

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

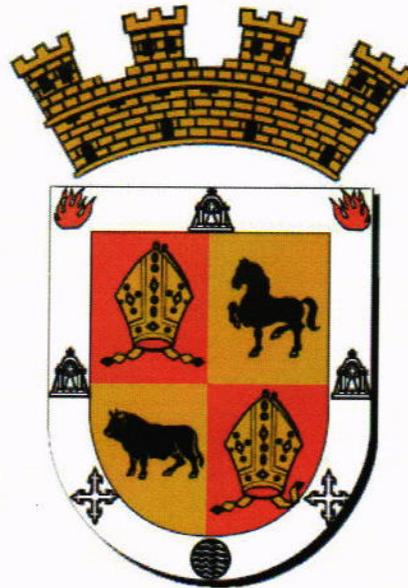
MUNICIPIO DE COAMO
AUDITORÍA 2010-2011
30 DE JUNIO DE 2011

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, 2011



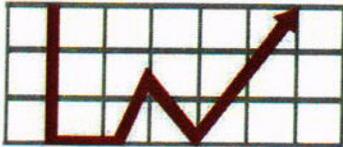
Municipality of Coamo, P.O. Box 1875, Coamo, Puerto Rico 00769
Hon. Juan Carlos García Padilla

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
 Basic Financial Statements
 with additional reports and information
 required by the single audit act
 Fiscal Year Ended June 30, 2011

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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
Fiscal Year Ended June 30, 2011

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- 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 (Municipality)** as of and for the year ended June 30, 2011, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 8 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 all material respects, the financial position of the governmental activities of the **Municipality of Coamo, Puerto Rico**, as of June 30, 2011, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of **Municipality of Coamo**, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, 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.

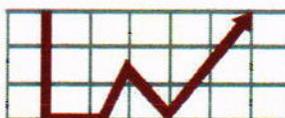
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **3** through **16** and **69** to **71** be presented to supplement the basic financial statements. Such information, although 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** basic 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 not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and were derived from and related 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 basic financial statements and certain additional 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 basic financial statements as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 16, 2012

Stamp No. 2575530 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Statement of Net Assets

June 30, 2011

Assets

Current assets:

| | | |
|--|----|------------|
| Cash in commercial banks | \$ | 5,617,648 |
| Cash in fiscal agent | | 10,066,818 |
| Accounts receivable, net of allowance for doubtful accounts: | | |
| Property taxes | | 152,020 |
| Intergovernmental | | 565,240 |
| Sales tax | | 111,425 |
| Construction excise taxes | | 80,000 |
| Interest | | 23,949 |
| Total current assets | | 16,617,100 |

Noncurrent assets:

| | | |
|---|----|------------|
| Capital assets, net of accumulated depreciation and amortization of \$11,249,510 | | 30,971,538 |
| Total noncurrent assets | | 30,971,538 |
| Total assets | \$ | 47,588,638 |

Current Liabilities (due within one year):

| | | |
|--|----|-----------|
| Accounts payable | \$ | 1,573,531 |
| Intergovernmental payables | | 216,856 |
| Accrued interest payable on long-term debt | | 320,379 |
| Deferred revenues | | 1,305,030 |
| Current portion of long-term obligations: | | |
| Bonds payable | | 752,835 |
| Other debts | | 229,931 |
| Total current liabilities | | 4,398,562 |

Noncurrent liabilities (due in more than one year):

| | | |
|---|-----------|-------------------|
| Current portion of long-term obligations: | | |
| Bonds payable | | 19,811,165 |
| Other debts | | 2,185,921 |
| Total Noncurrent liabilities | | 21,997,086 |
| Total liabilities | \$ | 26,395,648 |

Net assets (liabilities):

| | | |
|---|----|-------------|
| Invested in capital assets, net of related debt | \$ | 17,824,099 |
| Restricted for: | | |
| Capital projects | | 7,564,488 |
| Debt service | | 3,142,249 |
| Other specified purposes | | 822,276 |
| Unrestricted net assets | | (8,160,122) |
| Total net assets | \$ | 21,192,990 |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Statement of Activities
June 30, 2011

| Functions/programs | Expenses | Charges for services | Program Revenues | | Net Expenses and Charges in Net Assets |
|---|----------------------|----------------------|------------------------------------|----------------------------------|--|
| | | | Operating grants and contributions | Capital grants and contributions | |
| Governmental activities : | | | | | |
| General government | \$ 5,539,674 | \$ - | \$ 153,584 | \$ - | \$ (5,386,090) |
| Health and welfare | 1,999,573 | - | 1,427,468 | - | (572,105) |
| Public works | 4,499,223 | 92,794 | - | 253,476 | (4,152,953) |
| Public safety | 1,110,120 | 46,494 | 53,493 | 70,576 | (939,557) |
| Culture, recreation and education | 1,839,825 | 52,332 | 420,089 | 61,400 | (1,306,004) |
| Community Development | 2,579,773 | - | - | 1,660,329 | (919,444) |
| Urban and economic development | 764,162 | 207,157 | 161,652 | 653,333 | 257,980 |
| Interest on long-term obligation | 880,067 | - | - | - | (880,067) |
| Total governmental activities | <u>\$ 19,212,417</u> | <u>\$ 398,777</u> | <u>\$ 2,216,286</u> | <u>\$ 2,699,114</u> | <u>\$ (13,898,240)</u> |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes | | | | | 3,976,106 |
| Municipal license taxes | | | | | 1,102,530 |
| Sales taxes | | | | | 1,311,771 |
| Construction excise taxes | | | | | 880,898 |
| Total taxes | | | | | <u>7,271,305</u> |
| Grants and contributions, not restricted to specific programs | | | | | 5,860,823 |
| Interests on deposits | | | | | 168,255 |
| Miscellaneous | | | | | 754,766 |
| Total general revenues | | | | | <u>14,055,149</u> |
| Net changes in net assets | | | | | 156,909 |
| Net assets at beginning of the year, as restated | | | | | 21,036,081 |
| Net assets at the end of the year | | | | | <u>\$ 21,192,990</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
 Balance Sheet
 Governmental Funds
 June 30, 2011

| MAJOR FUNDS | | | | | | |
|--|---------------------|---|---|----------------------|----------------------------|--------------------------------|
| | General Fund | Special Revenue Fund - Federal Grants | Capital Project Fund - State & Local Grants | Debt Service Fund | Other Nonmajor Funds | Total Governmental Funds |
| ASSETS | | | | | | |
| Cash in commercial banks | \$ 1,536,005 | \$ 864,505 | \$ 2,693,916 | \$ - | \$ 523,222 | \$ 5,617,648 |
| Cash in fiscal agent | 257,834 | 253,466 | 5,879,389 | 3,268,528 | 407,601 | 10,066,818 |
| Account receivable, net of doubtful accounts: | | | | | | |
| Property taxes | - | - | - | 152,020 | - | 152,020 |
| Construction excise taxes | 80,000 | - | - | - | - | 80,000 |
| Sales and use tax | 69,345 | - | - | 42,080 | - | 111,425 |
| Interest | 23,949 | - | - | - | - | 23,949 |
| Due from other funds | 1,345,608 | - | - | - | - | 1,345,608 |
| Due from governmental entities | 60,481 | 321,724 | 63,839 | - | 119,196 | 565,240 |
| Total assets | <u>\$ 3,373,222</u> | <u>\$ 1,439,695</u> | <u>\$ 8,637,144</u> | <u>\$ 3,462,628</u> | <u>\$ 1,050,019</u> | <u>\$ 17,962,708</u> |
| LIABILITIES | | | | | | |
| Accounts payable | 756,272 | 114,225 | 685,391 | - | 17,643 | 1,573,531 |
| Intergovernmental payable | 216,856 | - | - | - | - | 216,856 |
| Due to other funds | - | 748,243 | 387,265 | - | 210,100 | 1,345,608 |
| Deferred revenue | 727,803 | 577,227 | - | - | - | 1,305,030 |
| Total liabilities | <u>1,700,931</u> | <u>1,439,695</u> | <u>1,072,656</u> | <u>-</u> | <u>227,743</u> | <u>4,441,025</u> |
| FUND BALANCE | | | | | | |
| Fund balance: | | | | | | |
| Restricted | 124,433 | - | 7,110,539 | 3,462,628 | 682,150 | 11,379,750 |
| Committed | 50,163 | - | 453,949 | - | 140,126 | 644,238 |
| Unassigned | 1,497,695 | - | - | - | - | 1,497,695 |
| Total fund balances | <u>1,672,291</u> | <u>-</u> | <u>7,564,488</u> | <u>3,462,628</u> | <u>822,276</u> | <u>13,521,683</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 3,373,222</u> | <u>\$ 1,439,695</u> | <u>\$ 8,637,144</u> | <u>\$ 3,462,628</u> | <u>\$ 1,050,019</u> | <u>\$ 17,962,708</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Statement of Revenues, Expenditures and
Changes in Fund Balance - Governmental Funds
Year Ended June 30, 2011

MAJOR FUNDS

| | General Fund | Special Revenue Fund - Federal Grants | Capital Project Fund - State & Local Grants | Debt Service Fund | Other Nonmajor Funds | Total Governmental Funds |
|---|----------------------|---|--|----------------------|-------------------------|--------------------------------|
| REVENUES | | | | | | |
| Taxes: | | | | | | |
| Property taxes | \$ 2,614,022 | \$ - | \$ - | \$ 1,362,084 | \$ - | \$ 3,976,106 |
| Municipal license | 1,102,530 | - | - | - | - | 1,102,530 |
| Construction excise taxes | 880,898 | - | - | - | - | 880,898 |
| Sales and use tax | 776,609 | - | - | 535,162 | - | 1,311,771 |
| Charges of service | 191,620 | - | - | - | 207,157 | 398,777 |
| Intergovernmental grants and contributions: | | | | | | |
| Federal government | - | 3,106,963 | - | - | 278,346 | 3,385,309 |
| State government | 6,396,907 | - | 820,955 | - | 173,052 | 7,390,914 |
| Investment earnings | 168,255 | - | - | - | - | 168,255 |
| Miscellaneous | 319,900 | - | 322,638 | - | 112,228 | 754,766 |
| Total Revenues | \$ 12,450,741 | \$ 3,106,963 | \$ 1,143,593 | \$ 1,897,246 | \$ 770,783 | \$ 19,369,326 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 5,722,726 | - | 14,226 | - | 58,478 | 5,795,430 |
| Health and welfare | 545,654 | 1,149,122 | - | - | 297,610 | 1,992,386 |
| Public works | 3,681,269 | 115,785 | 421,307 | - | - | 4,218,361 |
| Public safety | 970,189 | 124,069 | - | - | - | 1,094,258 |
| Culture, recreation and education | 869,544 | 37,589 | 734,595 | - | 28,800 | 1,670,528 |
| Community Development | 108,107 | 1,625,329 | 848,253 | - | - | 2,581,689 |
| Urban and economic development | 189,415 | 132,508 | 1,821,575 | - | 312,758 | 2,456,256 |
| Debt service: | | | | | | |
| Principal | - | - | - | 305,000 | - | 305,000 |
| Interest | - | - | - | 726,260 | - | 726,260 |
| Total Expenditures | 12,086,904 | 3,184,402 | 3,839,956 | 1,031,260 | 697,646 | 20,840,168 |
| Excess (Deficiency) of Revenues over expenditures | 363,837 | (77,439) | (2,696,363) | 865,986 | 73,137 | (1,470,842) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfer in from other funds | - | - | - | 397,870 | - | 397,870 |
| Transfer out to other funds | (397,870) | - | - | - | - | (397,870) |
| Proceeds from debt issuance | 260,000 | 77,439 | 2,260,000 | - | 410,000 | 3,007,439 |
| Total Other Financing Sources (uses) | (137,870) | 77,439 | 2,260,000 | 397,870 | 410,000 | 3,007,439 |
| NET CHANGE IN FUND BALANCES (DEFICITS) | 225,967 | - | (436,363) | 1,263,856 | 483,137 | 1,536,597 |
| FUND BALANCE AT BEGINNING OF YEAR | 1,446,324 | - | 8,000,851 | 2,198,772 | 339,139 | 11,985,086 |
| FUND BALANCE AT END OF YEAR | \$ 1,672,291 | \$ - | \$ 7,564,488 | \$ 3,462,628 | \$ 822,276 | \$ 13,521,683 |

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

Handwritten signature and date:
19/06/2012

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Statement of Net Assets
 June 30, 2011

| | |
|---|---------------|
| Aggregate fund balance reported in the balance sheet - governmental funds | \$ 13,521,683 |
| Governmental activities' amounts reported in the statement of net assets and the balance sheet - governmental funds are different because: | |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, therefore, are not reported in the governmental funds | 30,971,538 |
| The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds: | |
| Bonds payable | (20,564,000) |
| Note payable to GDB - line of credit | (77,439) |
| Notes payable to CRIM | (1,043,303) |
| Compensated absences | (1,295,110) |
| Accrued interest payable on long-term debt | (320,379) |
| Net assets as reported in the accompanying statement of net assets | \$ 21,192,990 |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds to the Statements of Activities
For the Year Ended June 30, 2011

| | |
|--|--------------------|
| Net change in fund balances- total governmental funds | \$ 1,536,597 |
| Governmental activities amounts reported in the statement of activities and the statement of Revenues, expenditures and changes in fund balances governmental funds are different because: | |
| Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognize for transactions that are not normally paid with expendable financial resources. In the Statements of Activities , however, wich is presented in the accrual basis, expenses and liabilities are presented regardless of when financial resources are available: | |
| Net change in accrued interest payable on long-term debt | (130,418) |
| Net change in compensated absences liability | (132,781) |
| Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expenses. This the amount by which capital outlays exceed depreciation expenses. | 1,186,305 |
| Repayment of principal of long-term obligations is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets | 704,645 |
| Proceeds on issuance of long- term debt are recorded as other financing sources in the fund financial statements, but the issuances increase long-term liabilities in the statement of net assets | <u>(3,007,439)</u> |
| Net changes in net assets reported in the accompaying statements of activities | <u>\$ 156,909</u> |

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

**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

As management of the **Municipality of Coamo** (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements as of and for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2010. 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:

- a broader basis in focusing important issues;
- acknowledgement of an overview of the Municipality's financial activities;
- provides for an evaluation of its financial condition as of the end of fiscal year 2010-2011 compared with prior year results;
- identification of uses of funds in the financing of the Municipality's variety of activities and;
- asses management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- Total Net Assets of the Municipality Governmental Activities as of the end of the indicated fiscal year amounted to \$21,192,990 or forty five percent (45%) of total assets.
- The Municipality's Governmental Activities total Net Assets increased by \$156,909 or one (1%) from the prior fiscal year-end balance.
- As reflected in the Statement of Activities, the Governmental Activities generated revenues contributed to the increase in the Net Assets Figure by \$156,909.
- At the end of fiscal year 2011, total liabilities of the Municipality Governmental Activities amounted to \$26,395,648. Out of said amount, \$22,979,852 corresponded to long-term liabilities of which \$20,564,000 represented the outstanding balance of bonds issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.

Governmental Funds' Highlights:

- As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$13,521,683 or \$1,536,597 over the similar figure corresponding to the previous fiscal year 2009-2010.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

- At the end of the current fiscal year, the fund balance of the Municipality's General Fund amounted to \$1,672,291, or \$225,967 more than the previous fiscal year.
- The actual General Fund budgetary activities resulted in an unfavorable balance of \$161,598.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2011. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

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

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

a) Government-Wide Financial Statements

The GWFS are composed of: (1) the statements of net assets (SNA) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2011. The GWFS are prepared using methods that are similar to those used by most private businesses.

Both of the government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental activities (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

1. Statement of Net Assets

The purpose of SNA is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets and total liabilities reported in SNA is presented as *net assets*, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net assets, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

2. Statement of Activities

The SA presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2011, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

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

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

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

GWFS and FFS present all of the Municipality's governmental activities, which are supported mostly by taxes, intergovernmental revenues (such as federal and state grants and contributions), and charge for services. All services normally associated with the Municipality fall into this category, including

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culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

b) Fund Financial Statements

The Municipality's FFS consist of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position, the results of operations of the Municipality's governmental, with an emphasis on the Municipality's major governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions. All of the funds of the Municipality can be divided into two categories: governmental funds and proprietary funds.

1. Governmental funds

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

Governmental funds in FFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

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

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

The Municipality has four major governmental funds. Each major fund is presented in a separate column in the balance sheet – governmental funds and the statement of revenues, expenditures and changes in fund balances – governmental funds. The four major governmental funds are: (1) general fund, (2) special revenue fund – federal grants, (3) capital project fund – state and local grants, and (4) debt service fund.

c) Notes to Basic Financial Statements

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

d) Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of budgetary comparison schedule – general fund.

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FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

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, governmental activities assets exceeded total liabilities by \$21,192,990 at the end of 2011, as compared with \$21,036,081 at the end of the previous year, as restated. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$156,909 increment reflected in the governmental activities Net Assets figure.

| | Governmental activities | |
|--|--------------------------------|--------------------------|
| | June 30, 2011 | June 30, 2010 |
| Assets: | | |
| Current assets | \$ 16,617,100 | \$ 14,922,091 |
| Non-current assets: | | |
| Capital assets, net | 30,971,538 | 29,785,233 |
| Total assets | <u>47,588,638</u> | <u>44,707,324</u> |
| Liabilities: | | |
| Current liabilities, excluding long-term obligations | 3,415,796 | 3,103,577 |
| Long-term obligations: | | |
| Due within one year | 982,806 | 978,472 |
| Due after one year | 21,997,046 | 19,589,194 |
| Total liabilities | <u>26,395,648</u> | <u>23,671,243</u> |
| Net assets (deficit): | | |
| Invested in capital assets, net of related debt | 17,824,099 | 19,080,233 |
| Restricted | 11,529,013 | 10,372,190 |
| Unrestricted | (8,160,122) | (8,416,342) |
| Total net assets | <u>\$ 21,192,990</u> | <u>\$ 21,036,081</u> |

The Statement of Activities reflects that for fiscal year 2011, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$156,909 in governmental activities. Approximately thirty eight percent (38%) of the Municipality's governmental activities total revenue came from taxes, while fifty six percent (56%) resulted from grants and contributions, including federal aid. The Municipality's governmental activities expenses included items such as general government, urban and economic development, health and welfare, public safety, public works, culture, recreation and education, community development and interest on long term obligations.

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Approximately twenty nine percent (29%) of total expenses resulted from general government, four percent (4%) of total expenses resulted from urban and economic development, ten percent (10%) of total expenses resulted from health and welfare, six percent (6%) of total expenses resulted from public safety, twenty three percent (23%) of total expenses resulted from public works, ten percent (10%) of total expenses resulted from culture, recreation and education, thirteen percent (13%) of total expenses resulted from community development, while five percent (5%) of total expenses resulted from interest on long term obligations. The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2011 and 2010:

| | Governmental activities | |
|---|-------------------------|----------------------|
| | June 30, 2011 | June 30, 2010 |
| Program revenues: | | |
| Program-specific operating grants and contributions | \$ 2,216,286 | \$ 2,369,237 |
| Program-specific capital grants and contributions | 2,699,114 | 3,113,314 |
| Charges for services | 398,777 | 171,433 |
| Total program revenues | <u>5,314,177</u> | <u>5,653,984</u> |
| General revenues: | | |
| Property taxes | 3,976,106 | 3,416,753 |
| Municipal license taxes | 1,102,530 | 1,217,388 |
| Sales and use taxes | 880,898 | 1,439,881 |
| Construction excise taxes | 1,311,771 | 566,343 |
| Unrestricted grants and contributions | 5,860,823 | 5,568,555 |
| Other general revenues (various sources) | 923,021 | 955,748 |
| Total general revenues | <u>14,055,149</u> | <u>13,164,668</u> |
| Total revenues | <u>19,369,326</u> | <u>18,818,652</u> |
| Program expenses: | | |
| General government | 5,539,674 | 5,575,516 |
| Health and welfare | 1,999,573 | 1,089,457 |
| Public works | 4,499,223 | 5,790,031 |
| Public safety | 1,110,120 | 1,240,914 |
| Culture, recreation and education | 1,839,825 | 2,264,530 |
| Community development | 2,579,773 | 2,765,918 |
| Urban and economic development | 764,162 | 1,989,824 |
| Interest on long-term obligations | 880,067 | 765,402 |
| Total expenses | <u>19,212,417</u> | <u>21,481,592</u> |
| Net increase (decrease) in net assets | 156,909 | (2,662,940) |
| Net assets, at beginning of fiscal year, as restated | 21,036,081 | 23,699,021 |
| Net assets, at end of fiscal year | <u>\$ 21,192,990</u> | <u>\$ 21,036,081</u> |

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FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

Analysis of Financial Position of Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$13,521,683, which represents an increase of \$1,536,597 when compared with the prior year. Out of the indicated balance, \$11,379,750 were restricted for the following purposes: (1) to liquidate intergovernmental payable with the Puerto Rico Retirement System (\$124,433); 2) to pay for capital projects (\$7,110,539); 3) for debt service payments (\$3,462,628); and 4) for other purposes (\$682,150). Also, \$644,238 were committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$50,163); 2) to pay for capital projects (\$453,949); and 3) for other purposes (\$140,126). As of June 30, 2011, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund balance of \$1,497,695.

The following table presents the condensed financial position of governmental funds at June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Assets: | | |
| Total assets - major governmental funds | \$ 16,912,689 | \$ 15,424,915 |
| Total assets - other governmental funds | 1,050,019 | 560,937 |
| Combined total assets | <u>17,962,708</u> | <u>15,985,852</u> |
| Liabilities: | | |
| Total liabilities - major governmental funds | 4,213,282 | 3,778,968 |
| Total liabilities - other governmental funds | 227,743 | 221,798 |
| Combined total liabilities | <u>4,441,025</u> | <u>4,000,766</u> |
| Fund balances (deficits): | | |
| Restricted - major governmental funds | 10,697,600 | 9,741,855 |
| Restricted - other governmental funds | 682,150 | 146,461 |
| Committed - major governmental funds | 504,112 | 522,899 |
| Committed - other governmental funds | 140,126 | 192,678 |
| Unassigned - major governmental funds | 1,497,695 | 1,381,193 |
| Combined total fund balances | <u>13,521,683</u> | <u>11,985,086</u> |
| Total liabilities and fund balances | <u>\$ 17,962,708</u> | <u>\$ 15,985,852</u> |

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Major Governmental Funds

General fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$3,373,222 at June 30, 2011. Such assets consist principally of: (1) cash in commercial banks (\$1,536,005), (2) restricted cash in fiscal agent (\$257,834), (3) construction excise tax receivables (\$80,000), (4) sales and use tax receivables (\$69,345), (5) short-term amounts due from other funds (\$1,345,608), and (6) due from governmental entities (\$60,481).

The GF's total liabilities amounted to \$1,700,931 at June 30, 2011. Such liabilities are composed mainly of: (1) deferred revenues (\$727,803), and (2) accounts payable and accrued liabilities, including amounts due to other governments (\$973,128).

At the end of the current fiscal year, restricted fund balance reached \$124,433, committed fund balance reached \$50,163, and unassigned fund balance of the GF amounted to \$1,497,695, while total fund balance reached \$1,672,291.

Special revenue fund – federal grants (SRF-FG)- The SRF-FG's total assets amounted to \$1,439,695 at June 30, 2011, which consist of cash in commercial banks (\$864,505), cash with fiscal agent (\$253,466), and receivables from intergovernmental grants and contributions (\$321,724). The SRF-FG's total liabilities amounted to \$1,439,695 at June 30, 2011, which are composed mainly of accounts payable and accrued liabilities (\$114,225), short-term amounts due to other funds (\$748,243), and deferred revenue (\$577,227).

Capital project fund – state and local grants (CPF-S&LG)- The CPF-S&LG's total assets amounted to \$8,637,144 at June 30, 2011, which consist of cash in commercial banks (\$2,693,916), cash with fiscal agent (\$5,879,389), and due from governmental entities (\$63,839). The CPF-S&LG's total liabilities amounted to \$1,072,656 at June 30, 2011, which are composed mainly of accounts payable and accrued liabilities (\$685,391), and short-term amounts due to other funds (\$387,265). At the end of the current fiscal year, restricted fund balance reached \$7,110,539, and committed fund balance reached \$453,949, while total fund balance reached \$7,564,488.

Debt service fund (DSF)- The DSF's total assets amounted to \$3,462,628 at June 30, 2011, which consist mainly of cash in fiscal agent (\$3,268,528). At the end of the current fiscal year, DSF's total and restricted fund balance reached \$3,462,628.

Other governmental funds (OGF)- The OGF's total assets amounted to \$1,050,019 at June 30, 2011, which consist mainly of cash and cash equivalents (\$523,222), cash in fiscal agent (\$407,601), and receivables from intergovernmental grants and contributions (\$119,196). The OGF's total liabilities amounted to \$227,743 at June 30, 2011, which are mainly composed of accounts payable and accrued liabilities (\$17,643) and short-term amounts due to other funds (\$210,100). At the end of the current fiscal year, OGF's restricted fund balance reached \$682,150, committed fund balance reached \$140,126, while total fund balance reached \$822,276.

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Analysis of Operating Results of Governmental Funds

Major Governmental Funds

General fund – The total fund balance of the GF increased by \$225,967 during current fiscal year, principally due to proceed from bond issuance to pay debt with the Puerto Rico Retirement System Administration (RSA) related to cost of living allowance and other benefits paid by the RSA to participants as required by special laws approved in past recent years. Total revenues, expenditures and other financing sources (net) amounted to \$12,450,741, \$12,086,904, and (\$137,870), respectively, for the fiscal year ended June 30, 2011.

Approximately 43% (\$5,374,059) of the GF's total revenues for the current fiscal year came from property, municipal license, construction excise and sales and use taxes, while 51% (\$6,396,907) resulted from intergovernmental grants and contributions. Interest revenues, charges for services and miscellaneous revenues, amounting to \$679,775, provided 6% of the total revenues for the current fiscal year.

The largest expenses of the GF for the fiscal year ended June 30, 2011 were related to: (1) general administrative and operating costs (\$5,722,726), which were classified as "general government" and accounted for 47% of total expenses, (2) health and welfare (\$545,654), which accounted for 5% percent of total expenses, (3) public works (\$3,681,269), which accounted for 30% of total expenses, (4) public safety (\$970,189), which accounted for 8% of total expenses, (5) culture, recreation and education (\$869,544), which accounted for 7% of total expenses, (6) community development (\$108,107), which accounted for 1% of total expenses, and (7) urban and economic development (\$189,415), which accounted for 2% of total expenses.

Special revenue fund – federal grants (SRF-FG)- The total revenues of the SRF-FG for the current fiscal year amounted to \$3,106,963. Total expenditures amounted to \$3,184,402 for the fiscal year ended June 30, 2011.

SRF-FG's total expenditures for the current fiscal year came from health and welfare (\$1,149,122), public works (\$115,785), public safety (124,069), culture, recreation and education (\$37,589), community development (\$1,625,329), and urban and economic development (\$132,508).

Capital projects fund – state and local grants (CPF-S&LG)- The total fund balance of the CPF-S&LG decreased by \$436,363 during current fiscal year. Also, during the current fiscal year the CPF-S&LG accounted for proceed from bonds issuance amounted to \$2,260,000 to pay for capital project costs. Total expenditures amounted to \$3,839,956 for the fiscal year ended June 30, 2011.

CPF-S&LG's total expenditures for the current fiscal year came principally from public works (\$421,307), culture, recreation and education (\$734,595), community development (\$848,253), and urban and economic development (\$1,821,575).

Debt service fund (DSF) – The total fund balance of the DSF increased by \$1,263,856 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$1,897,246, \$1,031,260 and \$397,870, respectively, for the fiscal year ended June 30, 2011.

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Approximately 72% (\$1,362,084) of DSF's total revenues for the current fiscal year came from restricted property taxes, while 28% (\$535,162) came from restricted sales and use taxes. DSF's total expenditures for the current fiscal year came from principal and interests on bonds payable (\$1,031,260).

Other governmental funds (OGF) – The total fund balance of the OGF increased by \$483,137 during current fiscal year. Total revenues, expenditures and other financing uses (net) amounted to \$770,783, \$697,646 and \$410,000, respectively, for the fiscal year ended June 30, 2011. Approximately 59% (\$451,398) of OGF's total revenues for the current fiscal year came from intergovernmental grants, 27% (\$207,157) came from charge for services, and 14% (\$112,228) came from miscellaneous sources.

The largest expenses of the OGF for the fiscal year ended June 30, 2011 were related to: (1) health and welfare (\$297,610), which accounted for 43% percent of total expenses, and (2) urban and economic development (\$312,758), which accounted for 45% of total expenses.

BUDGETARY HIGHLIGHTS

a) General Fund

The original and the final budget of the general fund for the fiscal year ended June 30, 2011 amounted to \$12,585,875. Over the course of the fiscal year, the Municipality revised the GF's budget in order to include increases and decreases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. The laws and regulations of the Commonwealth mandate a balanced budget.

The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2011 were \$12,492,294, which is 1% (\$93,581) lower than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the general fund for the fiscal year ended June 30, 2011 were \$11,932,826, which is 2% (\$255,179), lower than the budgeted expenditures.

The most significant fluctuations in actual revenues occurred in construction excise taxes which had actual revenues that were \$353,298 more than budgeted, in interest on deposits, which had actual revenues that were \$106,242 more than budgeted, in sales and municipal license taxes, which had actual revenues that were \$344,991 and \$207,989 lesser than budgeted, respectively.

Also, the most significant fluctuations in actual expenditures and encumbrances occurred in general government, health and welfare, and public works, which had actual expenditures and encumbrances that were \$46,569, \$53,120, and \$94,869 lower than budgeted, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$42,221,048 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$11,249,510 at June 30, 2011. The net capital assets of governmental activities increased during the current fiscal year due to the current fiscal year's capital additions and reclassifications (\$7,901,440), which were partially offset by the depreciation expense and reclassifications (\$5,992,042) for the same period.

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The capital additions made to capital assets during the fiscal year ended June 30, 2011 were the following:

| | |
|---|---------------------|
| Construction in progress | \$ 1,954,454 |
| Buildings, structures and improvements | 5,712,684 |
| Machinery, equipment, furniture and fixtures | 191,191 |
| Licensed vehicles | 43,111 |
| Capital additions for the fiscal year ended June 30, 2011 | <u>\$ 7,901,440</u> |

During the current year, construction in progress amounted to \$5,712,684 was reclassified to building, structures and improvements category.

b) Debt Administration

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

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

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

At June 30, 2011, the Municipality's total bonded debt amounted to \$20,564,000, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The following is a summary of the debt activity for the fiscal year ended June 30, 2011:

- Bonds payable increased by 15% (\$2,625,000) by the net effect of total principal payments on bonds (\$305,000) and bond issuance (\$2,930,000) made during the current fiscal year.

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- The Municipality has also certain outstanding notes payable due to CRIM (\$1,043,301). Such notes payable decreased by \$199,300 during the current fiscal year mainly due to the principal payments made during the same period.

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 2011-2012.

FINAL COMMENTS

The Municipality of Coamo is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community, urban and economic development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, sales taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government. Since the Municipality is significantly dependent on the intergovernmental grants and contributions received from the government of the Commonwealth of Puerto Rico and from property tax advances received from CRIM, the municipality could suffer a significant financial burden for certain scheduled intergovernmental revenues that could not be collected during the fiscal year 2011-2012.

REQUEST FOR INFORMATION

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

**Basic Financial Statements and
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Statement of Net Assets

June 30, 2011

Assets

Current assets:

| | | |
|--|----|------------|
| Cash in commercial banks | \$ | 5,617,648 |
| Cash in fiscal agent | | 10,066,818 |
| Accounts receivable, net of allowance for doubtful accounts: | | |
| Property taxes | | 152,020 |
| Intergovernmental | | 565,240 |
| Sales tax | | 111,425 |
| Construction excise taxes | | 80,000 |
| Interest | | 23,949 |
| Total current assets | | 16,617,100 |

Noncurrent assets:

| | | |
|--|----|------------|
| Capital assets, net of accumulated depreciation and amortization of \$11,249,510 | | 30,971,538 |
| Total noncurrent assets | | 30,971,538 |
| Total assets | \$ | 47,588,638 |

Current Liabilities (due within one year):

| | | |
|--|----|-----------|
| Accounts payable | \$ | 1,573,531 |
| Intergovernmental payables | | 216,856 |
| Accrued interest payable on long-term debt | | 320,379 |
| Deferred revenues | | 1,305,030 |
| Current portion of long-term obligations: | | |
| Bonds payable | | 752,835 |
| Other debts | | 229,931 |
| Total current liabilities | | 4,398,562 |

Noncurrent liabilities (due in more than one year):

| | | |
|---|----|------------|
| Current portion of long-term obligations: | | |
| Bonds payable | | 19,811,165 |
| Other debts | | 2,185,921 |
| Total Noncurrent liabilities | | 21,997,086 |
| Total liabilities | \$ | 26,395,648 |

Net assets (liabilities):

| | | |
|---|----|-------------|
| Invested in capital assets, net of related debt | \$ | 17,824,099 |
| Restricted for: | | |
| Capital projects | | 7,564,488 |
| Debt service | | 3,142,249 |
| Other specified purposes | | 822,276 |
| Unrestricted net assets | | (8,160,122) |
| Total net assets | \$ | 21,192,990 |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Statement of Activities

June 30, 2011

| <u>Functions/programs</u> | <u>Expenses</u> | <u>Charges for services</u> | <u>Program Revenues</u> | | <u>Net Expenses and Charges in Net Assets</u> |
|---|----------------------|---------------------------------|---|---|---|
| | | | <u>Operating grants and contributions</u> | <u>Capital grants and contributions</u> | |
| Governmental activities : | | | | | |
| General government | \$ 5,539,674 | \$ - | \$ 153,584 | \$ - | \$ (5,386,090) |
| Health and welfare | 1,999,573 | - | 1,427,468 | - | (572,105) |
| Public works | 4,499,223 | 92,794 | - | 253,476 | (4,152,953) |
| Public safety | 1,110,120 | 46,494 | 53,493 | 70,576 | (939,557) |
| Culture, recreation and education | 1,839,825 | 52,332 | 420,089 | 61,400 | (1,306,004) |
| Community Development | 2,579,773 | - | - | 1,660,329 | (919,444) |
| Urban and economic development | 764,162 | 207,157 | 161,652 | 653,333 | 257,980 |
| Interest on long-term obligation | 880,067 | - | - | - | (880,067) |
| Total governmental activities | <u>\$ 19,212,417</u> | <u>\$ 398,777</u> | <u>\$ 2,216,286</u> | <u>\$ 2,699,114</u> | <u>\$ (13,898,240)</u> |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes | | | | | |
| | | | | | 3,976,106 |
| Municipal license taxes | | | | | |
| | | | | | 1,102,530 |
| Sales taxes | | | | | |
| | | | | | 1,311,771 |
| Construction excise taxes | | | | | |
| | | | | | 880,898 |
| Total taxes | | | | | |
| | | | | | <u>7,271,305</u> |
| Grants and contributions, not restricted to specific programs | | | | | |
| | | | | | 5,860,823 |
| Interests on deposits | | | | | |
| | | | | | 168,255 |
| Miscellaneous | | | | | |
| | | | | | 754,766 |
| Total general revenues | | | | | |
| | | | | | <u>14,055,149</u> |
| Net changes in net assets | | | | | |
| | | | | | 156,909 |
| Net assets at beginning of the year, as restated | | | | | |
| | | | | | 21,036,081 |
| Net assets at the end of the year | | | | | |
| | | | | | <u>\$ 21,192,990</u> |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Balance Sheet
Governmental Funds
June 30, 2011

| MAJOR FUNDS | | | | | | |
|--|---------------------|---|---|----------------------|----------------------------|--------------------------------|
| | General Fund | Special Revenue Fund - Federal Grants | Capital Project Fund - State & Local Grants | Debt Service Fund | Other Nonmajor Funds | Total Governmental Funds |
| ASSETS | | | | | | |
| Cash in commercial banks | \$ 1,536,005 | \$ 864,505 | \$ 2,693,916 | \$ - | \$ 523,222 | \$ 5,617,648 |
| Cash in fiscal agent | 257,834 | 253,466 | 5,879,389 | 3,268,528 | 407,601 | 10,066,818 |
| Account receivable, net of doubtful accounts: | | | | | | |
| Property taxes | - | - | - | 152,020 | - | 152,020 |
| Construction excise taxes | 80,000 | - | - | - | - | 80,000 |
| Sales and use tax | 69,345 | - | - | 42,080 | - | 111,425 |
| Interest | 23,949 | - | - | - | - | 23,949 |
| Due from other funds | 1,345,608 | - | - | - | - | 1,345,608 |
| Due from governmental entities | 60,481 | 321,724 | 63,839 | - | 119,196 | 565,240 |
| Total assets | <u>\$ 3,373,222</u> | <u>\$ 1,439,695</u> | <u>\$ 8,637,144</u> | <u>\$ 3,462,628</u> | <u>\$ 1,050,019</u> | <u>\$ 17,962,708</u> |
| LIABILITIES | | | | | | |
| Accounts payable | 756,272 | 114,225 | 685,391 | - | 17,643 | 1,573,531 |
| Intergovernmental payable | 216,856 | - | - | - | - | 216,856 |
| Due to other funds | - | 748,243 | 387,265 | - | 210,100 | 1,345,608 |
| Deferred revenue | 727,803 | 577,227 | - | - | - | 1,305,030 |
| Total liabilities | <u>1,700,931</u> | <u>1,439,695</u> | <u>1,072,656</u> | <u>-</u> | <u>227,743</u> | <u>4,441,025</u> |
| FUND BALANCE | | | | | | |
| Fund balance: | | | | | | |
| Restricted | 124,433 | - | 7,110,539 | 3,462,628 | 682,150 | 11,379,750 |
| Committed | 50,163 | - | 453,949 | - | 140,126 | 644,238 |
| Unassigned | 1,497,695 | - | - | - | - | 1,497,695 |
| Total fund balances | <u>1,672,291</u> | <u>-</u> | <u>7,564,488</u> | <u>3,462,628</u> | <u>822,276</u> | <u>13,521,683</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 3,373,222</u> | <u>\$ 1,439,695</u> | <u>\$ 8,637,144</u> | <u>\$ 3,462,628</u> | <u>\$ 1,050,019</u> | <u>\$ 17,962,708</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Statement of Revenues, Expenditures and
Changes in Fund Balance - Governmental Funds
Year Ended June 30, 2011

MAJOR FUNDS

| | General Fund | Special Revenue Fund - Federal Grants | Capital Project Fund - State & Local Grants | Debt Service Fund | Other Nonmajor Funds | Total Governmental Funds |
|---|----------------------|---|--|----------------------|-------------------------|--------------------------------|
| REVENUES | | | | | | |
| Taxes: | | | | | | |
| Property taxes | \$ 2,614,022 | \$ - | \$ - | \$ 1,362,084 | \$ - | \$ 3,976,106 |
| Municipal license | 1,102,530 | - | - | - | - | 1,102,530 |
| Construction excise taxes | 880,898 | - | - | - | - | 880,898 |
| Sales and use tax | 776,609 | - | - | 535,162 | - | 1,311,771 |
| Charges of service | 191,620 | - | - | - | 207,157 | 398,777 |
| Intergovernmental grants and contributions: | | | | | | |
| Federal government | - | 3,106,963 | - | - | 278,346 | 3,385,309 |
| State government | 6,396,907 | - | 820,955 | - | 173,052 | 7,390,914 |
| Investment earnings | 168,255 | - | - | - | - | 168,255 |
| Miscellaneous | 319,900 | - | 322,638 | - | 112,228 | 754,766 |
| Total Revenues | \$ 12,450,741 | \$ 3,106,963 | \$ 1,143,593 | \$ 1,897,246 | \$ 770,783 | \$ 19,369,326 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 5,722,726 | - | 14,226 | - | 58,478 | 5,795,430 |
| Health and welfare | 545,654 | 1,149,122 | - | - | 297,610 | 1,992,386 |
| Public works | 3,681,269 | 115,785 | 421,307 | - | - | 4,218,361 |
| Public safety | 970,189 | 124,069 | - | - | - | 1,094,258 |
| Culture, recreation and education | 869,544 | 37,589 | 734,595 | - | 28,800 | 1,670,528 |
| Community Development | 108,107 | 1,625,329 | 848,253 | - | - | 2,581,689 |
| Urban and economic development | 189,415 | 132,508 | 1,821,575 | - | 312,758 | 2,456,256 |
| Debt service: | | | | | | |
| Principal | - | - | - | 305,000 | - | 305,000 |
| Interest | - | - | - | 726,260 | - | 726,260 |
| Total Expenditures | 12,086,904 | 3,184,402 | 3,839,956 | 1,031,260 | 697,646 | 20,840,168 |
| Excess (Deficiency) of Revenues over expenditures | 363,837 | (77,439) | (2,696,363) | 865,986 | 73,137 | (1,470,842) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfer in from other funds | - | - | - | 397,870 | - | 397,870 |
| Transfer out to other funds | (397,870) | - | - | - | - | (397,870) |
| Proceeds from debt issuance | 260,000 | 77,439 | 2,260,000 | - | 410,000 | 3,007,439 |
| Total Other Financing Sources (uses) | (137,870) | 77,439 | 2,260,000 | 397,870 | 410,000 | 3,007,439 |
| NET CHANGE IN FUND BALANCES (DEFICITS) | 225,967 | - | (436,363) | 1,263,856 | 483,137 | 1,536,597 |
| FUND BALANCE AT BEGINNING OF YEAR | 1,446,324 | - | 8,000,851 | 2,198,772 | 339,139 | 11,985,086 |
| FUND BALANCE AT END OF YEAR | \$ 1,672,291 | \$ - | \$ 7,564,488 | \$ 3,462,628 | \$ 822,276 | \$ 13,521,683 |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Statement of Net Assets
 June 30, 2011

| | |
|---|----------------------|
| Aggregate fund balance reported in the balance sheet - governmental funds | \$ 13,521,683 |
| Governmental activities' amounts reported in the statement of net assets and the balance sheet - governmental funds are different because: | |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, therefore, are not reported in the governmental funds | 30,971,538 |
| The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds: | |
| Bonds payable | (20,564,000) |
| Note payable to GDB - line of credit | (77,439) |
| Notes payable to CRIM | (1,043,303) |
| Compensated absences | (1,295,110) |
| Accrued interest payable on long-term debt | <u>(320,379)</u> |
| Net assets as reported in the accompanying statement of net assets | <u>\$ 21,192,990</u> |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds to the Statements of Activities
For the Year Ended June 30, 2011

Net change in fund balances- total governmental funds \$ 1,536,597

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

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

| | |
|--|-----------|
| Net change in accrued interest payable on long-term debt | (130,418) |
| Net change in compensated absences liability | (132,781) |

| | |
|--|-----------|
| Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expenses. This the amount by which capital outlays exceed depreciation expenses. | 1,186,305 |
|--|-----------|

| | |
|--|---------|
| Repayment of principal of long-term obligations is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets | 704,645 |
|--|---------|

| | |
|---|--------------------|
| Proceeds on issuance of long- term debt are recorded as other financing sources in the fund financial statements, but the issuances increase long-term liabilities in the statement of net assets | <u>(3,007,439)</u> |
|---|--------------------|

| | |
|---|--------------------------|
| Net changes in net assets reported in the accompanying statements of activities | <u><u>\$ 156,909</u></u> |
|---|--------------------------|

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

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

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

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

a) Financial Reporting Model

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality at June 30, 2011, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2011 in conformity with GAAP.

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

RSI consists of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. RSI is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements. MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2011, based on the Municipality's knowledge of the transactions, events and conditions

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

In addition to the required financial reporting requirements referred to above, the accompanying basic financial statements are accompanied by additional supplementary information consisting of a budgetary comparison schedule – general fund and the notes to the budgetary comparison schedule – general fund, which have been subjected to the auditing procedures applied in the audit of the accompanying basic financial statements as of and for the fiscal year ended June 30, 2011.

b) Financial Reporting Entity

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

On July 1, 2005, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

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

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

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14. The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2011.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

c) *Government-Wide Financial Statements*

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

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

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

Net assets (liabilities) are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net assets** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

- **Unrestricted net assets** – This category consists of the excess of assets over related liabilities that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted net liabilities often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net assets or liabilities changed during the fiscal year ended June 30, 2011, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) public works, (5) culture, recreation and education, (6) health and welfare and (7) community development. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Office of federal programs

Urban and economic development:

- Department of planning and economic development

Public safety:

- Department of emergency management – civil defense
- Department of municipal police

Public works:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

Culture, recreation and education:

Department of sports and recreation
Department of culture and tourism

Health and welfare:

Department of aging and adult services

Community Development:

Department of citizen affairs

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and (3) special items.

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

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

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

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

The *general government* function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the FFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net assets and activities.

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

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

The Municipality has operations and activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) Fund Financial Statements

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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

The accompanying FFS segregate governmental funds and fund types according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds and fund types is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- **General fund** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt service fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest; for (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2011, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, and claims and judgments) are only accounted for in the accompanying statement of net assets. The debt service payments of such debts, as applicable, are generally accounted for in the general fund.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

- **Capital projects funds** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the FFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. In addition, the same element that meets the 10 percent criterion must be at least 5 percent of the corresponding element total for all governmental and enterprise (proprietary) funds combined. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

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

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

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

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The 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.

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

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

e) Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

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

Governmental fund financial statements – The accompanying governmental fund financial statements are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year.

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For this purpose, the Municipality considers most revenues to be available if collected generally within 90 days after June 30, 2011, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred (earned and unavailable) revenues at June 30, 2011.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying governmental fund financial statements, except for amounts recorded as deferred (earned and unavailable) revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed previously, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, certain charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

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

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

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

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

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

f) Stewardship, Compliance and Accountability

Budgetary Control

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

The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding May 31. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 15.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to

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the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have three (3) days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

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

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

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

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

Budgetary Accounting

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

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

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related

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expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying budgetary comparison schedule – general fund provide information about the general fund and debt service funds' original budgets, its amendments, and the actual results of operations of such major governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2011. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2011.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general fund budgetary bases and GAAP actual amounts are presented at the bottom of the budgetary comparison schedules.

g) Deposits

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

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations. At June 30, 2011, the cash available in the pooled cash account amounted to \$3,054,698, which has been recorded within major and non-major governmental funds.

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

Cash in commercial banks and cash in fiscal agent of the special revenue fund – federal grants, amounting to \$864,505 and \$253,466, respectively, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain federal financially assisted programs.

Cash in commercial banks and cash in fiscal agent of the general fund amounts to \$1,536,005 and \$257,834, respectively, represents the balance of interest bearing and non-interest bearing accounts for operating expenditures.

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Cash in commercial bank and cash in fiscal agent in the capital project fund – state and local grants, amounting to \$2,693,916 and \$5,879,389, respectively, consists principally of the balance of interest bearing and non-interest bearing accounts related to state and local grants, and unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of major capital assets.

Cash in fiscal agent in the debt service fund consists of cash related to property tax and sales and use tax collections amounting to \$3,268,528 which are restricted for the payment of the Municipality's debt service of bonds payable, as required by law.

Cash in commercial bank and cash in fiscal agent in the other governmental funds, amounting to \$523,222 and \$407,601, respectively, represents the balance of interest bearing and non-interest bearing accounts, and unspent proceeds of bonds, which are restricted to finance the operations of certain federal, state and local funded programs.

h) Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2011. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

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

i) Other Current Assets

Other current assets in the accompanying statement of net assets and the balance sheet – governmental funds consist principally of prepaid costs, which are capitalized rather than charged to operations.

j) Capital Assets

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

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$100 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$100 or with

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useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities and the statement of revenues, expenses and changes in fund net assets. In the governmental funds, all capital assets are recorded as expenditures in the corresponding function/program identified with the asset.

In the statement of net assets and the statement of net assets, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

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

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

| | <u>Years</u> |
|--------------------------------|--------------|
| Building and site improvements | 50 |
| Infrastructure | 50 |
| Work of art | 10 |
| Vehicles | 7 |
| Furniture and fixtures | 5 to 20 |
| Machinery and equipment | 5 to 20 |

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

k) *Deferred Revenues*

In the governmental fund financial statements, deferred revenue arises when one of the following situations occur:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as “*earned and unavailable revenue*” in the

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accompanying Statement of Net Assets). As previously discussed, available is defined as due (or past due) at June 30, 2011 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.

- The Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying Statement of Net Assets). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net assets). No “*earned and unavailable revenue*” is accounted for in the accompanying statement of net assets.

1) *Compensated Absences*

The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2011 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of social security taxes and medicare taxes).

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

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

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

m) Long-term Debt

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds payable, notes payable, obligations under capital leases, accrued compensated absences and accrued legal claims and judgments.

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

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

n) Accounting for Pension Costs

On July 1, 2007, the Municipality adopted the provision of GASB Statement No. 50, *Pension Disclosures* (GASB No. 50), which amended GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27) requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), as amended, the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic

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financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

o) Risk Management

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

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA, by its Spanish acronym), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2011 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

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

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

The Municipality also obtains medical insurance coverage from a health insurance company for its employees. Different health insurance coverage and premium options are negotiated each year by the Municipality. The current insurance policies have not been cancelled or terminated at June 30, 2011. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

p) Fund Balances

On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions No. 54* (GASB No. 54). GASB No.

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54, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. Also, this statement establishes fund balance classifications that comprise a hierarchy upon use of the resources reported in governmental funds.

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

- **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditor or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- **Committed** – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- **Assigned** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- **Unassigned** – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2011.

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When an expenditure is incurred for purposes for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

q) *Inter-fund Activities*

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

- ***Inter-fund loans*** – Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as “*due from*” in the lender governmental fund and “*due to*” in the borrower governmental fund. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a “*transfer-in*” from the governmental fund that provided the loan.
- ***Inter-fund transfers (transfers-in/(out))*** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as “*other financing uses*” in the governmental fund making transfers and as “*other financing sources*” in the governmental fund receiving transfers.
- ***Inter-fund reimbursements*** – Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

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

r) *Use of Estimates*

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

s) *Future Adoption of Accounting Pronouncements*

The GASB has issued the following standards that have effective dates after June 30, 2011:

- 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

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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. 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.
- 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.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and IACPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements; 1) Financial Accounting Standard Board (FASB) Statements and interpretations, 2) Accounting Principles Board Opinions, 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011.

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

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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, 2011.

- **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, 2011, (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, 2011, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$10,066,818 at June 30, 2011, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2011. 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, 2011, 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, 2011.

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Cash and cash equivalents at June 30, 2011, are classified in the accompanying balance sheet – governmental funds a follows:

| | General fund | Special revenue fund – federal grants | Capital project fund – State & local grants | Debt service fund | Other governmental funds | Total |
|-----------------------------------|---------------------|---|---|-------------------------|--------------------------------|----------------------|
| Cash in commercial banks | \$ 1,536,005 | 864,505 | 2,693,916 | - | 523,222 | \$ 5,617,648 |
| Cash in GDB, as fiscal agent | 257,834 | 253,466 | 5,879,389 | 3,268,528 | 407,601 | 10,066,818 |
| Total carrying amount of deposits | <u>\$ 1,793,839</u> | <u>1,117,971</u> | <u>8,573,305</u> | <u>3,268,528</u> | <u>930,823</u> | <u>\$ 15,684,466</u> |

3. Municipal License Taxes

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Coamo. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2011, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

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

Any Deferred Revenue collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenue in the GWFS and the general fund. Unearned municipal license tax revenues recorded in the accompanying GWFS and the general fund amounted to \$727,803 at June 30, 2011. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2011-2012, therefore, generally cannot be used to pay obligations of the fiscal year 2010-2011.

The Deferred Revenue, recorded in the general fund at June 30, 2011, include municipal license tax revenues of the fiscal year 2011-2012 amounting to \$727,803, which were collected in advance from taxpayers between January and June, 2011 (known in Spanish as "Patente en Suspense").

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4. Sales and Use Taxes

The Municipality is authorized by Law No. 117 of July 4, 2006, as amended by Law No. 80 of July 29, 2007, to impose and collect sales and uses taxes of one point five (1.5) percent to substantially all products and services sold or provided within the territorial limits of the Municipality. The mentioned Laws establish the applicable tax rate.

At June 30, 2011, the municipal sales and uses tax rate imposed by the Municipality was 1.50, from which the Municipality collect one (1) percent, and the Puerto Rico Secretary of the Treasury collect the remaining point five (.5) percent without including food and food ingredients as defined in Section 2301(a) of the Act No. 107, on behalf of the Municipality.

The point five (.5) percent collected by the Puerto Rico Treasury Department and belonging to the Municipality it is distributed through three separate funds: municipal development fund (up to .2%, at the discretion of the Municipality), municipal redemption fund (from .2% to .4% at the discretion of the Municipality) and municipal improvements fund (.1%). The Municipality has elected to restrict a portion of the sales tax amounting .4% for the payment of long-term debt and is recorded in the debt service fund. The remaining portion is recorded in the general fund since is available for general operating purposes.

The tax collected by merchants during a given month is due and must be paid accompanied by a sales and use tax return to the Municipality and to the Puerto Rico Treasury Department on or before the 10th day of the following month.

The resources collected by the Municipality due to this tax assessment will be used in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available base on actual collection during the 30 days following the fiscal year-end related to sales and use tax returns due before year end.

Sales and use tax receivable in the general and debt service funds at June 30, 2011, of \$69,345 and \$42,080, respectively, represent actual collection during the 30 days following the fiscal year-end related to sales and use tax returns due before year end.

5. Property Taxes

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

On July 10, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 37 for the purpose, among others, to: (1) increase the real property assessed value by ten times; (2) decrease the real property tax rate by ten times; and (3) increase the exempt portion of real property tax form the

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first \$15,000 of the assessed value to \$150,000. These provisions are effective only for fiscal years 2010, 2011 and 2012.

The Municipal Revenue Collection Center (CRIM, by its Spanish acronym) is a governmental entity not related to the Municipality which is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality and all other municipalities in the Commonwealth of Puerto Rico. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds (estimated collections) to the Municipality based on the initial estimated (forecasted) collection amounts for the fiscal year. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a final basis not later than December 31 following the fiscal year end. If in any given fiscal year, CRIM remits to the Municipality property tax advances that are less than the property taxes actually collected by CRIM on behalf of the Municipality, then CRIM will increase the amount of the monthly property tax advances during the next fiscal year. However, if advances exceed the amount actually collected by CRIM, then CRIM will reduce the amount of the monthly property tax advances during the next fiscal year.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2011 was 6.58 percent (of which taxpayers pay 6.38 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2011 was 8.58 percent (of which 8.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

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

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

In addition, included within the total personal and real property tax rates of 6.58 percent and 8.58 percent, respectively, there is a portion of the tax rate in the amount of 1.75 percent that is restricted

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for the Municipality's debt service requirements of bonds. Such amounts are recorded in the Municipality's debt service fund.

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

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

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

At June 30, 2011, property taxes receivable recorded in the general fund amounted to \$152,020.

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Notes to Basic Financial Statements
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6. Intergovernmental Receivables and Payables

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

| | <u>Major Governmental Funds</u> | <u>Other governmental funds</u> | <u>Total governmental funds</u> | <u>Statement of net Assets</u> |
|---|---|---|---|--|
| <i>Intergovernmental receivables:</i> | | | | |
| Entity or Program: | | | | |
| Puerto Rico Office of the Commissioner of Municipal Affairs | \$ 82,340 | 20,585 | 102,925 | \$ 102,925 |
| Puerto Rico Department of Public Works | 63,839 | - | 63,839 | 63,839 |
| Puerto Rico Municipal Revenue Collection Center | 60,481 | - | 60,481 | 60,481 |
| U.S. Department of Housing and Urban Development | 55,069 | - | 55,069 | 55,069 |
| Government Development Bank for Puerto Rico | 51,181 | - | 51,181 | 51,181 |
| U.S. Department of Justice | 43,405 | - | 43,405 | 43,405 |
| Puerto Rico Governor's Office - Elderly Office | 38,580 | - | 38,580 | 38,580 |
| Puerto Rico Emergency Management Agency | 14,656 | - | 14,656 | 14,656 |
| U.S. Department of Agriculture | 11,388 | - | 11,388 | 11,388 |
| U.S. Department of Justice | 11,171 | - | 11,171 | 11,171 |
| Puerto Rico Department of Education | 5,904 | - | 5,904 | 5,904 |
| Puerto Rico Governor's Office - Planning Board Office | 4,646 | - | 4,646 | 4,646 |
| Puerto Rico Administration for Children and Families | 3,384 | - | 3,384 | 3,384 |
| Puerto Rico Department of Labor | - | 97,406 | 97,406 | 97,406 |
| Other Public Housing Agencies - Section 8 HCV | - | 1,205 | 1,205 | 1,205 |
| Total intergovernmental receivables | <u>\$ 446,044</u> | <u>119,196</u> | <u>565,240</u> | <u>\$ 565,240</u> |
| <i>Intergovernmental payables:</i> | | | | |
| Payroll (general fund): | | | | |
| Puerto Rico Department of Labor | \$ 64,868 | - | 64,868 | \$ 64,868 |
| Utilities (general fund): | | | | |
| Puerto Rico Aqueduct and Sewer Authority | 151,988 | - | 151,988 | 151,988 |
| Total intergovernmental payables | <u>\$ 216,856</u> | <u>-</u> | <u>216,856</u> | <u>\$ 216,856</u> |

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

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8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2011:

a) Governmental Activities

| | Cost basis at beginning of fiscal year | Additions | Reductions/ Reclassifications | Cost basis at end of fiscal year |
|--|---|------------------|----------------------------------|---|
| <i>Cost basis:</i> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 4,110,878 | - | - | \$ 4,110,878 |
| Construction in progress | 4,354,091 | 1,954,454 | 5,712,684 | 595,861 |
| Total capital assets, not being depreciated | <u>8,464,969</u> | <u>1,954,454</u> | <u>5,712,684</u> | <u>4,706,739</u> |
| Capital assets, being depreciated: | | | | |
| Buildings, structures, and improvements | 24,718,410 | 5,712,684 | - | 30,431,094 |
| Infrastructure | 1,216,116 | - | - | 1,216,116 |
| Machinery and equipment, and furniture and fixtures | 1,634,206 | 191,191 | 41,050 | 1,784,347 |
| Licensed vehicles | 4,277,949 | 43,111 | 238,308 | 4,082,752 |
| Total capital assets, being depreciated | <u>31,846,681</u> | <u>5,946,986</u> | <u>279,358</u> | <u>37,514,309</u> |
| Total cost basis of capital assets | <u>\$ 40,311,650</u> | <u>7,901,440</u> | <u>5,992,042</u> | <u>\$ 42,221,048</u> |
| | Accumulated depreciation at beginning of fiscal year | Additions | Reductions/ Reclassifications | Accumulated Depreciation at end of fiscal year |
| Accumulated depreciation: | | | | |
| Buildings, structures, and improvements | \$ 7,275,552 | 555,795 | - | \$ 7,831,347 |
| Infrastructure | 121,445 | 60,806 | - | 182,251 |
| Machinery and equipment, and furniture and fixtures | 661,139 | 112,889 | 41,050 | 732,978 |
| Licensed vehicles | 2,468,281 | 272,961 | 238,308 | 2,502,934 |
| Total accumulated depreciation | <u>10,526,417</u> | <u>1,002,451</u> | <u>279,358</u> | <u>11,249,510</u> |
| Net capital assets, governmental activities | <u>\$ 29,785,233</u> | <u>6,898,989</u> | <u>5,712,684</u> | <u>\$ 30,971,538</u> |

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2011.

The infrastructure assets recorded in the accompanying statement of net assets for \$1,033,865 (net of accumulated depreciation of \$182,251) do not include a substantial portion of the Municipality's general infrastructure assets that were constructed or acquired by the Municipality from 1980 through June 30, 2011.

Several real property assets, including buildings, structures, land and land improvements have not been recorded in the accompanying statement of net assets at June 30, 2011.

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Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2011 was charged to functions/programs in the accompanying statement of activities as follows:

| | | |
|---|----|--------------|
| General government | \$ | 71,268 |
| Public safety | | 68,918 |
| Economic and urban development | | 79,184 |
| Health and welfare | | 9,532 |
| Community development | | 21,595 |
| Public works | | 293,270 |
| Culture, recreation, and education | | 458,684 |
| Total depreciation and amortization expense | | \$ 1,002,451 |

9. Deferred Revenues

At June 30, 2011, deferred revenues recorded in the GWFS and the governmental fund financial statements are as follows:

| | General fund | Special revenue fund federal grants | Capital project fund state & local grants | Other nonmajor funds | Total governmental funds | Statement of net assets |
|---|-----------------|---|--|----------------------------|--------------------------------|-------------------------------|
| <i>Unearned revenues:</i> | | | | | | |
| Municipal licenses | \$ 727,803 | - | - | - | 727,803 | \$ 727,803 |
| Intergovernmental grants and contributions | - | 577,227 | - | - | 577,227 | 577,227 |
| Total unearned revenues | 727,803 | 577,227 | - | - | 1,305,030 | 1,305,030 |
| Total deferred revenues | \$ 727,803 | 577,227 | - | - | 1,305,030 | \$ 1,305,030 |

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Notes to Basic Financial Statements
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10. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2011 is as follows:

| | <u>Balance at beginning of fiscal year</u> | <u>Borrowings or additions</u> | <u>Payments and deductions</u> | <u>Balance at end of fiscal year</u> | <u>Balance due within one year</u> |
|--|--|--|--|--|--|
| <i>Governmental activities:</i> | | | | | |
| Bonds payable: | | | | | |
| General and public obligation serial bonds | \$ 17,939,000 | 2,930,000 | 305,000 | \$ 20,564,000 | \$ 752,875 |
| Notes payable: | | | | | |
| Municipal Revenue Collection Center: | | | | | |
| Law No. 42 of January 26, 2000 | 690,868 | - | 14,767 | 676,101 | 15,695 |
| Law No. 146 of October 11, 2001 – Delinquent property tax accounts sold | 363,445 | - | 16,520 | 346,925 | 16,520 |
| Law No. 146 of October 11, 2001- Land Information Management System | 59,091 | - | 38,814 | 20,277 | 20,277 |
| Settlement Statement 2008-2009 | 129,199 | - | 129,199 | - | - |
| Puerto Rico Retirement System: | | | | | |
| Financing agreement to pay COLA and special laws benefits | 200,345 | - | 200,345 | - | - |
| Puerto Rico Government Development Bank: | | | | | |
| Line of credit for construction of affordable cost housing units | - | 77,439 | - | 77,439 | 77,439 |
| Compensated absences | 1,162,329 | 240,574 | 107,793 | 1,295,110 | 100,000 |
| Totals for governmental activities | <u>\$ 20,544,277</u> | <u>3,248,013</u> | <u>812,438</u> | <u>\$ 22,979,852</u> | <u>\$ 982,806</u> |

Historically, the general fund has been used to liquidate the notes payable to CRIM, the Puerto Rico Retirement System, compensated absences and any other long-term liabilities other than bonds.

a) Debt Limitation

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

- Direct obligations of the Municipality (evidenced principally by bonds) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

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b) Bonds Payable

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

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

As more fully described in Note 5, the Municipality levies an annual additional special property tax of 1.75 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at the Government Development Bank for Puerto Rico, fiscal agent, whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual and semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

As more fully described in Note 4, the Municipality impose and collect sales and uses taxes of one point five (1.5) percent, of which the Municipality has elected to restrict a portion amounting .4% for the payment of long-term bonds. The collections of this sales and use tax are recorded in the Municipality's debt service fund.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2011:

| | <u>Outstanding balance</u> |
|--|---------------------------------------|
| <u>General Obligation and Public Improvement Bonds:</u> | |
| 1995 serial bonds (face amount of \$1,430,000) due in annual principal installments ranging from \$25,000 to \$140,000; plus interests due in semiannual installments at variable rates (7.7% at June 30, 2011) through July, 1, 2014. | \$ 500,000 |
| 1995 serial bonds (face amount of \$235,000) due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannual installments at variable rates (6.23% at June 30, 2011) through July, 1, 2014. | 90,000 |
| 1997 serial bonds (face amount \$300,000) due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannual installments at variable rates (5.94% at June 30, 2011) through July, 1, 2017. | 160,000 |

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| | |
|--|-----------|
| 1998 serial bonds (face amount \$205,000) due in annual principal installments ranging from \$10,000 to \$20,000; plus interests due in semiannual installments at variable rates (5.94% at June 30, 2011) through July 1, 2013. | 60,000 |
| 1998 serial bonds (face amount \$405,000) due in annual principal installments ranging from \$5,000 to \$40,000; plus interests due in semiannual installments at variable rates (4.4% at June 30, 2011) through July 1, 2024. | 315,000 |
| 2001 serial bonds (face amount of \$2,015,000) due in annual principal installments ranging from \$30,000 to \$165,000; plus interests due in semiannual installments at variable rates (4.4% at June 30, 2011) through July 1, 2026. | 1,635,000 |
| 2002 serial bonds (face amount of \$810,000) due in annual principal installments ranging from \$15,000 to \$60,000; plus interests due in semiannual installments at variable rates (4.4% at June 30, 2011) through July 1, 2027. | 665,000 |
| 2004 serial bonds (face amount of \$10,000,000) due in annual principal installments ranging from \$144,000 to \$550,000; plus interests due in semiannual installments at fixed rate of 6% through July 1, 2029. | 7,234,000 |
| 2006 serial bonds (face amount of \$310,000) due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2011) through July 1, 2031. | 290,000 |
| 2006 serial bonds (face amount of \$1,010,000) due in annual principal installments ranging from \$15,000 to \$80,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2011) through July 1, 2031. | 935,000 |
| 2008 serial bonds (face amount of \$370,000) due in annual principal installments ranging from \$5,000 to \$35,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2011) through July 1, 2032. | 355,000 |
| 2008 serial bonds (face amount of \$1,660,000) due in annual principal installments ranging from \$20,000 to \$135,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2011) through July 1, 2032. | 1,585,000 |

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| | |
|---|-----------------------------|
| <p>2009 serial bonds (face amount of \$910,000) due in annual principal installments ranging from \$15,000 to \$75,000; plus interests due in semiannual installments at variable rates (7% at June 30, 2011) through July 1, 2034.</p> | 895,000 |
| <p>2009 serial bonds (face amount of \$190,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannual installments at variable rates (7% at June 30, 2011) through July 1, 2033.</p> | 180,000 |
| <p>2009 serial bonds (face amount of \$1,317,000) due in annual principal installments ranging from \$21,000 to \$112,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2011) through July 1, 2033.</p> | 1,274,000 |
| <p>2009 serial bonds (face amount of \$791,000) due in annual principal installments ranging from \$10,000 to \$66,000; plus interests due in semiannual installments at variable rates (7.5% at June 30, 2011) through July 1, 2033.</p> | 766,000 |
| <p>2010 serial bonds (face amount of \$705,000) due in annual principal installments ranging from \$10,000 to \$60,000; plus interests due in semiannual installments at variable rates (7.5% at June 30, 2011) through July 1, 2034.</p> | 695,000 |
| <p>2011 serial bonds (face amount of \$165,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannual installments at variable rates (7.5% at June 30, 2011) through July 1, 2035.</p> | 165,000 |
| <p>2011 serial bonds (face amount of \$410,000) due in annual principal installments ranging from \$45,000 to \$75,000; plus interests due in semiannual installments at variable rates (7.5% at June 30, 2011) through July 1, 2017.</p> | 410,000 |
| <p>2011 serial bonds (face amount of \$260,000) due in annual principal installments ranging from \$5,000 to \$25,000; plus interests due in semiannual installments at variable rates (7.5% at June 30, 2011) through July 1, 2035.</p> | 260,000 |
| <p>2011 serial bonds (face amount of \$2,095,000) due in annual principal installments ranging from \$25,000 to \$175,000; plus interests due in semiannual installments at variable rates (7.5% at June 30, 2011) through July 1, 2035.</p> | <u>2,095,000</u> |
| <p>Total bonds payable</p> | <u><u>\$ 20,564,000</u></u> |

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

Interest expense on bonds payable amounted to \$880,067 for the fiscal year ended June 30, 2011. Annual debt service requirements of maturity for bonds payable are as follows:

| Fiscal year ending June 30, | Principal | Interest | Total |
|--|----------------------|-------------------|----------------------|
| 2012 | \$ 752,835 | 1,106,075 | \$ 1,858,910 |
| 2013 | 801,835 | 1,278,162 | 2,079,997 |
| 2014 | 849,835 | 1,225,949 | 2,075,784 |
| 2015 | 894,835 | 1,170,108 | 2,064,943 |
| 2016 | 764,835 | 1,117,782 | 1,882,617 |
| 2017-2021 | 4,182,175 | 4,835,305 | 9,017,480 |
| 2022-2026 | 5,269,175 | 3,388,903 | 8,658,078 |
| 2027-2031 | 4,685,475 | 1,623,350 | 6,308,825 |
| 2032-2036 | 2,363,000 | 354,750 | 2,717,750 |
| Totals | <u>\$ 20,564,000</u> | <u>16,100,384</u> | <u>\$ 36,664,384</u> |

c) Notes Payable to Municipal Revenue Collection Center

The Municipality had the following notes payables to Municipal Revenue Collection Center (CRIM, by its Spanish acronym) at June 30, 2011:

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

In addition, on February 12, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$777,082 of excess of property tax advances through fiscal year 2000 and 2001. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB. The outstanding principal balances of the note payable to CRIM amounted \$676,101, at June 30, 2011.

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

The original face amount of the note allocated by CRIM to the Municipality was \$413,005, for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest, except for property tax receivables collections related to the transaction explained in the above paragraph, which will be applied as principal payment to reduce the debt balance. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund. The outstanding principal of the note payable to CRIM amounted to \$346,925, at June 30, 2011.

- **Law No. 146 - Land Information Management System (LIMS)** – On July 10, 2001, the Municipality entered into a financing agreement with CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by CRIM on behalf of all municipalities, for the management of a digital database of taxpayers properties located in Puerto Rico. The face amount of the loan was \$311,367 and bears no interest. The note is payable in monthly installments of \$3,480 through November 28, 2011. The outstanding balance of the note payable to CRIM amounted to \$20,277, at June 30, 2011.

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

- **Line of credit for affordable cost housing units construction project** – On February 15, 2011 the Municipality obtained a line of credit (up to \$849,616) from the Puerto Rico Government Development Bank to finance the construction of affordable cost housing units. The line of credit available balance used for the project, plus interest accrued, will be payable with the proceed obtained from the sale of housing units to be constructed. Any deficiency will be paid with the general or debt service funds resources. At June 30, 2011, the balance of this line of credit amounted to \$77,439.

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e) Compensated Absences

At June 30, 2011, the government-wide statement of net assets – governmental activities includes a liability amounting \$1,295,110, of which \$794,024 represents accrued sick leave benefits, and \$501,086 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

11. Employees' Retirement Systems

a) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- *Retirement Annuity*

ERS members are eligible for a retirement annuity upon reaching the following age:

| | |
|--------------------------------------|--------------------------------------|
| Policemen and firemen: | Other employees: |
| 50 with 25 years of credited service | 55 with 25 years of credited service |
| 58 with 10 years of credited service | 58 with 10 years of credited service |

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

- *Merit Annuity*

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

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- ***Deferred Retirement Annuity***

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

- ***Coordinated Plan***

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- (a) \$165 per month, if retired with 55 years of age and 30 years of credited service.
- (b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.
- (c) All other between \$82 and \$100 per month.
- (d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

- ***Non-Coordinated Plan***

On the non-coordinated plan the participating employee and does not have any change on the pension benefits upon receiving social security benefits.

- ***Reversionary Annuity***

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.

- ***Occupational Disability Annuity***

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50 percent of the compensation received at the time of the disability.

- ***Nonoccupational Disability Annuity***

A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

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- *Death Benefits*

Occupational:

- (a) Surviving spouse – annuity equal to 50 percent of the participating employee’s salary at the date of the death.
- (b) Children - \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

Nonoccupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Post-retirement:

Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2005) of retiree’s pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$750.

- *Refunds*

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- *Cost of Living Adjustment for Pension Benefits*

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2005 are being financed by the Municipality and the other participating employers.

To avoid any economic impact on ERS, the employers are responsible for contributing to ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the participants covered until the participants reach the normal retirement age.

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Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the state government of the Commonwealth of Puerto Rico has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

- ***Recent Amendments to Act No. 447***

The Senate and the House of Representatives of the Commonwealth of Puerto Rico have the authority for establishing or amending the contribution requirements of System 2000 by approving the necessary amendments or laws, subject to the final approval of the Governor of the Commonwealth of Puerto Rico.

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In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2005.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2005.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2005.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from \$3,000 to \$5,000.

b) Funding Policy

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

| | |
|----------------------------------|---|
| Municipality and other employers | 9.28 percent of applicable payroll |
| Employees: | |
| Coordination plan: | 5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600. |
| Supplementation plan: | 8.28 percent of gross salary. This is the only choice available to policemen, firemen and mayors |

The contribution requirement to System 2000 is also established by law and is not actuarially determined. These contributions are as follows:

| | |
|----------------------------------|---|
| Municipality and other employers | 9.28 percent of applicable payroll |
| Employees: | 5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600. |

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c) Annual Contribution

The actual combined employer and employee contributions to ERS and System 2000 for the current and past two years, which are equal to the statutory required contributions, are as follows:

| Fiscal year ended June 30, | Act No. 447 | System 2000 | Total |
|---------------------------------------|--------------------|--------------------|---------------------|
| 2011 | \$ 259,924 | 279,182 | \$ 539,106 |
| 2010 | 277,640 | 275,655 | 553,295 |
| 2009 | 289,871 | 285,209 | 575,080 |
| Totals | \$ 827,435 | 840,046 | \$ 1,667,481 |

During the fiscal years ended June 30, 2009, 2010, and 2011, the Municipality and the participating employees contributed at least 100 percent of the required contributions to ERS and System 2000. The authority under which obligations to contribute to ERS and System 2000 by the plans' members, employers and other contributing entities (i.e., state or municipal contributions) are established or may be amended by law by the House of Representatives, the Senate and the Governor of the Commonwealth of Puerto Rico.

Readers can obtain copies of the audited basic financial statements (GAAP basis) of ERS and System 2000 by writing to Mr. Hector M. Mayol Kauffmann, Executive Director of the Retirement Systems Administration of the Commonwealth of Puerto Rico (the entity that administers ERS and System 2000) at PO Box 42004, Minillas Station, Santurce, Puerto Rico 00940.

12. Commitments, Contingencies and Uncertainties

Encumbrances

The Municipality has reported, outstanding encumbrances amounting to \$50,163 in the general fund at June 30, 2011. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

Claims and Judgments

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

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The Municipality also is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities. With respects to pending or threatened litigation, the Municipality has reported no liabilities as of June 30, 2011. Management believes, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

Federal Financially Assisted Programs

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

13. Fund Balance

As of June 30, 2011, fund balance (deficit) is comprised of the following:

| Fund balances (deficit) | General fund | Special revenue fund - federal grants | Capital's project fund - state & local grants | Debt service fund | Other nonmajor funds | Total |
|--------------------------------------|-------------------------|--|--|----------------------------------|-------------------------------------|----------------------|
| <i>Restricted for:</i> | | | | | | |
| General government | \$ 124,433 | - | - | - | - | \$ 124,433 |
| Health and welfare | - | - | - | - | 166,774 | 166,774 |
| Public works | - | - | 270,437 | - | 407,601 | 678,038 |
| Public safety | - | - | - | - | - | - |
| Culture and recreation and education | - | - | 1,311,474 | - | 82,777 | 1,394,251 |
| Community development | - | - | 1,163,187 | - | - | 1,163,187 |
| Urban and economic development | - | - | 4,365,441 | - | 24,998 | 4,390,439 |
| Debt service | - | - | - | 3,462,628 | - | 3,462,628 |
| <i>Committed to:</i> | | | | | | |
| General government | 9,915 | - | - | - | 26,885 | 36,800 |
| Health and welfare | 308 | - | - | - | 1,911 | 2,219 |
| Public works | 23,438 | - | 453,949 | - | 24,599 | 501,986 |
| Public safety | 1,730 | - | - | - | - | 1,730 |
| Culture and recreation and education | 14,176 | - | - | - | - | 14,176 |
| Community development | 486 | - | - | - | - | 486 |
| Urban and economic development | 110 | - | - | - | 86,731 | 86,841 |
| <i>Unassigned</i> | 1,497,695 | - | - | - | - | 1,497,695 |
| Total fund balances (deficit) | \$ 1,672,291 | - | 7,564,488 | 3,462,628 | 822,276 | \$ 13,521,683 |

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Fiscal Year Ended June 30, 2011

14. Subsequent Events

On June 16, 2011, the Legislature of the Commonwealth of Puerto Rico issued Act No. 94, which established an incentive plan for the payment of real and personal property taxes due, beginning on July 14, 2011. This Act provides a tax relief for the payment of real and personal property taxes eliminating accrued interest, penalties and charges over unpaid principal of past due property tax liability. The period that taxpayers have to enjoy for such benefits is for exactly ninety (90) days beginning on July 14 through October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal years 2009-2010 and earlier (for real property taxes) and for years 2008 and earlier for personal property taxes. Also, To get the benefit of this Act, it is required that the property taxes for the fiscal year 2010-2011 and for the first semester 2011-2012 are paid.

End of Notes to Basic Financial statements

**Required Supplementary Information
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2011**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
 Budgetary Comparison Schedule – General Fund
 (See Notes to Budgetary Comparison Schedule)
 Fiscal Year Ended June 30, 2011

| | <u>Budgeted amounts</u> | | <u>Actual amounts (budgetary basis)</u> | <u>Variance with final budget – over (under)</u> |
|--|-------------------------|-------------------|---|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Property taxes | \$ 2,633,531 | 2,633,531 | 2,614,022 | \$ (19,509) |
| Municipal license taxes | 1,310,519 | 1,310,519 | 1,102,530 | (207,989) |
| Sales and use taxes | 1,121,600 | 1,121,600 | 776,609 | (344,991) |
| Construction excise taxes | 527,600 | 527,600 | 880,898 | 353,298 |
| Intergovernmental grants and contributions | 6,445,825 | 6,445,825 | 6,396,907 | (48,918) |
| Interest on deposits | 50,000 | 50,000 | 156,242 | 106,242 |
| Charges for services | 136,800 | 136,800 | 191,620 | 54,820 |
| Miscellaneous | 360,000 | 360,000 | 373,466 | 13,466 |
| Total revenues | <u>12,585,875</u> | <u>12,585,875</u> | <u>12,492,294</u> | <u>(93,581)</u> |
| Expenditures and encumbrances: | | | | |
| General government | 5,753,872 | 5,574,969 | 5,528,400 | 46,569 |
| Health and welfare | 1,062,887 | 1,025,039 | 971,919 | 53,120 |
| Public works | 3,756,460 | 3,799,575 | 3,704,706 | 94,869 |
| Public safety | 546,663 | 547,706 | 545,962 | 1,744 |
| Culture, recreation and education | 758,240 | 915,691 | 883,721 | 31,970 |
| Community development | 193,305 | 206,360 | 189,525 | 16,835 |
| Urban and economic development | 116,578 | 118,665 | 108,593 | 10,072 |
| Total expenditures | <u>12,188,005</u> | <u>12,188,005</u> | <u>11,932,826</u> | <u>255,179</u> |
| Revenues over (under) expenditures and encumbrances | <u>397,870</u> | <u>397,870</u> | <u>559,468</u> | <u>161,598</u> |
| Other financing sources (uses): | | | | |
| Transfer to other governmental funds | (397,870) | (397,870) | (397,870) | - |
| Total other financing sources (uses) | <u>(397,870)</u> | <u>(397,870)</u> | <u>(397,870)</u> | <u>-</u> |
| Net increase (decrease) in fund balance (deficit) | <u>\$ -</u> | <u>-</u> | <u>161,598</u> | <u>\$ 161,598</u> |

Reconciliation of differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations"
 from the budgetary comparison schedule

\$ 12,492,294

Differences - budgetary basis to GAAP:

Differences in bases of accounting:

GAAP adjustments to revenues

(41,553)

Total revenues reported on the statement of

revenues, expenditures and changes in fund balances

\$ 12,450,741

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
 Budgetary Comparison Schedule – General Fund (Continued)
 (See Notes to Budgetary Comparison Schedule)
 Fiscal Year Ended June 30, 2011

Reconciliation of differences (concluded):

Uses/outflows of financial resources:

| | |
|---|---------------|
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule (including transfer out to other funds) | \$ 12,330,696 |
|---|---------------|

Timing differences:

| | |
|---|----------|
| Current year encumbrances recorded as expenditures for budgetary purposes | (50,163) |
|---|----------|

| | |
|--|--------|
| Prior year encumbrances recorded as expenditures for GAAP purposes | 60,033 |
|--|--------|

Entity differences

| | |
|---------------------------|---------|
| Non-budgeted expenditures | 144,208 |
|---------------------------|---------|

| | |
|--|---------------|
| Total expenditures and transfer out to other funds as reported on the statement of revenues, expenditures and changes in fund balances | \$ 12,484,774 |
|--|---------------|

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2011

A. BUDGETARY CONTROL

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2011 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2011.

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2011**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2011

| Federal Grantor/Pass-through Grantor/ Program or Cluster Title | CFDA Number | Entity Identifying Number | Federal Expenditures |
|--|----------------|---------------------------------|-------------------------|
| U.S. Department of Agriculture: | | | |
| Direct Program: | | | |
| Rural Housing Preservation Grant Program | 10.433 | | \$ 11,388 |
| Pass-through the Department of Education of the Commonwealth of Puerto Rico: | | | |
| Child and Adult Care Food Program | 10.558 | N/AV | <u>14,917</u> |
| Subtotal – US Department of Agriculture | | | <u>26,305</u> |
| U.S. Department of Housing and Urban Development: | | | |
| Direct Programs: | | | |
| Section 8 Housing Choice Voucher | 14.871 | | 278,346 |
| Affordable Housing Development in Main Street Rejuvenation Projects | 14.878 | | 55,069 |
| Pass-through the Office of the Commissioner of Municipal Affairs of the Commonwealth of Puerto Rico | | | |
| Community Development Block Grants – State’s Program | 14.228 | N/AV | 1,421,757 |
| Community Development Block Grants – ARRA State’s Program - (Recovery Act Funded) | 14.255 | N/AV | <u>203,572</u> |
| Total – CDBG – State’s Grants Cluster | | | <u>1,625,329</u> |
| Pass-through the Department of the Family of the Commonwealth of Puerto Rico: | | | |
| Homeless Prevention and Rapid Re-housing Program – (Recovery Act Funded) | 14.262 | N/AV | 245,340 |
| Pass-through the Department of Public Housing of the Commonwealth of Puerto Rico: | | | |
| Public and Indian Housing | 14.850 | N/AV | <u>469,993</u> |
| Subtotal – US Department of Housing and Urban Development | | | <u>2,674,077</u> |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Expenditures of Federal Awards (Continued)
Fiscal Year Ended June 30, 2011

| Federal Grantor/Pass-through Grantor/ Program or Cluster Title | CFDA Number | Entity Identifying Number | Federal Expenditures |
|--|----------------|---------------------------------|-------------------------|
| U.S. Department of Justice: | | | |
| Direct Program: | | | |
| Public Safety Partnership and Community Policing Grants (Recovery Act Funded) | 16.710 | | 43,405 |
| Subtotal – US Department of Justice | | | 43,405 |
| U.S. Department of Energy: | | | |
| Direct Program: | | | |
| Energy Efficiency and Conservation Block Grant Program (Recovery Act Funded) | 81.128 | | 72,296 |
| Subtotal – US Department of Energy | | | 72,296 |
| U.S. Department of Education: | | | |
| Pass-through the Department of Education of the Commonwealth of Puerto Rico: | | | |
| Twenty-First Century Community Learning Centers | 84.287 | N/AV | 37,589 |
| Subtotal – US Department of Education | | | 37,589 |
| U.S. Department of Health and Human Services: | | | |
| Pass-through the Governor's Office for Elderly Affairs of the Commonwealth of Puerto Rico: | | | |
| Special Program for Aging – Title III - Part D – Disease Prevention and Health Services | 93.043 | N/AV | 3,758 |
| Special Program for Aging – Title III - Part B – Grant for Supportive Services and Senior Centers | 93.044 | N/AV | 68,071 |
| National Family Caregiver Support – Title III – Part E | 93.052 | N/AV | 8,601 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Expenditures of Federal Awards (Continued)
Fiscal Year Ended June 30, 2011

| Federal Grantor/Pass-through Grantor/ Program or Cluster Title | CFDA Number | Entity Identifying Number | Federal Expenditures |
|--|----------------|---------------------------------|----------------------------|
| U.S. Department of Health and Human Services: | | | |
| Pass-through the Department of the Family of the Commonwealth of Puerto Rico: | | | |
| Child Care and Development Block Grant | 93.575 | N/AV | 302,440 |
| Child Care and Development Block Grant – ARRA Funds (Recovery Act Funded) | 93.713 | N/AV | <u>10,445</u> |
| Total – Child Care and Development Block Grants Cluster | | | <u>312,885</u> |
| Family Violence Prevention and Services | 93.591 | N/AV | 41,541 |
| Pass-through the Office of the Ombudsman for Persons with Disabilities of the Commonwealth of Puerto Rico: | | | |
| Development Disabilities Basic Support and Advocacy Grants | 93.630 | N/AV | 11,743 |
| Pass-through the Department of the Health of the Commonwealth of Puerto Rico: | | | |
| Assistance Program for Chronic Disease Prevention and Control | 93.945 | N/AV | <u>11,026</u> |
| Subtotal – US Department of Health and Human Services | | | <u>457,625</u> |
| U.S. Department of Homeland Security: | | | |
| Pass-through the Emergency Management Agency of the Commonwealth of Puerto Rico: | | | |
| Pre-Disaster Mitigation Competitive Grants | 97.017 | | 16,000 |
| Emergency Management Performance Grant | 97.042 | | 306 |
| Pass-through the Governor’s Authorized Representative Office (GAR) of the Commonwealth of Puerto Rico: | | | |
| Disaster Grants – Public Assistance | 97.036 | | 43,489 |
| Pass-through the Governor’s Office for Public Security Affairs of the Commonwealth of Puerto Rico: | | | |
| State Homeland Security Grant Program | 97.073 | | <u>14,216</u> |
| Subtotal – US Department of Homeland Security | | | <u>74,011</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 3,385,308</u> |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Notes to Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality of Coamo, Commonwealth of Puerto Rico (the Municipality) for the fiscal year ended June 30, 2011. The Municipality's reporting entity is disclosed in Note 1 to the Municipality's basic financial statements as of and for the fiscal year ended June 30, 2011.

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

NOTE B - FEDERAL CFDA NUMBER

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

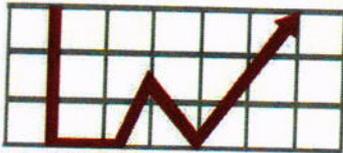
NOTE C - PASS - THROUGH GRANTOR'S NUMBER

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

NOTE D - PASS - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

| Description | Special Revenue Fund-Federal Grants | Other Governmental Funds | Total |
|---|---|--------------------------------|--------------------|
| Per Schedule of Expenditures of Federal Awards | \$3,106,962 | \$278,346 | \$3,385,308 |
| Nonfederal programs Expenditures and other Adjustments | 77,440 | 419,300 | 496,740 |
| Total expenditures in the fund financial statements | <u>\$3,184,402</u> | <u>\$697,646</u> | <u>\$3,882,048</u> |



López-Vega, CPA, PSC

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- Puerto Rico Society of Certified Public Accountants

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, 2011, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated March 16, 2012, 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 **11-01** 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

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 **11-02** 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 March 16, 2012.

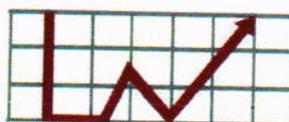
The **Municipality of Coamo's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Coamo's** response and, accordingly, we express no opinion on it.

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
March 16, 2012

Stamp No. 2575531 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



López-Vega, CPA, PSC

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 could have a direct and material effect on each of the **Municipality of Coamo's** major federal programs for the year ended June 30, 2011. The **Municipality of Coamo's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Coamo's** management. Our responsibility is to express an opinion on the **Municipality of Coamo's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other 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 THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

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 of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Coamo's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies 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 deficiencies 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 as items **10-03** and **10-04** to be significant deficiencies.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

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 the responses.

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 16, 2012.

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
March 16, 2012

Stamp No. 2575532 of the Puerto Rico
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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2011

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 |
|-------------|---|
| | CDBG—State-Administered Small Cities Program Cluster |
| 14.228 | Community Development Block Grants – State’s Program |
| 14.255 | Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – (Recovery Act Funded) (State-Administered Small Cities Program) |
| 14.850 | Public and Indian Housing |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2011

| | |
|--------|---|
| 93.575 | CCDF- Cluster |
| | Child Care and Development Block Grant |
| 93.713 | Child Care and Development Block Grant – ARRA Funds (Recovery Act Funded) |

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2011

Section II – Financial Statements Findings

Finding Reference **11-01**

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, 2012

Responsible Person: Mr. Julio Acevedo
Finance Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2011

Section II – Financial Statements Findings

Finding Reference 11-02

Requirement **Financial Reporting – Accounting Records**

Statement of Condition During our examination of the Municipality’s accounting system, we noted that the accounting data still require several reporting adjustments in order to present the Municipality’s financial statements in the modified accrual basis of accounting. Also, the accounting data require several reporting adjustments to produce government wide financial statements.

The Municipality hires the professional services of local accounting firms to perform the required adjustment entries to present properly the modified basis financial statements and compile the necessary information to convert its accounting records from modified basis to accrual basis as required by GAAP and Law No. 81.

Criteria Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991 states that the accounting management system established in the Municipality should provide adequate and effective financial information for management decisions and on accordance with GAAP.

Cause of Condition The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data does not provide adequate and effective financial information to generate the basic financial statement.

Effect of Condition The Municipality’s accounting data did not provide update and complete financial information that present the financial position and the result of operations and the change in fund balances as is presented in the basic financial statements.

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)
Fiscal Year Ended June 30, 2011

Section II – Financial Statements Findings

Finding Reference **11-02 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

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 Municipality’s Financial Department staff fiscal has been the best effort to record transactions based on the modified accrual basis of accounting, in order to provide 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.

With respect of the issue of state, local and federal grants grouping for fund financial reporting purposes, we will solve this issue with the implementation of an actualized version of the accounting software.

Implementation Date: June 30, 2012

Responsible Person: Mr. Julio Acevedo
Finance Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2011

Section III – Mayor Federal Award Program Finding and Questioned Cost

| | |
|-------------------------------|---|
| Finding Reference | 11-03 |
| 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) Community Development Block Grants – ARRA State’s Program (Recovery Act Funded) (CFDA No. 14.225); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM) |
| Requirement | Allowable Activities |
| Statement of Condition | We performed a housekeeper activities test of ten (10) participant’s files and found the following exceptions: 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 | Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Municipality has an operational guide that includes all procedures and program’s requirements for housekeeper activities. |
| Cause of Condition | The Municipality’s controls and procedures failed to assure that the participant’s files include all the required documents to comply with the program requirements. |
| Effect of Condition | The Municipality is not in compliance with the Code of Federal Regulations 24, Section 570.484 and with the operational guide. |
| Recommendation | 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. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2011

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **11-03 (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. Also, it is important to comment that from the total award expended during the fiscal year 2010-2011 from CDBG Program activities (\$1,625,329 per Schedule of Federal Expenditures), approximately \$80,452 were costs incurred to finance the housekeeping project activities, including salaries and fringe benefits of the housekeepers engaged to provide housekeeping services to eligible Program participants.

Implementation Date: June 30, 2012

Responsible Person: Mr. Cristóbal Bonilla
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|--|
| Finding Reference | 11-04 |
| 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) Community Development Block Grants – ARRA State’s Program (Recovery Act Funded) (CFDA No. 14.225); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM) |
| Requirement | Cash Management |
| Statement of Condition | During our Cash Management test, we examined eleven (11) cash advances received by the program during the fiscal year 2010-2011. The following summarizes the situations found: a) In eight (8) requisitions of funds (a total of \$795,058.17), we observed that the Municipality made the disbursements between seven (7) to forty two (42) days after the deposits. b) Also, the Community Development Block Grant-State Program cash account maintained a monthly average cash balance of \$58,380 in books. |
| Criteria | Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee. |
| Cause of Condition | The Municipality’s disbursements procedures failed to assure that funds requested and received from the Pass-through Grantor be disbursed in compliance with the Code of Federal Regulations Requirements. |
| Effect of Condition | The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c). |
| Recommendation | We recommend management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the pass-through grantor and the disbursements made by the Municipality. |
| Questioned Costs | None |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-04 (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 30, 2012

Responsible Person: Mr. Cristóbal Bonilla
Federal Program Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-05**

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)**

Community Development Block Grants – ARRA State’s Program (Recovery Act Funded) (CFDA No. 14.225); 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 11-01**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Summary Schedule of Prior Years Audit Findings
Fiscal Year Ended June 30, 2011

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133) |
|-------------------------|----------|--|
| 10-03 | 14.228 | <p><u>We performed a housekeeping activities test of ten (10) participant's files and found the following exceptions: a) 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-03</p> |
| 10-04 | 14.228 | <p><u>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: We noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, the Community Development Block Grant-State Program cash account maintained a monthly average cash balance of \$44,362 in books.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-04</p> |
| 10-05 | 14.228 | <p><u>Section II – Financial Statements Findings – Finding Reference 10-01</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-05</p> |
| 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 11-03.</p> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Summary Schedule of Prior Years Audit Findings (Continued)
Fiscal Year Ended June 30, 2011

| | | |
|-------|--------|---|
| 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 11-05</p> |
| 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>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 Years Audit Findings (Continued)
Fiscal Year Ended June 30, 2011

| | | |
|-------|--------|---|
| 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>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> |
| 08-05 | 14.228 | <p><u>Section II – Financial Statements Findings – Finding Reference 08-01</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> |