

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

**MUNICIPIO DE COAMO  
AUDITORÍA 2011-2012  
30 DE JUNIO DE 2012**

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF COAMO**

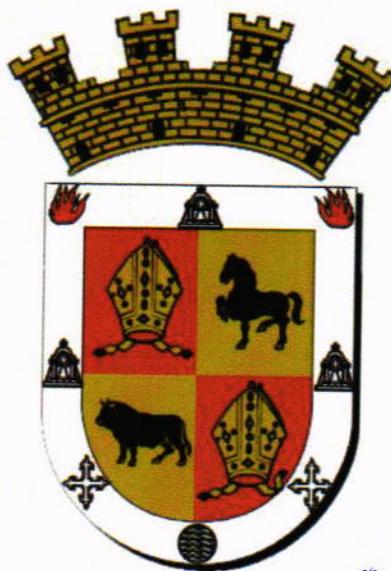
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**BASIC FINANCIAL STATEMENTS  
WITH ADDITIONAL REPORTS AND  
INFORMATION REQUIRED BY THE  
SINGLE AUDIT ACT**

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**Year Ended June 30, 2012**

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Oficina de Asesoría Municipal  
de Asesoría Municipal

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, 2012

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**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

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

### **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Coamo, Puerto Rico (Municipality)** as of and for the year ended June 30, 2012, 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 previously 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, 2012, 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, 2012, 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 15, 2013, 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 70 to 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Coamo's** financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 15, 2013

Stamp No. 2632103 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

**Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

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, 2012. 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, 2011. 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 2011-2012 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 \$20,128,724 or thirty nine percent (39%) of total assets.
- The Municipality's Governmental Activities total Net Assets decreased by \$1,064,266 or five (5%) from the prior fiscal year-end balance.
- At the end of fiscal year 2012, total liabilities of the Municipality Governmental Activities amounted to \$31,310,579. Out of said amount, \$27,033,250 corresponded to long-term liabilities of which \$22,241,165 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 \$13,970,518 or \$448,835 over the similar figure corresponding to the previous fiscal year 2010-2011.

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Management's Discussion and Analysis (Continued)  
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- At the end of the current fiscal year, the fund balance of the Municipality's General Fund amounted to \$1,731,049, or \$58,758 more than the previous fiscal year.
- The actual General Fund budgetary activities resulted in an unfavorable balance of \$280,349.

**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, 2012. 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, 2012. 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 (Continued)  
Fiscal Year Ended June 30, 2012

**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, 2012, 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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Fiscal Year Ended June 30, 2012

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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**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2012

**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 \$20,128,724 at the end of 2012, as compared with \$21,192,990 at the end of the previous year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$1,064,266 decrease reflected in the governmental activities Net Assets figure.

	Governmental activities	
	June 30, 2012	June 30, 2011
<b>Assets:</b>		
Current assets	\$ 20,283,574	\$ 16,617,100
Non-current assets:		
Capital assets, net	31,155,729	30,971,538
Total assets	<u>51,439,303</u>	<u>47,588,638</u>
<b>Liabilities:</b>		
Current liabilities, excluding long-term obligations	4,277,329	3,415,796
Long-term obligations:		
Due within one year	3,457,942	982,806
Due after one year	23,575,308	21,997,046
Total liabilities	<u>31,310,579</u>	<u>26,395,648</u>
<b>Net assets (deficit):</b>		
Invested in capital assets, net of related debt	16,048,817	17,824,099
Restricted	11,933,202	11,529,013
Unrestricted	(7,853,295)	(8,160,122)
Total net assets	<u>\$ 20,128,724</u>	<u>\$ 21,192,990</u>

The Statement of Activities reflects that for fiscal year 2012, the revenues derived from several programs plus current operating revenues, when compared to total expenses, represent a net decrease amounted to (\$1,064,266) in governmental activities net assets. Approximately thirty six percent (36%) of the Municipality's governmental activities total revenue came from taxes, while fifty seven percent (57%) 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2012

Approximately twenty six percent (26%) of total expenses resulted from general government, five percent (5%) of total expenses resulted from urban and economic development, eleven percent (11%) of total expenses resulted from health and welfare, five percent (5%) of total expenses resulted from public safety, twenty eight percent (28%) of total expenses resulted from public works, twelve percent (12%) of total expenses resulted from culture, recreation and education, nine percent (9%) of total expenses resulted from community development, while four percent (4%) 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, 2012 and 2011:

	<b>Governmental activities</b>	
	<b>June 30, 2012</b>	<b>June 30, 2011</b>
<b>Program revenues:</b>		
Program-specific operating grants and contributions	\$ 2,511,458	\$ 2,216,286
Program-specific capital grants and contributions	3,049,229	2,699,114
Charges for services	440,970	398,777
Total program revenues	<u>6,001,657</u>	<u>5,314,177</u>
<b>General revenues:</b>		
Property taxes	4,334,307	3,976,106
Municipal license taxes	1,157,468	1,102,530
Sales and use taxes	1,617,353	880,898
Construction excise taxes	245,571	1,311,771
Unrestricted grants and contributions	6,123,642	5,860,823
Other general revenues (various sources)	1,102,331	923,021
Total general revenues	<u>14,580,672</u>	<u>14,055,149</u>
Total revenues	<u>20,582,329</u>	<u>19,369,326</u>
<b>Program expenses:</b>		
General government	5,530,364	5,539,674
Health and welfare	2,464,142	1,999,573
Public works	6,278,708	4,499,223
Public safety	974,844	1,110,120
Culture, recreation and education	2,573,249	1,839,825
Community development	1,906,992	2,579,773
Urban and economic development	1,048,621	764,162
Interest on long-term obligations	869,675	880,067
Total expenses	<u>21,646,595</u>	<u>19,212,417</u>
<b>Net increase (decrease) in net assets</b>	(1,064,266)	156,909
<b>Net assets, at beginning of fiscal year</b>	21,192,990	21,036,081
<b>Net assets, at end of fiscal year</b>	<u>\$ 20,128,724</u>	<u>\$ 21,192,990</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2012

**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 \$13,970,518, which represents an increase of \$448,835 when compared with the prior year. Out of the indicated balance, \$11,613,945 was restricted for the following purposes: (1) to liquidate statutory debts (\$1,622); 2) to pay for capital projects (\$6,771,751); 3) for debt service payments (\$4,472,156); and 4) for other purposes (\$368,416). Also, \$631,632 were committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$4,486); 2) to pay for capital projects (\$371,154); and 3) for other purposes (\$255,992). As of June 30, 2012, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund balance of \$1,724,941.

The following table presents the condensed financial position of governmental funds at June 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
<b>Assets:</b>		
Total assets - major governmental funds	\$ 18,785,068	\$ 16,912,689
Total assets - other governmental funds	1,021,385	1,050,019
Combined total assets	19,806,453	17,962,708
<b>Liabilities:</b>		
Total liabilities - major governmental funds	5,438,958	4,213,282
Total liabilities - other governmental funds	396,977	227,743
Combined total liabilities	5,835,935	4,441,025
<b>Fund balances (deficits):</b>		
Restricted - major governmental funds	11,245,529	10,697,600
Restricted - other governmental funds	368,416	682,150
Committed - major governmental funds	375,640	504,112
Committed - other governmental funds	255,992	140,126
Unassigned - major governmental funds	1,724,941	1,497,695
Combined total fund balances	13,970,518	13,521,683
<b>Total liabilities and fund balances</b>	<b>\$ 19,806,453</b>	<b>\$ 17,962,708</b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2012

**Major Governmental Funds**

**General fund (GF)** – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$3,387,095 at June 30, 2012. Such assets consist principally of: (1) cash in commercial banks (\$900,178), (2) restricted cash with fiscal agent (\$1,622), (3) sales and use tax receivables (\$84,662), (4) interest receivables (\$23,599), (5) short-term amounts due from other funds (\$1,925,019), and (6) due from governmental entities (\$452,015).

The GF's total liabilities amounted to \$1,656,046 at June 30, 2012. Such liabilities are composed mainly of: (1) deferred revenues (\$775,165), and (2) accounts payable and accrued liabilities, including amounts due to other governments (\$880,881).

At the end of the current fiscal year, restricted fund balance reached \$1,622, committed fund balance reached \$4,486, and unassigned fund balance of the GF amounted to \$1,724,941, while total fund balance reached \$1,731,049.

**Special revenue fund – federal grants (SRF-FG)**- The SRF-FG's total assets amounted to \$1,709,385 at June 30, 2012, which consist of cash in commercial banks (\$925,887), cash with fiscal agent (\$380,483), and receivables from intergovernmental grants and contributions (\$403,015). The SRF-FG's total liabilities amounted to \$1,709,385 at June 30, 2012, which are composed mainly of accounts payable and accrued liabilities (\$36,764), short-term amounts due to other funds (\$1,056,302), and deferred revenue (\$616,319).

**Capital projects fund – state and local grants (CPF-S&LG)**- The CPF-S&LG's total assets amounted to \$9,216,432 at June 30, 2012, which consist of cash in commercial banks (\$2,075,207), cash with fiscal agent (\$6,271,483), and due from governmental entities (\$869,742). The CPF-S&LG's total liabilities amounted to \$2,073,527 at June 30, 2012, which are composed mainly of accounts payable and accrued liabilities (\$1,569,490), and short-term amounts due to other funds (\$504,037). At the end of the current fiscal year, restricted fund balance reached \$6,771,751, and committed fund balance reached \$371,154, while total fund balance reached \$7,142,905.

**Debt service fund (DSF)**- The DSF's total assets amounted to \$4,472,156 at June 30, 2012, which consist mainly of cash with fiscal agent (\$4,250,711). At the end of the current fiscal year, DSF's total and restricted fund balance reached \$4,472,156.

**Other governmental funds (OGF)**- The OGF's total assets amounted to \$1,021,385 at June 30, 2012, which consist mainly of cash and cash equivalents (\$888,366), cash in fiscal agent (\$4,286), and receivables from intergovernmental grants and contributions (\$128,733). The OGF's total liabilities amounted to \$396,977 at June 30, 2012, which are mainly composed of accounts payable and accrued liabilities (\$32,297) and short-term amounts due to other funds (\$364,680). At the end of the current fiscal year, OGF's restricted fund balance reached \$368,416, committed fund balance reached \$255,992, while total fund balance reached \$1,021,385.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2012

*Analysis of Operating Results of Governmental Funds*

**Major Governmental Funds**

**General fund** – The total fund balance of the GF increased by \$58,758 during current fiscal year, principally due to the effect of the implementation of several budgetary economic measures in order to reduce the expenditures level. Total revenues, expenditures and other financing sources (net) amounted to \$13,031,692, \$11,935,633, and (\$1,037,301), respectively, for the fiscal year ended June 30, 2012.

Approximately 41% (\$5,364,657) 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% (\$6,699,746) resulted from intergovernmental grants and contributions. Interest revenues, charges for services and miscellaneous revenues, amounting to \$967,289, provided 7% of the total revenues for the current fiscal year.

The expenses of the GF for the fiscal year ended June 30, 2012 were related to: (1) general administrative and operating costs (\$5,420,506), which were classified as "general government" and accounted for 45% of total expenses, (2) health and welfare (\$547,764), which accounted for 5% percent of total expenses, (3) public works (\$3,671,642), which accounted for 31% of total expenses, (4) public safety (\$894,870), which accounted for 7% of total expenses, (5) culture, recreation and education (\$752,155), which accounted for 6% of total expenses, (6) community development (\$133,051), which accounted for 1% of total expenses, and (7) urban and economic development (\$515,645), which accounted for 4% of total expenses.

**Special revenue fund – federal grants (SRF-FG)**- The total revenues of the SRF-FG for the current fiscal year amounted to \$2,922,477. Total expenditures amounted to \$2,933,279 for the fiscal year ended June 30, 2012.

SRF-FG's total expenditures for the current fiscal year came from health and welfare (\$1,541,894), public works (\$138,649), public safety (\$76,663), community development (\$1,162,292), and urban and economic development (\$13,781).

**Capital projects fund – state and local grants (CPF-S&LG)**- The total fund balance of the CPF-S&LG decreased by \$421,583 during current fiscal year. Also, during the current fiscal year the CPF-S&LG accounted for proceed from debt issuance amounted to \$4,471,994 to pay for capital project costs. Total expenditures amounted to \$7,092,776 for the fiscal year ended June 30, 2012.

CPF-S&LG's total expenditures for the current fiscal year came principally from public works (\$2,011,845), culture, recreation and education (\$1,507,436), community development (\$2,945,787), and urban and economic development (\$619,932).

**Debt service fund (DSF)** – The total fund balance of the DSF increased by \$1,009,528 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$1,990,042, \$1,636,622 and \$656,108, respectively, for the fiscal year ended June 30, 2012.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2012

Approximately 67% (\$1,325,159) of DSF's total revenues for the current fiscal year came from restricted property taxes, while 33% (\$664,883) came from restricted sales and use taxes. DSF's total expenditures for the current fiscal year came from principal and interests on bonds payable (\$1,636,622).

**Other governmental funds (OGF)** – The total fund balance of the OGF decreased by \$197,868 during current fiscal year. Total revenues, expenditures and other financing uses (net) amounted to \$738,919, \$1,317,980 and \$381,193, respectively, for the fiscal year ended June 30, 2012. Approximately 52% (\$386,093) of OGF's total revenues for the current fiscal year came from intergovernmental grants, 35% (\$255,927) came from charge for services, and 13% (\$96,899) came from miscellaneous sources.

The largest expenses of the OGF for the fiscal year ended June 30, 2012 were related to: (1) health and welfare (\$361,597), which accounted for 27% percent of total expenses, (2) public works (\$639,593), which accounted for 49% percent of total expenses, and (3) urban and economic development (\$207,511), which accounted for 16% 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, 2012 amounted to \$13,121,311. 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, 2012 were \$12,725,509, which is 3% (\$395,802) lower than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the general fund for the fiscal year ended June 30, 2012 were \$11,789,052, which is 5% (\$653,692), lower than the budgeted expenditures.

The most significant fluctuations in actual revenues occurred in construction excise taxes which had actual revenues that were \$421,029 less than budgeted, in interest on deposits, which had actual revenues that were \$165,672 more than budgeted, in sales and municipal license taxes, which had actual revenues that were \$192,666 and \$164,095 less than budgeted, respectively.

Also, the most significant fluctuations in actual expenditures and encumbrances occurred in general government, public works, and public safety, which had actual expenditures and encumbrances that were \$303,577, \$162,347, and \$113,280 lower than budgeted, respectively.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **a) Capital Assets**

The Municipality has invested \$42,681,846 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$11,526,117 at June 30, 2012. The net capital assets of governmental activities increased during the current fiscal year due to the current fiscal year's capital additions and reclassifications (\$460,798), which were partially offset by the depreciation expense and reclassifications (\$276,607) for the same period.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2012

The capital additions made to capital assets during the fiscal year ended June 30, 2012 were the following:

Land	\$ 190,500
Buildings, structures and improvements	1,102,967
Machinery, equipment, furniture and fixtures	439,321
Licensed vehicles	163,144
Capital additions for the fiscal year ended June 30, 2012	\$ 1,895,932

During the current year, construction in progress amounted to \$595,861 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, 2012, the Municipality's total bonded debt amounted to \$22,241,165, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The following is a summary of the bonded debt activity for the fiscal year ended June 30, 2012:

- Bonds payable increased by 8% (\$1,677,165) by the net effect of total principal payments on bonds (\$752,835) and bond issuance (\$2,430,000) made during the current fiscal year.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2012

The Municipality has also certain outstanding notes payable due to CRIM (\$990,811). Such notes payable decreased by \$52,492 during the current fiscal year mainly due to the principal payments made during the same period.

Also, the Municipality has an interim construction loan payable to saving and loans cooperative consortium composed by the Saving and Loan Cooperatives of Juana Díaz, Adjuntas, and San Blas (\$2,334,665), and related to the progress of the construction activities of 44 affordable cost housing units.

**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 2012-2013.

**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 2012-2013.

**REQUEST FOR INFORMATION**

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

**Basic Financial Statements and  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012**

**COMMONWEATH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Statement of Net Assets  
June 30, 2012

**Assets**

**Current assets:**

Cash in commercial banks	\$	4,789,638
Cash in fiscal agent		10,908,585
Accounts receivable, net of allowance for doubtful accounts:		
Property taxes		156,527
Intergovernmental		1,853,505
Sales tax		149,580
Interest		23,599
Real estate held for sale		2,402,140
Total current assets		20,283,574

**Noncurrent assets:**

Capital assets, net of accumulated depreciation and amortization of \$11,526,117		31,155,729
Total noncurrent assets		31,155,729
Total assets	\$	51,439,303

**Current liabilities (due within one year):**

Accounts payable	\$	2,390,733
Intergovernmental payables		128,699
Accrued interest payable on long-term debt		366,413
Deferred revenues		1,391,484
Current portion of long-term obligations:		
Bonds payable		866,835
Other debts		2,591,107
Total current liabilities		7,735,271

**Noncurrent liabilities (due in more than one year):**

Current portion of long-term obligations:		
Bonds payable		21,374,330
Other debts		2,200,978
Total noncurrent liabilities		23,575,308
Total liabilities	\$	31,310,579

**Net assets (liabilities):**

Invested in capital assets, net of related debt	\$	16,048,817
Restricted for:		
Capital projects		7,142,905
Debt service		4,165,889
Other specified purposes		624,408
Unrestricted net assets		(7,853,295)
Total net assets	\$	20,128,724

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, 2012

<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	\$ 5,530,364	\$ -	\$ 151,104	\$ -	\$ (5,379,260)
Health and welfare	2,464,142		1,763,285		(700,857)
Public works	6,278,708	99,841		1,814,662	(4,364,205)
Public safety	974,844	33,052	49,862	65,060	(826,870)
Culture, recreation and education	2,573,249	165,804	425,000	3,600	(1,978,845)
Community development	1,906,992			1,162,292	(744,700)
Urban and economic development	1,048,621	142,273	122,207	3,615	(780,526)
Interest on long-term obligation	869,675				(869,675)
Total governmental activities	<u>\$ 21,646,595</u>	<u>\$ 440,970</u>	<u>\$ 2,511,458</u>	<u>\$ 3,049,229</u>	<u>\$ (15,644,938)</u>
General Revenues:					
Taxes:					
Property taxes					4,334,307
Municipal license taxes					1,157,468
Sales taxes					1,617,353
Construction excise taxes					245,571
Total taxes					<u>7,354,699</u>
Grants and contributions, not restricted to specific programs					6,123,642
Interests on deposits					300,322
Miscellaneous					802,009
Total general revenues					<u>14,580,672</u>
Net changes in net assets					(1,064,266)
Net assets at beginning of the year					21,192,990
Net assets at the end of the year					<u>\$ 20,128,724</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, 2012

	<b>MAJOR FUNDS</b>					Total Governmental Funds
	General Fund	Special Revenue Fund - Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Nonmajor Funds	
<b>ASSETS</b>						
Cash in commercial banks	\$ 900,178	\$ 925,887	\$ 2,075,207	\$ -	\$ 888,366	\$ 4,789,638
Cash with fiscal agent	1,622	380,483	6,271,483	4,250,711	4,286	10,908,585
Accounts receivable, net of doubtful accounts:						
Property taxes				156,527		156,527
Sales and use tax	84,662			64,918		149,580
Interest	23,599					23,599
Due from other funds	1,925,019					1,925,019
Due from governmental entities	452,015	403,015	869,742		128,733	1,853,505
Total assets	<u>\$ 3,387,095</u>	<u>\$ 1,709,385</u>	<u>\$ 9,216,432</u>	<u>\$ 4,472,156</u>	<u>\$ 1,021,385</u>	<u>\$ 19,806,453</u>
<b>LIABILITIES</b>						
Accounts payable	752,182	36,764	1,569,490		32,297	2,390,733
Intergovernmental payable	128,699					128,699
Due to other funds		1,056,302	504,037		364,680	1,925,019
Deferred revenue	775,165	616,319				1,391,484
Total liabilities	<u>1,656,046</u>	<u>1,709,385</u>	<u>2,073,527</u>	<u>-</u>	<u>396,977</u>	<u>5,835,935</u>
<b>FUND BALANCE</b>						
Fund balance:						
Restricted	1,622		6,771,751	4,472,156	368,416	11,613,945
Committed	4,486		371,154		255,992	631,632
Unassigned	1,724,941					1,724,941
Total fund balances	<u>1,731,049</u>	<u>-</u>	<u>7,142,905</u>	<u>4,472,156</u>	<u>624,408</u>	<u>13,970,518</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 3,387,095</u>	<u>\$ 1,709,385</u>	<u>\$ 9,216,432</u>	<u>\$ 4,472,156</u>	<u>\$ 1,021,385</u>	<u>\$ 19,806,453</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, 2012

**MAJOR FUNDS**

	General Fund	Special Revenue Fund - Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes:						
Property taxes	\$ 3,009,148	\$ -	\$ -	\$ 1,325,159	\$ -	\$ 4,334,307
Municipal license	1,157,468					1,157,468
Construction excise taxes	245,571					245,571
Sales and use tax	952,470			664,883		1,617,353
Charges of service	185,043				255,927	440,970
Intergovernmental grants and contributions:						
Federal government		2,887,815			263,265	3,151,080
State government	6,699,746	34,662	1,676,013		122,828	8,533,249
Investment earnings	300,322					300,322
Miscellaneous	481,924		223,186		96,899	802,009
Total Revenues	<u>\$ 13,031,692</u>	<u>\$ 2,922,477</u>	<u>\$ 1,899,199</u>	<u>\$ 1,990,042</u>	<u>\$ 738,919</u>	<u>\$ 20,582,329</u>
<b>EXPENDITURES</b>						
Current:						
General government	5,420,506		7,776		12,500	5,440,782
Health and welfare	547,764	1,541,894			361,597	2,451,255
Public works	3,671,642	138,649	2,011,845		639,593	6,461,729
Public safety	894,870	76,663				971,533
Culture, recreation and education	752,155		1,507,436		96,779	2,356,370
Community Development	133,051	1,162,292	2,945,787			4,241,130
Urban and economic development	515,645	13,781	619,932		207,511	1,356,869
Debt service:						
Principal				752,835		752,835
Interest				883,787		883,787
Total Expenditures	<u>11,935,633</u>	<u>2,933,279</u>	<u>7,092,776</u>	<u>1,636,622</u>	<u>1,317,980</u>	<u>24,916,290</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,096,059</u>	<u>(10,802)</u>	<u>(5,193,577)</u>	<u>353,420</u>	<u>(579,061)</u>	<u>(4,333,961)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer in from other funds				656,108	381,193	1,037,301
Transfer out to other funds	(1,037,301)					(1,037,301)
Proceeds from debt issuance		10,802	4,771,994			4,782,796
Total Other Financing Sources (uses)	<u>(1,037,301)</u>	<u>10,802</u>	<u>4,771,994</u>	<u>656,108</u>	<u>381,193</u>	<u>4,782,796</u>
<b>NET CHANGE IN FUND BALANCES (DEFICITS)</b>	58,758		(421,583)	1,009,528	(197,868)	448,835
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	1,672,291		7,564,488	3,462,628	822,276	13,521,683
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 1,731,049</u>	<u>\$ -</u>	<u>\$ 7,142,905</u>	<u>\$ 4,472,156</u>	<u>\$ 624,408</u>	<u>\$ 13,970,518</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
 Reconciliation of the Balance Sheet - Governmental Funds  
 to the Statement of Net Assets  
 June 30, 2012

Aggregate fund balance reported in the balance sheet - governmental funds	\$ 13,970,518
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	31,155,729
Capital asset held for sale reported in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital asset held for sale at June 30, 2012.	2,402,140
The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:	
Bonds payable	(22,241,165)
Note payable to GDB - line of credit	(88,241)
Note payable to Local Saving and Loan Cooperatives Consortium- line of credit	(2,334,665)
Notes payable to CRIM	(990,811)
Compensated absences	(1,378,368)
Accrued interest payable on long-term debt	<u>(366,413)</u>
Net assets as reported in the accompanying statement of net assets	<u>\$ 20,128,724</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, 2012

Net change in fund balances- total governmental funds \$ 448,835

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	(46,034)
Net change in compensated absences liability	(83,258)

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.	184,191
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Governmental funds report investments in real estate held for sale as expenditures. However in the statement of activities, the cost of those assets is capitalized until sold. This the amount invested in real estate held for sale.	2,402,140
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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	812,656
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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>(4,782,796)</u>
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Net changes in net assets reported in the accompanying statements of activities	<u>\$ (1,064,266)</u>
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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, 2012

**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 funds, and the aggregate remaining fund information of the Municipality at June 30, 2012, 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, 2012 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, 2012, based on the Municipality's knowledge of the transactions, events and conditions

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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, 2012.

**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, 2012.

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**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.

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- **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, 2012, 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
- Department of municipal police

**Public works:**

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

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**Culture, recreation and education:**

Department of sports and recreation  
Department of culture and tourism

**Health and welfare:**

Department of aging and adult services

**Community development:**

Department of citizen affairs

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

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

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

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

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

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

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

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

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

- **General fund** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt service fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest; for (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2012, 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

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

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

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

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

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the FFS if its total assets, 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 projects fund-state and local grants.

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

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

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

The accompanying FFS are accompanied by other statements and schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net 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, 2012, 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, 2012.

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 unmaturing 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, 2012. Further details of the Municipality's budgetary control at the legal level may be obtained from the Municipality's Computerized Accounting System Reports for the fiscal year ended June 30, 2012.

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, 2012, the cash available in the pooled cash account amounted to \$2,842,839, which has been recorded within major and non-major governmental funds.

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

Cash in commercial banks and cash with fiscal agent of the special revenue fund – federal grants, amounting to \$925,887 and \$380,483, 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 with fiscal agent of the general fund amounts to \$900,178 and \$1,622, 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 with fiscal agent in the capital project fund – state and local grants, amounting to \$2,075,207 and \$6,271,483, respectively, consists principally of the balance of interest bearing and non-interest bearing accounts related to state and local grants, and unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of major capital assets.

Cash with fiscal agent in the debt service fund consists of cash related to property tax and sales and use tax collections amounting to \$4,250,711 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 with fiscal agent in the other governmental funds, amounting to \$888,366 and \$4,286, 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, 2012. 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) Real Estate Held for Sale***

Real estate's held for sale in the accompanying statement of net assets consist of a development project for the construction of 44 affordable cost housing units in a project named "Villa Taina", in Cuyón Ward of the Municipality of Coamo. This real estate held for sale is carried at the lower of the estimated fair value or historical cost. Subsequent declines in the value of real estate available for sale are charged to expense.

***j) 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.

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For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$100 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$100 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities 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, 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:

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- 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 accompanying Statement of Net Assets). As previously discussed, available is defined as due (or past due) at June 30, 2012 and collected within 120 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, 2012 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 Municipality. The Municipality pays the insurance premiums each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronym), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA, by its Spanish acronym), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2012 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, 2012. 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, 2012.

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

**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, 2012:

- 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.

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- 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.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.
- GASB Statement No. 65, *Previously Reported as Assets and Liabilities*. The objective of this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.
- GASB Statement No. 66, *Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62 (Issued 03/12)*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.
- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25 (Issued 06/12)*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting

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assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (Issued 06/12)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014.
- GASB Statement No. 69 *Government Combinations and Disposals of Government Operations (Issued 01/13)* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

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, 2012.

- **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, 2012, (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, 2012, 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 \$10,908,585 at June 30, 2012, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2012. 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, 2012, 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, 2012.

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Cash and cash equivalents at June 30, 2012, are classified in the accompanying balance sheet – governmental funds as 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	\$ 900,178	925,887	2,075,207	-	888,366	\$ 4,789,638
Cash in GDB, as fiscal agent	1,622	380,483	6,271,483	4,250,711	4,286	10,908,585
Total carrying amount of deposits	\$ 901,800	1,306,370	8,346,690	4,250,711	892,652	\$ 15,698,223

### 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, 2012, 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 \$775,165 at June 30, 2012. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2012-2013, therefore, generally cannot be used to pay obligations of the fiscal year 2011-2012.

The deferred revenue recorded in the general fund at June 30, 2012, include municipal license tax revenues of the fiscal year 2012-2013 amounting to \$775,165, which were collected in advance from taxpayers between January and June, 2012 (known in Spanish as "Patente en Suspense").

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

**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, 2012, 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, 2012, of \$84,662 and \$64,918, 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).

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 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, 2012 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, 2012 was 8.58 percent (of which 8.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

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

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

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

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, 2012, property taxes receivable recorded in the debt service fund amounted to \$156,527.

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

**6. Intergovernmental Receivables and Payables**

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

	<b>Major Governmental Funds</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>	<b>Statement of net Assets</b>
<i>Intergovernmental receivables:</i>				
Entity or Program:				
Puerto Rico Highways and Transportation Authority	\$ 805,660	-	805,660	\$ 805,660
Puerto Rico Office of the Commissioner of Municipal Affairs	202,653	-	202,653	202,653
Puerto Rico Municipal Revenue Collection Center	367,015	-	367,015	367,015
Puerto Rico Department of Education	85,000	-	85,000	85,000
Puerto Rico Department of Public Works	64,082	-	64,082	64,082
U.S. Department of Housing and Urban Development	58,684	-	58,684	58,684
Government Development Bank for Puerto Rico	23,154	-	23,154	23,154
U.S. Department of Justice	43,405	-	43,405	43,405
Puerto Rico Emergency Management Agency	26,160	-	26,160	26,160
U.S. Department of Agriculture	23,528	-	23,528	23,528
Puerto Rico Administration for Children and Families	10,118	-	10,118	10,118
Puerto Rico Public Housing Administration	9,514	-	9,514	9,514
Puerto Rico Governor's Office - Elderly Office	5,799	-	5,799	5,799
Puerto Rico Department of Labor	-	127,527	127,527	127,527
Other Public Housing Agencies - Section 8 HCV	-	1,206	1,206	1,206
Total intergovernmental receivables	<u>\$ 1,724,772</u>	<u>128,733</u>	<u>1,853,505</u>	<u>\$ 1,853,505</u>
<i>Intergovernmental payables:</i>				
Payroll (general fund):				
Puerto Rico Department of Labor	\$ 5,722	-	5,722	\$ 5,722
Utilities and Others (general fund):				
Puerto Rico Aqueduct and Sewer Authority	113,392	-	113,392	113,392
Puerto Rico General Services Administration	9,585	-	9,585	9,585
Total intergovernmental payables	<u>\$ 128,699</u>	<u>-</u>	<u>128,699</u>	<u>\$ 128,699</u>

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

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

**7. Inter-fund Transactions**

The composition of inter-fund balances at June 30, 2012 and for the fiscal year then ended is as follows:

<u>Due/advances to:</u>	<u>Due from:</u>				<u>Total governmental funds</u>
	<u>Major governmental funds</u>				
	<u>General fund</u>	<u>Special revenue fund – federal grants</u>	<u>Capital projects fund – State &amp; local grants</u>	<u>Other governmental funds</u>	
Major governmental funds:					
General fund	\$ -	-	-	-	\$ -
Special revenue fund – federal grants	1,056,302	-	-	-	1,056,302
Capital projects fund – state & local grants	504,037	-	-	-	504,037
Non-major governmental funds:	364,680	-	-	-	364,680
Total	<u>\$ 1,925,019</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 1,925,019</u>
	<u>Transfers out:</u>				
	<u>General fund</u>	<u>Total governmental funds</u>			
<u>Transfers in:</u>					
Major governmental funds:					
Debt service fund	\$ 656,108	\$ 656,108			
Non-major governmental funds:	381,193	381,193			
Total	<u>\$ 1,037,301</u>	<u>\$ 1,037,301</u>			

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

- Recognize in the general fund the outstanding balance of the loans granted to special revenue fund – federal grants (\$1,056,302), capital project fund – state and local grants (\$504,037), and non-major funds (\$364,680) to temporarily cover the payroll and other operating costs of several federally and state funded programs.

The principal purposes of inter-fund transfers are to:

- Make a routinary transfer of resources, amounting to \$656,108, from the general fund to the debt service fund to cover the principal and interest payment on certain bond. These debt service payments were made on January and July 2012.
- Make a non-routinary transfer of resource (general fund unassigned fund balance), amounting to \$381,193, from the general fund to a non-major governmental fund to cover specific project payroll and other costs.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers at June 30, 2012.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

**8. Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2012:

**a) Governmental Activities**

	<b>Cost basis at beginning of fiscal year</b>	<b>Additions</b>	<b>Reductions/ Reclassifications</b>	<b>Cost basis at end of fiscal year</b>
<i>Cost basis:</i>				
Capital assets, not being depreciated:				
Land	\$ 4,110,878	190,500	-	\$ 4,301,378
Construction in progress	595,861	-	595,861	-
Total capital assets, not being depreciated	<u>4,706,739</u>	<u>190,500</u>	<u>595,861</u>	<u>4,301,378</u>
Capital assets, being depreciated:				
Buildings, structures, and improvements	30,431,094	1,102,967	681,115	30,852,946
Infrastructure	1,216,116	-	-	1,216,116
Machinery and equipment, and furniture and fixtures	1,784,347	439,321	158,158	2,065,510
Licensed vehicles	4,082,752	163,144	-	4,245,896
Total capital assets, being depreciated	<u>37,514,309</u>	<u>1,705,432</u>	<u>839,273</u>	<u>38,380,468</u>
Total cost basis of capital assets	<u>\$ 42,221,048</u>	<u>1,895,932</u>	<u>1,435,134</u>	<u>\$ 42,681,846</u>
	<b>Accumulated Depreciation at beginning of fiscal year</b>	<b>Additions</b>	<b>Reductions/ Reclassifications</b>	<b>Accumulated Depreciation at end of fiscal year</b>
Accumulated depreciation:				
Buildings, structures, and improvements	\$ 7,831,347	673,529	681,115	\$ 7,823,761
Infrastructure	182,251	60,972	-	243,223
Machinery and equipment, and furniture and fixtures	732,978	135,359	158,158	710,179
Licensed vehicles	2,502,934	246,020	-	2,748,954
Total accumulated depreciation	<u>11,249,510</u>	<u>1,115,880</u>	<u>839,273</u>	<u>11,526,117</u>
Net capital assets, governmental activities	<u>\$ 30,971,538</u>	<u>780,052</u>	<u>595,861</u>	<u>\$ 31,155,729</u>

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2012.

The infrastructure assets recorded in the accompanying statement of net assets for \$972,893 (net of accumulated depreciation of \$243,223) 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, 2012.

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, 2012.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2012 was charged to functions/programs in the accompanying statement of activities as follows:

General government	\$	63,227
Public safety		56,866
Economic and urban development		102,820
Health and welfare		14,191
Community development		15,185
Public works		303,407
Culture, recreation, and education		560,184
Total depreciation and amortization expense		\$ 1,115,880

**9. Deferred Revenues**

At June 30, 2012, deferred revenues recorded in the GWFS and the governmental fund financial statements are as follows:

	General fund	Special revenue fund federal grants	Capital projects fund state & local Grants	Other nonmajor funds	Total governmental funds	Statement of net assets
<i>Unearned revenues:</i>						
Municipal licenses	\$ 775,165	-	-	-	775,165	\$ 775,165
Intergovernmental grants and contributions	-	616,319	-	-	616,319	616,319
Total unearned revenues	775,165	616,319	-	-	1,391,484	1,391,484
Total deferred revenues	\$ 775,165	616,319	-	-	1,391,484	\$ 1,391,484

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

**10. Long-Term Obligations**

The general long-term debt activity for the fiscal year ended June 30, 2012 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>
<b><i>Governmental activities:</i></b>					
<b>Bonds payable:</b>					
General and public obligation serial bonds	\$ 20,564,000	2,430,000	752,835	\$ 22,241,165	\$ 866,835
<b>Notes payable:</b>					
Municipal Revenue Collection Center:					
Law No. 42 of January 26, 2000	676,101	-	15,695	660,406	16,681
Law No. 146 of October 11, 2001 – Delinquent property tax accounts sold	346,925	-	16,520	330,405	16,520
Law No. 146 of October 11, 2001- Land Information Management System	20,277	-	20,277	-	-
Saving and Loans Cooperatives Consortium:					
Interim construction loan for construction of affordable cost housing units	-	2,341,994	7,329	2,334,665	2,334,665
Puerto Rico Government Development Bank:					
Line of credit for construction of affordable cost housing units	77,439	10,802	-	88,241	88,241
<b>Compensated absences</b>	1,295,110	217,535	134,277	1,378,368	135,000
Totals for governmental activities	<u>\$ 22,979,852</u>	<u>5,000,331</u>	<u>946,933</u>	<u>\$ 27,033,250</u>	<u>\$ 3,457,942</u>

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

**a) Debt Limitation**

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

**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, 2012:

	<b><u>Outstanding balance</u></b>
<b><u>General Obligation and Public Improvement Bonds:</u></b>	
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, 2012) through July, 1, 2014.	\$ 390,000
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 (6.28% at June 30, 2012) through July, 1, 2014.	70,000
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 (6.04% at June 30, 2012) through July, 1, 2017.	140,000

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

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 (6.04% at June 30, 2012) through July 1, 2013.	40,000
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 (4.5% at June 30, 2012) through July 1, 2024.	300,000
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 (4.5% at June 30, 2012) through July 1, 2026.	1,575,000
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 (4.5% at June 30, 2012) through July 1, 2027.	640,000
2004 serial bonds (face amount of \$10,000,000) due in annual principal installments ranging from \$144,000 to \$550,000; plus interests due in semiannual installments at fixed rate of 6% through July 1, 2029.	6,960,165
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 (1.72% at June 30, 2012) through July 1, 2031.	285,000
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 (1.72% at June 30, 2012) through July 1, 2031.	915,000
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 (1.72% at June 30, 2012) through July 1, 2032.	350,000
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 (1.72% at June 30, 2012) through July 1, 2032.	1,555,000

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

2009 serial bonds (face amount of \$910,000) due in annual principal installments ranging from \$15,000 to \$75,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2012) through July 1, 2034.	880,000
2009 serial bonds (face amount of \$190,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannual installments at variable rates (1.71% at June 30, 2012) through July 1, 2033.	175,000
2009 serial bonds (face amount of \$1,317,000) due in annual principal installments ranging from \$21,000 to \$112,000; plus interests due in semiannual installments at variable rates (1.71% at June 30, 2012) through July 1, 2033.	1,250,000
2009 serial bonds (face amount of \$791,000) due in annual principal installments ranging from \$10,000 to \$66,000; plus interests due in semiannual installments at variable rates (1.71% at June 30, 2012) through July 1, 2033.	751,000
2010 serial bonds (face amount of \$705,000) due in annual principal installments ranging from \$10,000 to \$60,000; plus interests due in semiannual installments at variable rates (4.75% at June 30, 2012) through July 1, 2034.	685,000
2011 serial bonds (face amount of \$165,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2012) through July 1, 2035.	160,000
2011 serial bonds (face amount of \$410,000) due in annual principal installments ranging from \$45,000 to \$75,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2012) through July 1, 2017.	365,000
2011 serial bonds (face amount of \$260,000) due in annual principal installments ranging from \$5,000 to \$25,000; plus interests due in semiannual installments at variable rates (7.5% at June 30, 2012) through July 1, 2035.	255,000
2011 serial bonds (face amount of \$2,095,000) due in annual principal installments ranging from \$25,000 to \$175,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2012) through July 1, 2035.	2,070,000

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

2012 serial bonds (face amount of \$930,000) due in annual principal installments ranging from \$10,000 to \$80,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2012) through July 1, 2036.	930,000
2012 serial bonds (face amount of \$1,210,000) due in annual principal installments ranging from \$20,000 to \$105,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2012) through July 1, 2036.	1,210,000
2012 serial bonds (face amount of \$290,000) due in annual principal installments ranging from \$35,000 to \$50,000; plus interests due in semiannual installments at variable rates (7.5% at June 30, 2012) through July 1, 2019.	<u>290,000</u>
Total bonds payable	<u>\$ 22,241,165</u>

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

Interest expense on bonds payable amounted to \$883,787 for the fiscal year ended June 30, 2012. Annual debt service requirements of maturity for bonds payable are as follows:

<b>Fiscal year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 866,835	1,090,240	1,957,075
2014	919,835	1,404,449	2,324,284
2015	964,835	1,341,670	2,306,505
2016	844,835	1,282,219	2,127,054
2017	889,835	1,226,126	2,115,961
2018-2022	4,685,175	5,268,079	9,953,254
2023-2027	5,918,175	3,620,029	9,538,204
2028-2032	4,693,640	1,706,846	6,400,486
2033-2037	2,458,000	359,666	2,817,666
Totals	<u>\$ 22,241,165</u>	<u>17,299,324</u>	<u>\$ 39,540,489</u>

*c) Notes Payable to Municipal Revenue Collection Center*

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

The Municipality had the following notes payables to Municipal Revenue Collection Center (CRIM, by its Spanish acronym) at June 30, 2012:

- **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 \$660,406, at June 30, 2012.

- **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 \$330,405, at June 30, 2012.

*d) Interim Construction Loan Payable to Local Saving and Loans Cooperative Consortium*

- **Interim construction loan for affordable cost housing units construction project** – On April 12, 2011, the Municipality obtained a line of credit (up to \$3,600,00) from three Saving and Loan Cooperatives (Juana Díaz, San Blas and Adjuntas Saving and Loans

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

Cooperatives) to finance the construction of affordable cost housing units. The line of credit available balance used for the project, plus interest accrued (at 6.50%), 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, 2012, the balance of this interim construction loan amounted to \$2,334,665.

*e) 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, 2012, the balance of this line of credit amounted to \$88,241.

*f) Compensated Absences*

At June 30, 2012, the government-wide statement of net assets – governmental activities includes a liability amounting \$1,378,368, of which \$787,691 represents accrued sick leave benefits, and \$590,677 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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

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.

- ***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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

- ***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.

- ***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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

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.

- ***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 8.275 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 (9.275 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

• ***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.

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	9.275 percent of applicable payroll
Employees:	
Coordination plan:	5.775 percent of gross salary up to \$6,600 per year, plus 8.275 percent of gross salary in excess of \$6,600.
Supplementation plan:	8.275 percent of gross salary. This is the only choice available to policemen, firemen and mayors

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

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	9.275 percent of applicable payroll
Employees:	5.775 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600.

**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:

<u>Fiscal year ended June 30,</u>	<u>Act No. 447</u>	<u>System 2000</u>	<u>Total</u>
2012	\$ 247,430	293,190	\$ 540,620
2011	259,924	279,182	539,106
2010	277,640	275,655	553,295
Totals	<u>\$ 784,994</u>	<u>848,027</u>	<u>\$ 1,633,021</u>

During the fiscal years ended June 30, 2010, 2011, and 2012, 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 \$4,486 in the general fund at June 30, 2012. 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

**Claims and Judgments**

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

The Municipality also is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities. With respects to pending or threatened litigation, the Municipality has reported no liabilities as of June 30, 2012. 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

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2012

**13. Fund Balance**

As of June 30, 2012, 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	\$ 1,622					\$ 1,622
Health and welfare					107,841	107,841
Public works			526,791		149,202	675,993
Public safety						
Culture and recreation and education			171,134		86,375	257,509
Community development			559,394			559,394
Urban and economic development			5,514,432		24,998	5,539,430
Debt service				4,472,156		4,472,156
<i>Committed to:</i>						
General government	1,122				71,885	73,007
Health and welfare					1,911	1,911
Public works	3,116		371,154		24,599	398,869
Public safety	160					160
Culture and recreation and education	53					53
Community development	35					35
Urban and economic development					157,597	157,597
<i>Unassigned</i>	1,724,941					1,724,941
Total fund balances (deficit)	<u>\$ 1,731,049</u>	<u>-</u>	<u>7,142,905</u>	<u>4,472,156</u>	<u>624,408</u>	<u>\$ 13,970,518</u>

**14. Subsequent Events**

On August 17, 2012, the Legislature of the Municipality of Coamo issued Resolution No. 13, to commit the sum of \$275,000 of the unassigned fund balance of the general fund for specific purposes.

On December 5, 2012, the Legislature of the Municipality of Coamo issued Ordinances No. 9, No. 10, and No. 11, which authorized the establishment of three municipal enterprises to undertake several commercial activities (full service restaurant, cinema, and sport shop), as 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).

On January 5, 2013, the Legislature of the Municipality of Coamo issued Ordinances No. 24, No. 25, No. 26, No. 27 and No. 28, which authorized the establishment of five municipal enterprises to undertake several commercial activities (agricultural activities, gas station, educational services, consulting services, and public streets and private properties maintenance services) as 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).

*End of Notes to Basic Financial statements*

**Required Supplementary Information  
Budgetary Comparison Schedule – General Fund  
Fiscal Year Ended June 30, 2012**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
 Budgetary Comparison Schedule – General Fund  
 (See Notes to Budgetary Comparison Schedule)  
 Fiscal Year Ended June 30, 2012

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(budgetary</u>	<u>final budget –</u>
<b>Revenues:</b>			<u>basis)</u>	<u>over (under)</u>
Property taxes	\$ 2,642,133	2,642,133	2,642,133	\$ -
Municipal license taxes	1,145,136	1,145,136	952,470	(192,666)
Sales and use taxes	1,321,563	1,321,563	1,157,468	(164,095)
Construction excise taxes	666,600	666,600	245,571	(421,029)
Intergovernmental grants and contributions	6,619,079	6,619,079	6,699,746	80,667
Interest on deposits	135,000	135,000	300,672	165,672
Charges for services	141,800	141,800	185,043	43,243
Miscellaneous	450,000	450,000	542,406	92,406
Total revenues	<u>13,121,311</u>	<u>13,121,311</u>	<u>12,725,509</u>	<u>(395,802)</u>
<b>Expenditures and encumbrances:</b>				
General government	5,552,667	5,574,138	5,270,561	303,577
Health and welfare	548,368	548,584	547,764	820
Public works	3,832,841	3,837,105	3,674,758	162,347
Public safety	1,009,954	1,008,310	895,030	113,280
Culture, recreation and education	795,911	794,179	752,208	41,971
Community development	144,921	142,092	133,051	9,041
Urban and economic development	543,714	538,336	515,680	22,656
Total expenditures	<u>12,428,376</u>	<u>12,442,744</u>	<u>11,789,052</u>	<u>653,692</u>
Revenues over (under)				
expenditures and encumbrances	<u>692,935</u>	<u>678,567</u>	<u>936,457</u>	<u>257,890</u>
<b>Other financing sources (uses):</b>				
Transfer to other governmental funds	(692,935)	(678,567)	(656,108)	22,459
Total other financing sources (uses)	<u>(692,935)</u>	<u>(678,567)</u>	<u>(656,108)</u>	<u>22,459</u>
Net increase (decrease)				
in fund balance (deficit)	<u>\$ -</u>	<u>-</u>	<u>280,349</u>	<u>\$ 280,349</u>

**Reconciliation of differences:**

Sources/inflows of financial resources:

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

\$ 12,725,509

Differences - budgetary basis to GAAP:

Differences in bases of accounting:

GAAP adjustments to revenues

306,183

Total revenues reported on the statement of

revenues, expenditures and changes in fund balances

\$ 13,031,692

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
 Budgetary Comparison Schedule – General Fund (Continued)  
 (See Notes to Budgetary Comparison Schedule)  
 Fiscal Year Ended June 30, 2012

**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)	\$ 12,445,160
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary purposes	(4,486)
Prior year encumbrances recorded as expenditures for GAAP purposes	5,451
Entity differences	
Non-budgeted transfer to other governmental fund (budget carryover)	381,193
Non-budgeted expenditures	<u>145,616</u>
Total expenditures and transfer out to other funds as reported on the statement of revenues, expenditures and changes in fund balances	<u><u>\$ 12,972,934</u></u>

See accompanying notes to financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COAMO**  
Notes to Budgetary Comparison Schedule – General Fund  
Fiscal Year Ended June 30, 2012

**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, 2012 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2012.

**Schedule of Expenditures of Federal Awards  
Fiscal Year Ended June 30, 2012**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Expenditures of Federal Awards  
Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	CFDA Number	Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Agriculture:</b>			
Direct Program:			
Rural Housing Preservation Grant Program	10.433		\$ 18,005
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Child and Adult Care Food Program	10.558	N/AV	<u>16,814</u>
<b>Subtotal – US Department of Agriculture</b>			<b><u>34,819</u></b>
<b>U.S. Department of Housing and Urban Development:</b>			
Direct Programs:			
Section 8 Housing Choice Voucher	14.871		263,265
Affordable Housing Development in Main Street Rejuvenation Projects	14.878		3,615
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	1,112,202
Community Development Block Grants – ARRA State’s Program - <b>(Recovery Act Funded)</b>	14.255	N/AV	<u>50,091</u>
Total – CDBG – State’s Grants Cluster			<u>1,162,293</u>
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:			
Homeless Prevention and Rapid Re-housing Program – <b>(Recovery Act Funded)</b>	14.262	N/AV	209,814
Pass-through the Department of Public Housing of the Commonwealth of Puerto Rico:			
Public and Indian Housing	14.850	N/AV	<u>910,640</u>
<b>Subtotal – US Department of Housing and Urban Development</b>			<b><u>2,549,627</u></b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Expenditures of Federal Awards (Continued)  
Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	CFDA Number	Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Energy:</b>			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program (Recovery Act Funded)	81.128		2,979
<b>Subtotal – US Department of Energy</b>			<b>2,979</b>
<b>U.S. Department of Health and Human Services:</b>			
Pass-through the Governor’s Office for Elderly Affairs of the Commonwealth of Puerto Rico:			
Special Program for Aging – Title III - Part D – Disease Prevention and Health Services	93.043	N/AV	2,028
Special Program for Aging – Title III - Part B – Grant for Supportive Services and Senior Centers	93.044	N/AV	61,959
National Family Caregiver Support – Title III – Part E	93.052	N/AV	6,734
<b>U.S. Department of Health and Human Services:</b>			
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:			
Child Care and Development Block Grant	93.575	N/AV	273,072
Family Violence Prevention and Services	93.591	N/AV	41,874
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	7,687
<b>Subtotal – US Department of Health and Human Services</b>			<b>393,354</b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Expenditures of Federal Awards (Continued)  
Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	CFDA Number	Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Homeland Security:</b>			
Pass-through the Emergency Management Agency of the Commonwealth of Puerto Rico:			
Pre-Disaster Mitigation Competitive Grants	97.017		11,505
Emergency Management Performance Grant	97.042		409
Pass-through the Governor's Authorized Representative Office (GAR) of the Commonwealth of Puerto Rico:			
Disaster Grants – Public Assistance	97.036		103,987
Pass-through the Governor's Office for Public Security Affairs of the Commonwealth of Puerto Rico:			
State Homeland Security Grant Program	97.073		54,401
<b>Subtotal – US Department of Homeland Security</b>			<u>170,302</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 3,151,081</b></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, 2012

**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, 2012. 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, 2012.

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	\$ 2,887,816	\$ 263,265	\$ 3,151,081
Nonfederal programs expenditures and other adjustments	45,463	1,054,715	1,100,178
Total expenditures in the fund financial statements	\$ 2,933,279	\$ 1,317,980	\$ 4,251,259



**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, 2012, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated March 15, 2013, 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**

Management of the Municipality is responsible for establishing and maintaining effective 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 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 **12-01** 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 **12-02** 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 15, 2013.

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 15, 2013

Stamp No. 2632104 of the Puerto Rico  
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was affixed to the record copy of this report.





**López-Vega, CPA, PSC**

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**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 *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, 2012. 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those compliance requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, 12-03 through 12-10.

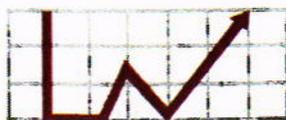
**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

Internal Control Over Compliance

Management of the **Municipality of Coamo** is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify deficiencies in internal control over compliance that we consider to be material weaknesses, as define above. However, we identifies certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 12-03 thru 12-10. 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.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**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** response to the findings identified in our audit is 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 response.

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 15, 2013.

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 15, 2013

Stamp No. 2632105 of the Puerto Rico  
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was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2012

**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 No **X**

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

Type of auditor’s report issued on compliance for major programs: **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
	<b>CDBG—State-Administered Small Cities Program Cluster</b>
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, 2012

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**Section I – Summary of Auditor’s Results (Continued)**

**Identification of major programs (continued):**

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
14.871	Section 8 Hosing Choice Voucher
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes          No <b>X</b>

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

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>12-01</b>
<b>Requirement</b>	<b>Fixed\Capital Assets and Expenditures – Subsidiary Ledger</b>
<b>Statement of Condition</b>	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
<b>Criteria</b>	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.
<b>Cause of Condition</b>	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
<b>Effect of Condition</b>	The Municipality's Government-Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
<b>Recommendation</b>	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, necessary to comply with the requirements of the GASB Statement No. 34.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	Actually, the Municipality's Finance Department staff are updating the capital assets subsidiary ledger in the new accounting software purchased by the Municipality.  Implementation Date: June 2013  Responsible Person: Mrs. Miraisa David Esparra Finance Department Director

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

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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**Section II – Financial Statements Findings**

**Finding Reference**            **12-02**

**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, 2012

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**Section II – Financial Statements Findings**

**Finding Reference**            **12-02 (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 solved this issue with the implementation of an actualized version of the accounting software since July 1, 2012.

Implementation Date:    July 2012

Responsible Person:    Mrs. Miraisa David Esparra  
Finance Department Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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

<b>Finding Reference</b>	<b>12-03</b>
<b>Program</b>	<b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>  <b>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)</b>
<b>Requirement</b>	<b>Allowable Activities</b>
<b>Statement of Condition</b>	We performed a housekeeper activities test of eight (8) participant’s files and found the following exceptions:  a) In the three (3) participant’s files, we noted that the eligibility approval form was not completed by the program staff.  b) In the eight (8) participant’s files, we did not find evidence that demonstrate if the program staff visited at least twice per month the participant’s housing unit to ensure the quality of services.  c) In one (1) participant file, did not complete the approval application form OCAM-AH-004A.
<b>Criteria</b>	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.
<b>Cause of Condition</b>	The Municipality’s controls and procedures failed to assure that the participant’s files include all the required documents to comply with the program requirements.
<b>Effect of Condition</b>	The Municipality is not in compliance with the Code of Federal Regulations 24, Section 570.484 and with the operational guide.
<b>Recommendation</b>	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, 2012

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

**Finding Reference**            **12-03 (Continued)**

**Questioned Costs**            None

**Management Response  
and Corrective Action**

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

Implementation Date:    April 2013

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, 2012

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

<b>Finding Reference</b>	<b>12-04</b>
<b>Program</b>	<b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b> <b>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)</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	During our Cash Management test, we examined eleven (11) cash advances received by the program during the fiscal year 2011-2012. The following summarizes the situations found:  a) In three (3) requisitions of funds (a total of \$211,107), we observed that the Municipality made the disbursements between ten (10) to twenty nine (29) days after the deposits.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
<b>Cause of Condition</b>	The Municipality’s disbursements procedures failed to assure that funds requested and received from the Pass-through Grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
<b>Recommendation</b>	We recommend management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the pass-through grantor and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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

**Finding Reference**            **12-04 (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:    April 2013

Responsible Person:    Mrs. Miraisa David Esparra  
Finance Department Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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

<b>Finding Reference</b>	<b>12-05</b>
<b>Program</b>	<b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>  <b>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)</b>
<b>Requirement</b>	<b>Davis-Bacon Act</b>
<b>Statement of Condition</b>	During our Davis-Bacon Act test, we verified one (1) construction project. The following will summarize the exceptions noted:  a) We noted that during the fiscal year 2011-2012, the Municipality did not apply adequate monitoring procedure to required on-site visits to monitor the classifications of workers and wage rates paid.  b) We did not obtain evidence that the Municipality’s monitors certified the weekly payroll supplied by the contractors.
<b>Criteria</b>	Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
<b>Cause of Condition</b>	The Municipality’s controls and procedures failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
<b>Effect of Condition</b>	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
<b>Recommendation</b>	We recommend that the Municipality should establish defined procedure to monitor the enforcement of the Act’s regulation. Those procedures would include the following:  a) On site visits;  b) Obtain contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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

**Finding Reference**            **12-05 (Continued)**

**Questioned Costs**            None

**Management Response  
and Corrective Action**

As part of our corrective action plan, we will train a new program staff about Davis-Bacon Act requirements, in order to perform the required visits to the project, and monitor the classifications of the workers. Also, we will instruct the new program staff to monitor the weekly payrolls provided by the contractor, in order to verify the contractor's compliance with respect to payment of prevailing wages.

Implementation Date:    April 2013

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, 2012

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

<b>Finding Reference</b>	<b>12-06</b>
<b>Program</b>	<b>Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs</b>  <b>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)</b>
<b>Requirement</b>	<b>Program Income</b>
<b>Statement of Condition</b>	During our audit of the program income requirements we noted that the Municipality did not maintain internal controls to assure the proper determination, accounting and use of program income:  a. Program income records were not available for our examination.  b. That program income was not reported in accordance with the program requirements and other regulations applicable.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart C, Part 85.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. And Code of Federal Regulations 24, Part 570.489 (b) (2)  Code of Federal Regulations 24, Part 570.489 (e) (3) HUD requires vigorous state oversight of recovered funds retained at the local level. Community Development has the ultimate responsibility for the proper use of these funds and must ensure that Program Income is used in a manner consistent with requirements. For this reason, annual Program Income/Miscellaneous Revenue Reports are required (see Attachment 4-1). A grantee with the potential of generating recapture funds must submit a report for the fiscal year ending June 30.
<b>Cause of Condition</b>	The Municipality did not maintain adequate internal controls in order to assure the proper determination, accounting and use of program income.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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

**Finding Reference**            **12-06 (continued)**

**Effect of Condition**        The Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Part 85.20 (b) (2), and Code of Federal Regulations 24, Part 570.489 (e) (3).

**Recommendation**        We recommend management to develop internal controls and procedures in order to assure that the handling of Program Income complies with federal and state requirements

**Questioned Costs**        None

**Management Response  
and Corrective Action**

As we informed to the External Auditors, we submit the required Program Income Report to the Office of the Commissioner of Municipal Affairs (OCAM, by its acronyms in Spanish), reporting no program income for the natural year 2011 (report required to be submitted annually), because we did not have program income generating activities during the fiscal year 2011-2012. Therefore, such compliance requirement it's not applicable for our CDBG Program at this time, and then, we did not concur with the finding.

**Implementation Date:**    Not Applicable

**Responsible Person:**    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, 2012

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

<b>Finding Reference</b>	<b>12-07</b>
<b>Program</b>	<b>Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b> <b>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)</b>
<b>Requirement</b>	<b>Equipment and Real Property Management</b>
<b>Statement of Condition</b>	<b>Section II – Financial Statements Findings – Finding Reference 12-01</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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

<b>Finding Reference</b>	<b>12-08</b>
<b>Program</b>	<b>Public and Indian Housing (CFDA 14.850); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Eligibility Test</b>
<b>Statement of Condition</b>	<p>During our Eligibility Test, we examined ten (10) participant's files related to "Las Palmas Housing Project", ten (10) participant's files related to "Coamo Housing Project" and ten (10) participant's files related to "Eden Housing Project" and we found the following:</p> <ul style="list-style-type: none"><li>a. Eight (8) participant's files did not include the Enterprises Income Verification (EIV) related to "Las Palmas Housing Project".</li><li>b. Ten (10) participant's files did not include the Enterprises Income Verification (EIV) related to "Coamo Housing Project".</li><li>c. Eight (8) participant's files did not include the Enterprises Income Verification (EIV) related to "Eden Housing Project".</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24, Sections 5.609 established that as a condition of admission or continued occupancy, the tenant must provide all necessary information and documentation required and tenant's authorization to verify income eligibility. 24 CFR Subpart K Section 982.516 (a), established that PHA responsibility for reexamination of family income and composition at least annually, (2) the PHA must obtain and document in the tenant file third-party verification. Code of Federal Regulations 24, Section 5.233 (a) (2), states that processing entities must use HUD's EIV system as a third-party source to verify tenant employment and income information, in accordance with §5.236.</p>
<b>Cause of Condition</b>	<p>The Program's officers did not obtain all required documentation to validate the participant's eligibility. In addition, the Municipality has no effective monitoring review process for the program internal quality control.</p>
<b>Effect of Condition</b>	<p>The Program does not comply with Code of Federal Regulations 24, Sections 5.609, Subpart K Section 982.516 (a), Section 5.233 (a) (2), 5.236 and could have an effect on the correctness and timeliness of HAP payments.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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

**Finding Reference**            **12-08 (Continued)**

**Recommendation**            The Program should strengthen internal control procedures to monitor performance, ensure compliance with these requirements and train staff on documentation and verification process.

**Questioned Costs**            None

**Management Response  
and Corrective Action**        Related to the Public and Indian Housing Program, we will review the documentation protocol and will instruct the Program’s Staff in order to strength our internal control and procedures in the use of the Enterprises Income Verification (EIV) system to increases the efficiency and accuracy of income and rent determinations.

Implementation Date:            April 2013

Responsible Person:            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, 2012

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

<b>Finding Reference</b>	<b>12-09</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Housing Quality Standards Inspections and HQS Enforcement</b>
<b>Statement of Condition</b>	During our verification, the Municipality did not perform the required Housing Quality Control re-inspections during the fiscal year 2011-2012.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart I, 982.404 and Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. Also the PHA must prepare a unit inspection report.
<b>Cause of Condition</b>	The Municipality did not maintain adequate monitoring procedures to assure that annual re-inspections Housing Quality Control re-inspections are properly performed.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.404 and 982.158 (d) and 982.405 (b).
<b>Recommendation</b>	We recommend management to implement internal control procedures to assure that annual inspections and quality control re-inspections are properly performed. The PHA supervisor or other qualified person must re-inspect a sample of units under contract during the last PHA fiscal year. Completed HQS inspections included in the sample must be no older than three months at the time of re-inspection. In addition, the quality control re-inspection should provide feedback on inspector's work, which can be used to determine if individual performance or general HQS training issues need to be addressed.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	The Quality Control Re-inspections will be performed in accordance with our Administrative Plan, revised on March 2012. But, it's important to comment that we have a well-trained HQS Inspector who inspect the units leased to each family at least annually to determine if the unit meets Housing Quality Standards (HQS), and prepare the required unit inspection reports.
	<b>Implementation Date:</b> April 2013
	<b>Responsible Person:</b> Cristobal Bonilla Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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

<b>Finding Reference</b>	<b>12-10</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Eligibility Test</b>
<b>Statement of Condition</b>	<p>During our Eligibility Test, we examined twenty (20) participant's files and we found the following deficiencies in the enterprises income verification (EIV):</p> <ul style="list-style-type: none"><li>a. In seventeen (17) participant's files the PHA did not fill the Tenant Certification page in its entirety.</li><li>b. One (1) participant's file did not include the Enterprises Income Verification (EIV).</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24, Sections 5.609 established that as a condition of admission or continued occupancy, the tenant must provide all necessary information and documentation required and tenant's authorization to verify income eligibility. 24 CFR Subpart K Section 982.516 (a), established that PHA responsibility for reexamination of family income and composition at least annually, (2) the PHA must obtain and document in the tenant file third-party verification.</p>
<b>Cause of Condition</b>	<p>The Program's officers did not complete the required documentation to validate the participant's eligibility. In addition, the Municipality has no effective monitoring review process for the program internal quality control.</p>
<b>Effect of Condition</b>	<p>The Program does not meet all in compliance with Code of Federal Regulations 24, Sections 5.609, Subpart K Section 982.516 (a), and could have an effect in the performance on SEMAP report.</p>
<b>Recommendation</b>	<p>The Program should strengthen internal control procedures to monitor performance, ensure compliance with these requirements and train staff on documentation and verification process.</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO

Schedule of Findings and Questioned Costs (Continued)  
Fiscal Year Ended June 30, 2012

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

**Finding Reference**            **12-10 (Continued)**

**Questioned Costs**            None

**Management Response  
and Corrective Action**

The purpose of HUD's EIV System is to make integrated income data available from one source, via the Internet, for PHAs to use to improve income verification during required income reexaminations (a PHA's staff income verification tool). For Section 8 HCV Program activities, as a condition of admission or continued occupancy, we require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility. Also we use the EIV System to realize the matching process for households covered by each HUD-Form 50058 and individuals who have disclosed a valid Social Security Number (SSN). Therefore, we did not concur with the Statement, Criteria, Cause and Effect of Condition as described above, which explain in a general form (it's not in sufficient detail as required by the OMB A-133) that the External Auditors noted "*deficiencies in the information obtained in the enterprises income verification (EIV)*"; but did not provide to us the specific facts that support the deficiencies in the audit finding to permit us to know the specific facts and, if necessary, take the applicable corrective actions. We did not control the information provided by the EIV System; we only obtain information from the EIV as part of our reexamination procedures, and use it as a tool to verify the tenant and other family members' income. We accept that, after a detailed examination by us of tenant files audited, we observed that in one of the twenty files examined by the External Auditors, the EIV reported a recent source of income that was not considered by our Staff in the tenant's rent subsidy determination, and therefore, we will evaluate the effect of this fact in order to consider a fraud recovery, and prospectively, we will strength our internal control and procedures in order to increases the efficiency and accuracy of income and rent determinations. But again, we did not concur with the External Auditor finding adjudicated to the Section 8 HCV Program, because is our believe that we are managing the programmatic and administrative matters of the Program efficiently and properly; all of the current participants are determined eligible base on the Program requirements, and all of the tenant rent subsidy has been properly determined in general terms.

Implementation Date: April 2013

Responsible Person: Cristobal Bonilla  
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Prior Years Audit Findings  
Fiscal Year Ended June 30, 2012

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-03	14.228	<p><u>We performed a housekeeper 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-03</p>
11-04	14.228	<p><u>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: 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. Also, the Community Development Block Grant-State Program cash account maintained a monthly average cash balance of \$58,380 in books.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-04</p>
11-05	14.228	<p><u>Section II – Financial Statements Findings – Finding Reference 11-01</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-07</p>
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 12-03</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COAMO**

Schedule of Prior Years Audit Findings (Continued)  
Fiscal Year Ended June 30, 2012

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
10-04	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 12-04</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 12-07</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>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>
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>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**

Schedule of Prior Years Audit Findings (Continued)  
Fiscal Year Ended June 30, 2012

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-05	14.228	<u>Section II – Financial Statements Findings – Finding Reference 09-01</u>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.