2010 amounted to approximately \$257,526 and \$292,411, respectively. The amount of \$292,411 represents 100% of the required contribution.

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, 2010, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, San Juan, PR 00940.

12. RISK MANAGEMENT

The Property Division is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Area of 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. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

13. 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 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.

14. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

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

YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 2,662,840	\$ 2,662,840	\$ 2,733,414	\$ 70,574
Municipal license tax	1,341,948	1,341,948	1,217,388	(124,560)
Sales and use taxes	1,163,700	1,163,700	1,118,081	(45,619)
Licenses, permits and other local taxes	895,838	895,838	566,343	(329,495)
Charges for services	133,000	133,000	171,433	38,433
Intergovernmental	5,697,717	5,697,717	6,065,047	367,330
Interest	375,000	375,000	118,487	(256,513)
Miscellaneous	425,000	425,000	466,222	41,222
Total revenues and other financing sources before carryover	12,695,043	12,695,043	12,456,415	(238,628)
Budget carryover (1)		200,000	200,000	
Total revenues and other financing sources after carryover	12,695,043	12,895,043	12,656,415	(238,628)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	5,059,379	5,346,727	5,460,725	(113,998)
Public safety	1,121,158	1,115,766	1,055,076	60,690
Public works	4,058,331	3,927,943	3,590,936	337,007
Health and welfare	590,528	550,528	545,818	4,710
Culture and recreation	899,887	825,719	746,833	78,886
Economic development	133,380	95,980	77,577	18,403
Community development	146,060	146,060	116,461	29,599
Operating transfer to other fund	686,320	886,320	843,252	43,068
Total expenditures, encumbrances and other financing uses	12,695,043	12,895,043	12,436,678	458,365
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ 219,737	\$ 219,737
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			\$ 12,656,415	
Differences-budget to USGAAP:				
Budget carryover				(200,000)
USGAAP adjustments to revenues				45,199
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances			\$ 12,501,614	
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule			\$ 12,436,678	
Differences-budget to USGAAP:				
Net change in encumbrances				(3)
Total expenditures and other financial uses as reported on the statement of revenues, expenditures, and changes in fund balances			\$ 12,436,675	

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2010

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 USGAAP, 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 USGAAP 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, 2010 representing the original budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Rural Housing Preservation Grant Program	10.433		\$ 69,642
Child and Adult Care Food Program	10.558		14,937
Total U.S. Department of Agriculture			<u>84,579</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Public and Indian Housing	14.850		706,703
Section 8 Housing Choice Vouchers	14.871		291,777
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: Community Development Block Grants - State's Program	14.228	95-FD-18 00-FD-18 02-FC-AB-18 04-FC-AB-18 05-FC-AB-18 06-FC-AB-18 07-FC-AB-18 08-FC-AB-18	1,092,979
Homeless Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.262		82,734
Total U.S. Department of Housing and Urban Development			<u>2,174,193</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Direct Program:			
Formula Grants for Other than Urbanized Areas	20.509		73,320
Total U.S. Department of Transportation			<u>73,320</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF ENERGY			
Energy Efficiency and Conservation Block Grant Program (Recovery Act Funded)	81.128	Not Available	<u>76,295</u>
Total U.S. Department of Housing and Urban Development			<u>76,295</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Twenty-First Century Community Learning Centers	84.287	Not Available	<u>67,695</u>
Total U.S. Department of Education			<u>67,695</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Elderly Office):			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Not Available	68,774
Disease Prevention and Health Promotion Services	93.046	Not Available	2,045
National Family Caregiver Support - Title III, Part E	93.052	Not Available	9,168
Pass-through the Commonwealth of Puerto Rico - Family Department: Child Care and Development Block Grant	93.575	Not Available	262,654
Family Violence Prevention and Services	93.591	Not Available	37,618

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Planning Board):			
Development Disabilities Basic Support and Advocacy Grants	93.630	Not Available	99,766
Child Care and Development Block Grant-ARRA Fund (Recovery Act Funded)	93.713	Not Available	2,452
Assistance Programs for Chronic Disease Prevention and Control	93.945		8,693
Total U.S. Department of Health and Health and Human Services			<u>491,170</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency:			
Pre-Disaster Mitigation Competitive Grants	97.017	Not Available	45,344
Emergency Management Performance Grants	97.042	Not Available	1,319
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR)			
Disaster Grants- Public Assistance	97.036	Not Available	1,125
Total U.S. Department of Homeland Security			<u>47,788</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,015,040</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

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 Revenue Fund - Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$2,723,263	\$291,777	\$3,015,040
Non federal programs Expenditures and other adjustments	<u>50,117</u>	<u>391,073</u>	<u>441,190</u>
Total expenditures in the fund financial statements	<u><u>\$2,773,380</u></u>	<u><u>\$682,850</u></u>	<u><u>\$3,456,230</u></u>



López-Vega, CPA, PSC

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Coamo, Puerto Rico**, as of and for the year ended June 30, 2010, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 29, 2010, which was unqualified at the fund financial statements 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. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Coamo's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Coamo's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Coamo's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item **10-02** to be material weaknesses.

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

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item **10-01** to be a significant deficiency.

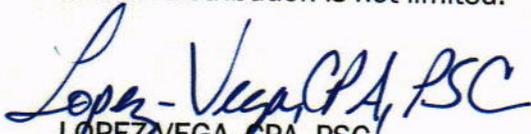
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Coamo's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the **Municipality of Coamo** in a separate letter dated December 29, 2010.

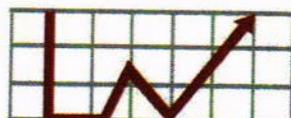
The **Municipality of Coamo's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Coamo's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of 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

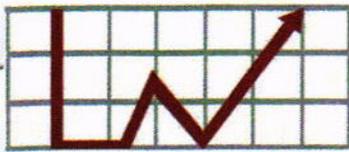
San Juan, Puerto Rico
December 29, 2010

Stamp No. 2575440 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



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

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

Compliance

We have audited the **Municipality of Coamo's** compliance 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, 2010. 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 referred to above 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified in the accompanying schedule of findings and questioned costs 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 of the **Municipality of Coamo's** compliance with those requirements.

In our opinion, the **Municipality of Coamo** complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those compliance requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **10-03** through **10-05**.

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)

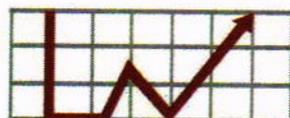
Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in internal control over compliance and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and others that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **10-05** to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items **10-03** and **10-04** to be significant deficiencies.



López-Vega, CPA, PSC

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

The **Municipality of Coamo's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Coamo's** response and, accordingly, we express no opinion on it.

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Coamo** in a separate letter dated March 11, 2011.

This report is intended solely for the information and use of 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
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 11, 2011

Stamp No. 2575441 of the Puerto Rico
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was affixed to the record copy of this report.



López-Vega, CPA, PSC

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified for fund financial statements and adverse for government-wide financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants – State’s Program

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section II – Financial Statements Findings

Finding Reference	10-01
Requirement	Fixed\Capital Assets and Expenditures – Subsidiary Ledger
Statement of Condition	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
Criteria	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.
Cause of Condition	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect of Condition	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
Recommendation	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, necessary to comply with the requirements of the GASB Statement No. 34.
Questioned Costs	None
Management Response and Corrective Action	Actually, the Municipality's Finance Department staff are updating the capital assets subsidiary ledger in the new accounting software purchased by the Municipality. Implementation Date: June 30, 2011 Responsible Person: Julio Acevedo Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section II – Financial Statements Findings

Finding Reference	10-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During the fiscal year 2007-2008, the Municipality implemented a new accounting software. This software replaced the old system provided by the Office of the Commissioner of Municipal Affairs (“OCAM”) and manual books maintained by the Municipality for the previous years. Although the system provides for effective controls of its operations in cash basis, the trial balances produced by the software require adjustments in order to present the Municipality’s financial statements for the year ended on June 30, 2010, in the modified accrual basis of accounting.
Criteria	Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an accounting system, that produce financial statement in accordance with GAAP.
Cause of Condition	The expenditures transactions, excluding payroll expenditures, although encumbered for budgetary purposes, has been recorded using the cash basis of accounting instead of the modified accrual basis of accounting. Also, revenues from grants have been recorded using the cash basis of accounting instead of the modified accrual basis of accounting.
Effect of Condition	The Municipality management, although have current financial information for budgetary control, could not produce financial statements in accordance with the Generally Accepted Accounting Principles to take management decisions.
Recommendation	We recommend to the Municipality’s management to continue with the new accounting software post-implementation process, in order to ensure the reports produced by this software will be the primary data source for compiling the Municipality’s financial statements in accordance with the Generally Accepted Accounting Principles.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section II - Financial Statements Findings

Finding Reference **10-02 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality's Management disagree with the statement and cause of condition reported above. Microsoft Dynamics GP helped us to adhere better to regulations and controls, proactively manage grants and budgets (managing expenditures and appropriations), and streamline accounting processes. Also, Microsoft Dynamics applications provide us detailed, up-to-the-minute financial reports that allow us to make informed management decisions, to comply with reporting requirements, and to ensure financial integrity and accountability.

Microsoft Dynamics GP was specifically designated to help the Municipality of Coamo to ensure and demonstrate legal compliance and fiscal accountability over the fund-based accounting required by laws, regulations, and accounting pronouncements. Also, this application was certified by the Office of Commissioner of Municipal Affairs ("OCAM") as required by the State Act Number 81 of August 30, 1991.

Since the first year of implementation of Microsoft Dynamics GP, the fiscal transactions have been recorded using the modified accrual basis of accounting (not cash basis of accounting, as asserted in the cause of condition), providing to the management -to-the-minute financial information to take informed management decisions. Also, the financial information accounted for through Microsoft Dynamics GP is the primary data source for compiling the Municipality's financial statements in accordance with the Generally Accepted Accounting Principles.

Implementation Date: June 30, 2011

Responsible Person: Julio Acevedo
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Mayor Federal Award Program Finding and Questioned Cost

Finding Reference	10-03
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Allowable Activities
Statement of Condition	<p>We performed a housekeeping activities test of ten (10) participant’s files and found the following exceptions:</p> <ul style="list-style-type: none">a) In the ten (10) participant’s files, we noted that the eligibility approval form was not completed by the program staff.b) In the ten (10) participant’s files, we did not find evidence that demonstrate if the program staff visited at least twice per month the participant’s housing unit to ensure the quality of services.
Criteria	<p>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>
Cause of Condition	<p>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.</p>
Effect of Condition	<p>The Municipality is not in compliance with the procedures manual issued by the Office of Commissioner of Municipal Affairs (“OCAM”).</p>
Recommendation	<p>We recommended management to follow the procedures established by the Office of the Commissioner of Municipal Affairs (OCAM) in the procedures manual, including the use of the forms included on it.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **10-03 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Program staff with the responsibilities to maintain the participants' files in compliance with the Program regulations was required to take corrective measures in order to assure application of all of the procedures and to use all forms specified in the procedures guide "Guía Operacional para la Prestación del Servicio de Auxiliares en el Hogar". Also, the Program staff will be monitored frequently for compliance, by the Federal Programs Department Director.

Implementation Date: June 2011

Responsible Person: Cristobal Bonilla
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-04
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Cash Management
Statement of Condition	<p>During our Cash Management test, we examined eleven (11) cash advances received by the program during the fiscal year 2009-2010. The following summarizes the situations founded:</p> <p>a) We noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.</p> <p>b) Also, the Community Development Block Grant-State Program cash account maintained a monthly average cash balance of \$44,362 in books.</p>
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality’s disbursements procedures failed to assure that funds requested and received from the Pass-through Grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and the disbursements made by the Municipality.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-04 (Continued)**

**Management Response
and Corrective Action**

As part of our corrective action plan, we are going to start the disbursement process when the requisitions of funds are submitted to the Office of the Commissioner of Municipal Affairs (OCAM) in order to assure that when the funds are transferred by the Pass-through Grantor the program will disburse them immediately.

Implementation Date: June 2011

Responsible Person: Cristobal Bonilla
Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-05
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	Equipment and Real Property Management
Statement of Condition	Section II – Financial Statements Findings – Finding Reference 10-01

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS

YEAR ENDED JUNE 30, 2010

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-03	14.228	<p><u>We performed a housekeeping activities test of ten (10) participant's files and found the following exceptions: In the ten (10) participant's files, we noted that the eligibility approval form was not completed by the program staff; In the ten (10) participant's files, we did not find evidence that demonstrate if the program staff visited at least twice per month the participant's housing unit to ensure the quality of services; In the ten (10) participant's files, we noted that the application does not have the signature and the date of the family that requesting the service.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-03.</p>
09-04	14.228	<p><u>We performed a housing rehabilitation test of ten (10) participant's files and found the following exceptions: In one (1) participant file, we did not identify evidence of the disability certification. In the four (4) participant files, we noted that the expense register the application form (OCAM-RMV-08-009) was not completed by the participant; In four (4) participant files, the Program exceeds the limits (\$5,000). In ten (10) participant files, we did not find evidence for the purchase order to detail the participant's disbursement.</u></p> <p>Corrective action was taken</p>
09-05	14.228	<p><u>Section II - Financial Statements Findings - Finding Reference 09-01</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-05</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
08-03	14.228	<p><u>The auditors performed housekeeping activities test of eleven (11) participant's files and found the following exceptions: They noted that the contracts formalized by the Program did not establish the services to be offered. Also, the eligibility approval forms were not completed by the program staff. In addition, they did not find evidence that demonstrate if the program staff visited at least twice per month the participant's housing unit to ensure the quality of services.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-03</p>
08-04	14.228	<p><u>The auditors performed of Davis-Bacon Act test; they verified three (3) construction projects. The following will summarize the exceptions noted: For two (2) construction projects, the Municipality did not inform to the contractor in the procurement process of the requirements for Davis Bacon Act; For one (1) construction project, we noted that during the fiscal year 2007-2008 the Municipality did not perform the required on-site visits to monitor the classifications of workers and wage rates paid; For two (2) construction projects, the contractor did not submit all the weekly certified payrolls during the contracts period; For the three (3) construction projects, we did not obtain evidence demonstrating that the Municipality monitors the weekly certified payrolls supplied by the contractors.</u></p> <p>Corrective action was taken.</p>
08-05	14.228	<p><u>Section II - Financial Statements Findings - Finding Reference 08-01</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-05</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
07-03	14.228	<p><u>The auditors performed a housekeeper activities test of ten (10) participant's files and found the following exceptions: (a) In ten (10) participant's files, the auditors noted that the eligibility determination form was not completed by the program staff; (b) In eight (8) participant's files, the auditors noted that the eligibility approval form was not completed by the program staff; (c) In ten (10) participant's files, the auditors did not find evidence that demonstrate that the program staff visited at least two (2) times per month the participant housing unit to ensure the quality of services;</u></p> <p>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.</p>
07-05	14.228	<p><u>During the Davis-Bacon Act test, the auditors verified the construction projects 00-FD-18-001 and 04-FC-18-002. The auditors found the following exceptions: (a) For the construction projects 00-FD-18-001 and 04-FC-18-002, the Municipality did not monitor the payroll wage for compliance with prevailing wage rates; (b) For the construction project 00-FD-18-001 and 04-FC-18-002, we noted that during the fiscal year 2006-2007, the Municipality did not perform the required on-site visits to monitor the classifications of workers and wage rates paid.</u></p> <p>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.</p>
07-06	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>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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
07-07	14.228	<p><u>In the procurement test, the auditors noted that for the professional services contracts, the Municipality did not document the contractors' selection process.</u></p> <p>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.</p>