

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

**MUNICIPIO DE COAMO
AUDITORÍA 2012-2013
30 DE JUNIO DE 2013**

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

Fiscal Year Ended June 30, 2013



***Commonwealth of Puerto Rico
Municipality of Coamo***

***Honorable Juan C. García Padilla
Mayor***

Municipality of Coamo, P.O. Box 1875, Coamo, Puerto Rico 00769

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DIA SERVICIOS GENERALES

14-04-0082

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, 2013

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with additional reports and information
required by the Single Audit Act
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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**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Municipality of Coamo**, Puerto Rico (the Municipality), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' Government Auditing Standards. Those standards require that we plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error, in assessing those risks, we consider internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Municipality's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Adverse Opinion on the Government-Wide Financial Statements – Statement of Net Position and Statement of Activities

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter of the Capital Assets' reported value in the accompanying statement of net position of the governmental activities and, accordingly the amount that would affect the assets, net position, and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion

In our opinion, because of the matters discussed in the above section of Basis for Adverse Opinion, the Government-Wide Financial Statements previously referred to 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, 2013, 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.

Emphasis of Matter

The financial statements of "Piscinas Aguas Termales", "Teatro Hollywood", "Restaurante el Mirador" y "Mantenimiento y Ornato" were not audited, and we were not engaged to audit them as part of our audit of the Government's basic financial statements. The "Piscinas Aguas Termales", "Teatro Hollywood", "Restaurante el Mirador" y "Mantenimiento y Ornato"'s financial activities are included in the Government's basic financial statements as discretely presented component units and represent 1 percent, .5 percent and 3 percent of the assets, net financial position and revenues, respectively, of the Government's aggregate discretely presented component units.

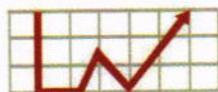
Unmodified Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Coamo**, as of June 30, 2013, and the respective changes in its financial, for the General Fund, Special Revenue Fund-Federal Grants, Capital Projects Fund-State & Local Grants, Debt Service Fund and Other Non-major Governmental Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 and Budgetary Comparison information on page 73, 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 them to be essential parts 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 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 supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Coamo's** basic financial statements. The accompanying supplementary information – Financial Data Schedules shown in pages 77 and 80 are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages 80 and 83 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The Financial Data Schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 27, 2013

Stamp No. 2675811 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

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, 2013. 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.

This MD&A is intended to serve as an introduction to the Municipality's 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 financial statements (NBFS). This report also contains additional required supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of financial statements that present different views of the Municipality, the government-wide financial statements (GWFS) and the fund financial statements (FFS). These financial statements also include the notes to the basic financial statements (NBFS) that explain some of the information in the financial statements and provide more detail.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- Total Net Position of the Municipality Governmental Activities as of the end of the indicated fiscal year amounted to \$23,856,612 or forty five percent (45%) of total assets.
- The Municipality's Governmental Activities total Net Position increased by \$3,727,888 or nineteen percent (19%) from the prior fiscal year-end balance.
- At the end of fiscal year 2013, total liabilities of the Municipality Governmental Activities amounted to \$28,852,027. Out of said amount, \$25,664,862 corresponded to long-term liabilities of which \$21,374,330 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 \$14,950,442 or \$979,924 over the similar figure corresponding to the previous fiscal year 2011-2012.
- At the end of the current fiscal year, the fund balance of the Municipality's General Fund amounted to \$2,010,761, or \$279,712 more than the previous fiscal year.
- The actual General Fund budgetary activities resulted in a favorable balance of \$785,844.

Component Units Highlights:

- The aggregated total net position of the component units amounted to \$115,312.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2013

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, 2013. 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 and proprietary 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 government-wide financial statements provide a broad view of the Municipality's operations in a manner similar to commercial enterprises. The statements provide both short and long-term information about the Municipality's financial position, which assists in assessing the Municipality's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

1. Statement of Net Position (SNP)

This SNP presents the government's entire assets, deferred outflow of resources, liabilities and deferred inflow of resources with the difference between the two reported as net position. Over time, increases or decreases in the Municipality's net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2013

2. Statement of Activities (SA)

This SA presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the above financial statements have the following columns:

- **Governmental Activities** — These activities are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the Municipality government fall into this category, including general government, education, public housing and welfare, health, public safety and economic development.
- **Component Units** — These are organizations that are legally separate from the Municipality, but either the Municipality is financially accountable for them or the nature and significance of their relationship with the Municipality are such that their exclusion would cause the Municipality's financial statements to be misleading or incomplete. The Municipality has only discretely presented component units. Discretely presented component units are presented in a separate column.

The government-wide financial statements can be found immediately following this MD&A.

b) Fund Financial Statements

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 uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. The FFS focus on individual parts of the Municipality government, reporting the Municipality's operations in more detail than the government-wide financial statements. All of the funds of the Municipality have been accounted for in the governmental fund financial statements.

1. Governmental funds

Most of the basic services provided by the Municipality are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the GWFS. However, unlike the GWFS, the FFS focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2013

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Municipality has four major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Municipality's four major governmental funds are:

- The General Fund
- The Special Revenue Fund – Federal Grants
- The Capital Project Fund – State and Local Grants
- The Debt Service Fund

The remaining non-major governmental funds are grouped and presented in a single column in the FFS. The FFS can be found immediately following the GWFS.

2. *Component Units Financial Statements (CUFS)*

Component units are legally separate entities, for which the Municipality has financial accountability, but they have certain independent qualities as well. The GWFS present information for the component units in a single column on the statement of net position. Also, some information on the statement of activities is aggregated for component units. The combining statements of net position and the combining statement of activities provide detail for each major component unit and the non-major component units (if any) in aggregate. The combining financial statements for major component units can be found immediately following the governmental funds financial statements.

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, FFS and CUFS. 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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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2013

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position 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 \$23,856,612 at the end of 2013, as compared with \$20,128,724 at the end of the previous year. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the \$3,727,888 increase reflected in the governmental activities Net Position figure:

	Governmental activities	
	June 30, 2013	June 30, 2012
Assets:		
Current assets	\$ 20,004,830	\$ 20,283,574
Non-current assets:		
Capital assets, net	32,703,809	31,155,729
Total assets	<u>52,708,639</u>	<u>51,439,303</u>
Liabilities:		
Current liabilities, excluding long-term obligations	3,187,165	4,277,329
Long-term obligations:		
Due within one year	2,856,855	3,457,942
Due after one year	22,808,007	23,575,308
Total liabilities	<u>28,852,027</u>	<u>31,310,579</u>
Net position:		
Invested in capital assets, net of related debt	18,668,149	16,048,817
Restricted	12,623,745	11,933,202
Unrestricted	(7,335,282)	(7,853,295)
Total net position	<u>\$ 23,856,612</u>	<u>\$ 20,128,724</u>

The Statement of Activities reflects that for fiscal year 2013, the revenues derived from several programs plus current operating revenues, when compared to total expenses, represent a net increase amounted to \$3,727,888 in governmental activities net position. Approximately thirty five percent (35%) of the Municipality's governmental activities total revenue came from taxes, while sixty percent (60%) 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, 2013

Approximately thirty two percent (32%) of total expenses resulted from general government, five percent (5%) of total expenses resulted from urban and economic development, thirteen percent (13%) of total expenses resulted from health and welfare, five percent (5%) of total expenses resulted from public safety, twenty nine percent (29%) of total expenses resulted from public works, five percent (5%) of total expenses resulted from culture, recreation and education, six percent (6%) of total expenses resulted from community development, while five percent (5%) of total expenses resulted from interest on long term obligations. The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2013 and 2012:

	Governmental activities	
	June 30, 2012	June 30, 2012
Program revenues:		
Program-specific operating grants and contributions	\$ 2,622,890	\$ 2,511,458
Program-specific capital grants and contributions	2,888,650	3,049,229
Charges for services	572,007	440,970
Total program revenues	<u>6,083,547</u>	<u>6,001,657</u>
General revenues:		
Property taxes	4,041,066	4,334,307
Municipal license taxes	1,315,443	1,157,468
Sales and use taxes	1,700,696	1,617,353
Construction excise taxes	587,590	245,571
Unrestricted grants and contributions	7,736,976	6,123,642
Other general revenues (various sources)	623,543	1,102,331
Total general revenues	<u>16,005,314</u>	<u>14,580,672</u>
Total revenues	<u>22,088,861</u>	<u>20,582,329</u>
Program expenses:		
General government	5,842,289	5,530,364
Health and welfare	2,422,554	2,464,142
Public works	5,309,743	6,278,708
Public safety	838,019	974,844
Culture, recreation and education	996,400	2,573,249
Community development	1,027,504	1,906,992
Urban and economic development	935,327	1,048,621
Interest on long-term obligations	989,137	869,675
Total expenses	<u>18,360,973</u>	<u>21,646,595</u>
Change in net position	3,727,888	(1,064,266)
Net position, at beginning of fiscal year	20,128,724	21,192,990
Net position, at end of fiscal year	<u>\$ 23,856,612</u>	<u>\$ 20,128,724</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2013

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 \$14,950,442, which represents an increase of \$979,924 when compared with the prior year. Out of the indicated balance, \$12,345,788 was restricted for the following purposes: (1) to liquidate statutory debts (\$1,622); 2) to pay for capital projects (\$6,883,877); 3) for debt service payments (\$5,251,967); and 4) for other purposes (\$208,322). Also, \$634,624 were committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$39,109); 2) to pay for capital projects (\$204,753); and 3) for other purposes (\$390,762). As of June 30, 2013, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund balance of \$1,970,030.

The following table presents the condensed financial position of governmental funds at June 30, 2013 and 2012:

	2013	2012
Assets:		
Total assets - major governmental funds	\$ 18,611,376	\$ 18,785,068
Total assets - other governmental funds	946,190	1,021,385
Combined total assets	19,557,566	19,806,453
Liabilities:		
Total liabilities - major governmental funds	4,260,018	5,438,958
Total liabilities - other governmental funds	347,106	396,977
Combined total liabilities	4,607,124	5,835,935
Fund balances (deficits):		
Restricted - major governmental funds	12,137,466	11,245,529
Restricted - other governmental funds	208,322	368,416
Committed - major governmental funds	243,862	375,640
Committed - other governmental funds	390,762	255,992
Unassigned - major governmental funds	1,970,030	1,724,941
Combined total fund balances	14,950,442	13,970,518
Total liabilities and fund balances	\$ 19,557,566	\$ 19,806,453

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2013

BUDGETARY HIGHLIGHTS

a) General Fund

The original and the final budget of the general fund for the fiscal year ended June 30, 2013 amounted to \$13,293,644. 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 and other financing sources (budgetary basis) of the general fund for the fiscal year ended June 30, 2013 were \$ 13,719,786, which is 3% (\$426,142) greater than the budgeted revenues and other financing sources. In addition, the total actual expenditures and other financing uses (budgetary basis) of the general fund for the fiscal year ended June 30, 2013 were \$12,933,942, which is 3% (\$359,702), lower than the budgeted expenditures and other financing uses.

The most significant fluctuations in actual revenues occurred in intergovernmental grants and contributions which had actual revenues that were \$258,294 more than budgeted; in interest on deposits, which had actual revenues that were \$84,623 more than budgeted; in miscellaneous revenues, which had actual revenues that were \$232,361 more than budgeted; and in sales taxes and construction excise taxes, which had actual revenues that were \$68,668 and \$91,410 less than budgeted, respectively.

Also, the most significant fluctuations in actual expenditures and encumbrances occurred in public safety, public works, and culture, recreation and education, which had actual expenditures and encumbrances that were \$120,093, \$94,669, and \$59,930 lower than budgeted, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$ 45,184,861 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$ 12,481,053 at June 30, 2013. The net capital assets of governmental activities increased during the current fiscal year due to the current fiscal year's capital additions and reclassifications (\$2,580,709), which were partially offset by the depreciation expense and reclassifications (\$1,032,630) for the same period.

The capital additions made to capital assets during the fiscal year ended June 30, 2013 were the following:

Land	\$ 183,600
Buildings, structures and improvements	1,870,450
Machinery, equipment, furniture and fixtures	455,311
Licensed vehicles	71,349
Capital additions for the fiscal year ended June 30, 2013	<u>\$ 2,397,110</u>

COMMONWEALTH OF PUERTO RICO
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Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2013

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.

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 2013-2014.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2013

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 2013-2014.

REQUEST FOR INFORMATION

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

**Basic Financial Statements and
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Statement of Net Position
June 30, 2013

	Primary Government Governmental activities	(Unaudited) Component Units
Assets		
Current assets:		
Cash in commercial banks	\$ 4,289,431	\$ 190,174
Cash in fiscal agent	11,051,473	-
Accounts receivable, net of allowance for doubtful accounts:		
Property taxes	21,407	-
Intergovernmental	1,917,713	-
Sales tax	142,048	-
Municipal license	35,114	-
Construction excise taxes	132,679	-
Interest	24,428	-
Real estate held for sale	2,390,537	-
Inventories	-	21,025
Total current assets	20,004,830	211,199
Noncurrent assets:		
Capital assets, net of accumulated depreciation and amortization of \$12,481,053	32,703,809	-
Total noncurrent assets	32,703,809	-
Total assets	\$ 52,708,639	\$ 211,199
Current Liabilities (due within one year):		
Accounts payable	\$ 1,211,082	\$ 95,887
Intergovernmental payables	144,423	-
Accrued interest payable on long-term debt	523,314	-
Unearned revenues	1,308,346	-
Current portion of long-term obligations:		
Bonds payable	919,835	-
Other debts	1,937,020	-
Total current liabilities	6,044,020	95,887
Noncurrent liabilities (due in more than one year):		
Noncurrent portion of long-term obligations:		
Bonds payable	20,454,495	-
Other debts	2,353,512	-
Total Noncurrent liabilities	22,808,007	-
Total liabilities	\$ 28,852,027	\$ 95,887
Net position:		
Net investment in capital assets	\$ 18,668,149	\$ -
Restricted for:		
Capital projects	7,088,630	-
Debt service	4,936,031	-
Other specified purposes	599,084	-
Unrestricted net assets	(7,435,282)	115,312
Total net position	\$ 23,856,612	\$ 115,312

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
Fiscal Year Ended June 30, 2013

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
PRIMARY GOVERNMENT:						
Governmental activities :						
General government	\$ 5,842,289	\$ -	\$ 155,884	\$ -	\$ (5,686,405)	\$ -
Health and welfare	2,422,554	-	1,780,089	-	(642,465)	-
Public works	5,309,743	81,642	-	868,162	(4,359,939)	-
Public safety	838,019	18,841	49,862	65,060	(704,256)	-
Culture, recreation and education	996,400	146,419	449,953	-	(400,028)	-
Community development	1,027,504	135,551	-	1,951,813	1,059,860	-
Urban and economic development	935,327	189,554	187,102	3,615	(555,056)	-
Interest on long-term obligation	989,137	-	-	-	(989,137)	-
TOTAL PRIMARY GOVERNMENT	<u>\$ 18,360,973</u>	<u>\$ 572,007</u>	<u>\$ 2,622,890</u>	<u>\$ 2,888,650</u>	<u>\$ (12,277,426)</u>	<u>\$ -</u>
COMPONENT UNITS (Unaudited):						
Municipal Enterprise "Piscinas Aguas Termales"	\$ 49,153	\$ 68,402	\$ -	\$ -	\$ -	\$ 19,249
Municipal Enterprise "Teatro Hollywood"	98,346	143,592	-	-	-	45,246
Municipal Enterprise "Restaurante el Mirador"	122,200	123,867	-	-	-	1,667
Municipal Enterprise "Mantenimiento y Ornato"	236,756	285,906	-	-	-	49,150
TOTAL COMPONENT UNITS	<u>\$ 506,455</u>	<u>\$ 621,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,312</u>
GENERAL REVENUES						
Taxes:						
Property taxes					4,041,066	-
Municipal license taxes					1,315,443	-
Sales taxes					1,700,696	-
Construction excise taxes					587,590	-
Total taxes					7,644,795	-
Grants and contributions, not restricted to specific programs					7,736,976	-
Interests on deposits					310,452	-
Miscellaneous					313,091	-
Total general revenues					16,005,314	-
CHANGE IN NET POSITION					3,727,888	115,312
NET POSITION - beginning of the year					20,128,724	-
NET POSITION - end of the year					<u>\$ 23,856,612</u>	<u>\$ 115,312</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, 2013

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Special Revenue Fund - Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Nonmajor Funds	
ASSETS						
Cash in commercial banks	\$ 1,387,704	\$ 666,355	\$ 1,599,567	\$ -	\$ 635,805	\$ 4,289,431
Cash in fiscal agent	1,622	192,931	5,685,357	5,167,276	4,287	11,051,473
Account receivable, net of doubtful accounts:						
Property taxes	-	-	-	21,407	-	21,407
Municipal license	35,114	-	-	-	-	35,114
Construction excise taxes	132,679	-	-	-	-	132,679
Sales and use tax	78,764	-	-	63,284	-	142,048
Interest	24,428	-	-	-	-	24,428
Due from other funds	1,943,273	-	-	-	-	1,943,273
Due from governmental entities	203,831	1,333,958	73,826	-	306,098	1,917,713
Total assets	\$ 3,807,415	\$ 2,193,244	\$ 7,358,750	\$ 5,251,967	\$ 946,190	\$ 19,557,566
LIABILITIES						
Accounts payable	713,391	358,311	109,653	-	29,727	1,211,082
Intergovernmental payable	144,423	-	-	-	-	144,423
Due to other funds	-	1,465,427	160,467	-	317,379	1,943,273
Unearned revenue	938,840	369,506	-	-	-	1,308,346
Total liabilities	1,796,654	2,193,244	270,120	-	347,106	4,607,124
FUND BALANCES						
Fund balance:						
Restricted	1,622	-	6,883,877	5,251,967	208,322	12,345,788
Committed	39,109	-	204,753	-	390,762	634,624
Unassigned	1,970,030	-	-	-	-	1,970,030
Total fund balances	2,010,761	-	7,088,630	5,251,967	599,084	14,950,442
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,807,415	\$ 2,193,244	\$ 7,358,750	\$ 5,251,967	\$ 946,190	\$ 19,557,566

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 Balances (Deficits) – Governmental Funds
Fiscal Year Ended June 30, 2013

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Special Revenue Fund - Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Nonmajor Funds	
REVENUES						
Taxes:						
Property taxes	\$ 2,826,715	\$ -	\$ -	\$ 1,214,351	\$ -	\$ 4,041,066
Municipal license	1,315,443	-	-	-	-	1,315,443
Construction excise taxes	587,590	-	-	-	-	587,590
Sales and use tax	936,687	-	-	764,009	-	1,700,696
Charges of service	161,227	-	-	-	410,780	572,007
Intergovernmental grants and contributions:						
Federal government	-	4,034,826	-	-	280,069	4,314,895
State government	7,153,971	57,540	1,519,034	-	203,076	8,933,621
Investment earnings	310,452	-	-	-	-	310,452
Miscellaneous	265,345	-	591	-	47,155	313,091
Total Revenues	<u>13,557,430</u>	<u>4,092,366</u>	<u>1,519,625</u>	<u>1,978,360</u>	<u>941,080</u>	<u>22,088,861</u>
EXPENDITURES						
Current:						
General government	5,674,859	-	-	-	28,652	5,703,511
Health and welfare	526,546	1,552,121	-	-	342,720	2,421,387
Public works	3,912,481	230,160	724,856	-	129,678	4,997,175
Public safety	743,731	113,799	-	-	-	857,530
Culture, recreation and education	836,314	-	43,860	-	299,103	1,179,277
Community Development	131,506	1,626,035	1,064,807	-	-	2,822,348
Urban and economic development	429,527	745,969	386,925	-	441,251	2,003,672
Debt service:						
Principal	-	-	1,376,353	866,835	-	2,243,188
Interest	-	-	-	979,468	-	979,468
Total Expenditures	<u>12,254,964</u>	<u>4,268,084</u>	<u>3,596,801</u>	<u>1,846,303</u>	<u>1,241,404</u>	<u>23,207,556</u>
Excess (Deficiency) of Revenues over expenditures	<u>1,302,466</u>	<u>(175,718)</u>	<u>(2,077,176)</u>	<u>132,057</u>	<u>(300,324)</u>	<u>(1,118,695)</u>
OTHER FINANCING SOURCES (USES)						
Transfer in from other funds	-	-	100,000	647,754	275,000	1,022,754
Transfer out to other funds	(1,022,754)	-	-	-	-	(1,022,754)
Special Item-sale of capital assets held for sale	-	-	1,376,353	-	-	1,376,353
Proceeds from debt issuance	-	175,718	546,548	-	-	722,266
Total Other Financing Sources (Uses)	<u>(1,022,754)</u>	<u>175,718</u>	<u>2,022,901</u>	<u>647,754</u>	<u>275,000</u>	<u>2,098,619</u>
NET CHANGE IN FUND BALANCES (DEFICITS)						
	279,712	-	(54,275)	779,811	(25,324)	979,924
FUND BALANCE AT BEGINNING OF YEAR	<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>
FUND BALANCE AT END OF YEAR	<u>\$ 2,010,761</u>	<u>\$ -</u>	<u>\$ 7,088,630</u>	<u>\$ 5,251,967</u>	<u>\$ 599,084</u>	<u>\$ 14,950,442</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
 Reconciliation of the Balance Sheet – Governmental Funds
 to the Statement of Net Position
 June 30, 2013

Aggregate fund balance reported in the balance sheet - governmental funds	\$ 14,950,442
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	32,703,809
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, 2013.	2,390,537
The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:	
Bonds payable	(21,374,330)
Note payable to GDB - line of credit	(263,959)
Note payable to Local Saving and Loan Cooperatives Consortium- line of credit	(1,504,860)
Notes payable to CRIM	(957,610)
Compensated absences	(1,564,103)
Accrued interest payable on long-term debt	(523,314)
Net position as reported in the accompanying statement of net position	<u>\$ 23,856,612</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 Statement of Revenues, Expenditures and Changes in
 Fund Balances (Deficits) – Governmental Funds to the Statement of Activities
 Fiscal Year Ended June 30, 2013

Net change in fund balances- total governmental funds \$ 979,924

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 recognized for transactions that are not normally paid with expendable financial resources. In the Statements of Activities , however, which 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	(9,669)
Net change in compensated absences liability	(185,735)

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 exceeds depreciation expenses.	1,548,080
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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.	1,217,518
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Repayment of principal of long-term obligations is expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,276,389
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Proceeds from sale of real estate held for sale are recorded as other financing sources in the fund financial statements, but the issuances decrease the real estate held for sale asset in the statement of net assets.	(1,376,353)
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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>(722,266)</u>
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Net changes in net assets reported in the accompanying statements of activities.	<u>\$ 3,727,888</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
Combining Statement of Net Position
Component Units (Unaudited)
Year Ended June 30, 2013

	Component Units				All Component Units Total
	Municipal Enterprise "Piscinas Aguas Termales"	Municipal Enterprise "Teatro Hollywood"	Municipal Enterprise "Restuarante el Mirador"	Municipal Enterprise "Mantenimiento y Ornato"	
Assets					
Current assets:					
Cash in commercial banks	\$ 37,218	\$ 60,255	\$ 905	\$ 91,796	\$ 190,174
Inventories	2,500	2,750	15,775		21,025
Total assets	\$ 39,718	\$ 63,005	\$ 16,680	\$ 91,796	\$ 211,199
Current Liabilities:					
Accounts payable	\$ 20,469	\$ 17,759	\$ 15,013	\$ 42,646	\$ 95,887
Total liabilities	\$ 20,469	\$ 17,759	\$ 15,013	\$ 42,646	\$ 95,887
Net position:					
Unrestricted	19,249	45,246	1,667	49,150	115,312
Total net position	\$ 19,249	\$ 45,246	\$ 1,667	\$ 49,150	\$ 115,312

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Combining Statement of Activities
Component Units (Unaudited)
Year Ended June 30, 2013

Functions/programs	Expenses	Program Revenues			Changes in Net Position	Net Position, Beginning of Year	Net Position, End of Year
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
MAJOR COMPONENT UNITS:							
Municipal Enterprise "Piscinas Aguas Termales"	\$ 49,153	\$ 68,402	\$ -	\$ -	\$ 19,249	\$ -	\$ 19,249
Municipal Enterprise "Teatro Hollywood"	98,346	143,592	-	-	45,246	-	45,246
Municipal Enterprise "Restaurante el Mirador"	122,200	123,867	-	-	1,667	-	1,667
Municipal Enterprise "Mantenimiento y Ornato"	236,756	285,906	-	-	49,150	-	49,150
TOTAL MAJOR COMPONENT UNITS	<u>\$ 506,455</u>	<u>\$ 621,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,312</u>	<u>\$ -</u>	<u>\$ 115,312</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

1. Summary of Significant Accounting Policies

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

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

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

a) Financial Reporting Model

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality at June 30, 2013, 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, 2013 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, 2013, based on the Municipality's knowledge of the transactions, events and conditions

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

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, 2013.

b) *Financial Reporting Entity*

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality of Coamo. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow:

- The organization is legally separate entity;
- The Municipality appoints a voting majority of the organization's board;
- There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality:

- The organization's governing body is substantively the same as the Municipality's governing body and (1) there is a financial benefit or burden relationship between the Municipality and the organization, or (2) management of the Municipality has operational responsibility for the organization;
- The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it;
- The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

Based on the application of the criteria outlined above, the accompanying basic financial statements include the Municipality and four discretely presented component units, collectively referred to as “the financial reporting entity”. The discretely presented component units presented are: Municipal Enterprise “Piscinas Aguas Termales”, Municipal Enterprise “Teatro Hollywood”, Municipal Enterprise “Restaurante el Mirador”, and Municipal Enterprise “Mantenimiento y Ornato”. Each of these organizations is legally separate entity with a governing board that is appointed by the Mayor, with the advice and consent of the Municipal Legislature. In addition, with respect to each of these entities, one or both of the following conditions exists: (a) there is a financial benefit or burden relationship between the Municipality and the organization or (b) the Municipality is able to impose its will on the organization. Each organization’s relationship with the Municipality is discussed briefly below:

- **Municipal Enterprise “Piscinas Aguas Termales”** – This is a for profit organization engaged in the administration of natural thermal springs pools and miscellaneous shop located within the Municipality. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy five percentages (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities has been conducted in a Municipality’s facility, as required by law.
- **Municipal Enterprise “Teatro Hollywood”** – This is a for profit organization engaged in the cinema businesses. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy five percentages (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities has been conducted in a Municipality’s facility, as required by law.
- **Municipal Enterprise “Restaurante el Mirador”** – This is a for profit organization engaged in the full service restaurant businesses. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy five percentages (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities has been conducted in a Municipality’s facility, as required by law.
- **Municipal Enterprise “Mantenimiento y Ornato”** – This is a for profit organization engaged in the public and private properties maintenance services businesses. There is a financial benefit/burden relationship between the Municipality and the Municipal Enterprise because the Municipality has the rights to participate from the Municipal Enterprise income for an amount equivalent to seventy five percentages (75%) of its net income. In addition, the Municipality is able to impose its will on the Municipal Enterprise because the Municipal

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

Enterprise was created by the Municipality through the approval of a Municipal Ordinance and, the Municipal Enterprise commercial activities has been conducted in a Municipality's facility, as required by law.

The financial data for these organizations is presented as a total in a separate column in the government-wide financial statements to emphasize that these entities are legally separate from the Municipality. In addition, detailed financial data for each organization is presented in separated columns or rows in the combining statement of net position – major component units, and in the combining statement of activities – major component units.

Complete financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices. The financial statements of the discretely presented component units have a year end of June 30, 2013.

c) *Government-Wide Financial Statements*

The government-wide financial statements (the statement of net position and the statement of activities) report information of all of the governmental activities of the Municipality and its component units. The effect of interfund activity has been removed from these government wide financial statements (GWFS). Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net position presents the reporting entities' assets plus deferred outflows of resources less liabilities plus deferred inflow of resources equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is reported in three categories:

- **Net investment in capital assets** – This net position 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 position** – This net position category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position 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.
- **Unrestricted net position** – This category consists of the excess of assets over related liabilities that are neither externally nor legally restricted, neither invested in capital assets.

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However, assets reported within unrestricted net position 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 statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenue are reported instead as general revenue (such as property taxes, municipal license taxes, construction excise taxes, etc.). Resources that are dedicated internally are reported as general revenue rather than as program revenue. The Municipality does not allocate general government (indirect) expenses to other functions.

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 position 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 position 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, deferred outflow of resources, liabilities deferred inflow of resources, 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, 2013, 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 position. 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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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.

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 position, 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.

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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.

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 liability or deferred inflow of resources.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying statement of net position. 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

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to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year.

For this purpose, the Municipality considers most revenues to be available if collected generally within 120 days after June 30, 2013, 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, 2013.

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

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sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

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 position. 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 balances, but are not recorded in the accompanying governmental fund financial statements.

Discretely Presented Component Units Financial Statements – The accompanying discretely presented component units financial statements are reported using the economic measurement focus and the accrual basis of accounting, similar to the government wide financial statements described above. The component units follow GAAP as issued by GASB and FASB as applicable to each component unit based on the nature of their operations..

Discrete presentation of component units is used to present the financial information of entities that do not qualify to be blended, in accordance with GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61, with the funds of the primary government. The component units' column in the government wide financial statements is used to report the financial activities of the Municipality's discretely presented component units. The financial statements of these component units are presented following the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, without regard to receipt or payment of cash.

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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 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.

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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 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, 2013. 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, 2013.

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.

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f) 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, 2013, the cash available in the pooled cash account amounted to \$2,488,783, 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 \$666,355 and \$192,931, 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 \$1,387,704 and \$1,622, respectively, represents the balance of interest bearing and non-interest bearing accounts for operating expenditures.

Cash in commercial bank and cash with fiscal agent in the capital project fund – state and local grants, amounting to \$1,599,567 and \$5,685,357, 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 \$5,167,276 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 \$635,805 and \$4,287, 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.

g) Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2013. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are

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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".

h) Real Estate Held for Sale

Real estate's held for sale in the accompanying statement of net position 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, and the construction of affordable cost housing units in connection with a Main Street revitalization effort . Those real estates' held for sale are 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.

i) Inventories

Generally, discretely component units' inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds and in the statement of net position of governmental activities.

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 position – governmental activities. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

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

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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 position 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 Outflow/Inflow of Resources

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no deferred outflows of resources.

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has no deferred outflows of resources.

l) Compensated Absences

The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2013 and (2) is not contingent on a specific event that is outside the control of the Municipality and the

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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.

The liability for compensated absences is in the statement of net position. 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 position 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 position. 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 position, 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.

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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 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, 2013 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

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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, 2013. 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. 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

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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, 2013.

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.

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- **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, deferred outflow of resources, liabilities and deferred inflow of resources, 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, 2013:

- 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. But, the Municipality has implemented earlier this Statement in fiscal year 2013, as encouraged by the Board.
- 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 assessments of accountability and inter-period 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

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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 inter-period 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.
- GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees (Issued 04/13)*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged.
- GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 (Issued 11/13)*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

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

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requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2013.
- **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, 2013, (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, 2013, 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 \$11,051,473 at June 30, 2013, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. 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, 2013, 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, 2013.

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Cash and cash equivalents at June 30, 2013, are classified in the accompanying balance sheet – governmental funds a follows:

	General fund	Special revenue fund – federal grants	Capital project fund – State & local grants	Debt service fund	Other governmental funds	Total
Cash in commercial banks	\$ 1,387,704	666,355	1,599,567	-	635,805	\$ 4,289,431
Cash in GDB, as fiscal agent	1,622	192,931	5,685,357	5,167,276	4,287	11,051,473
Total carrying amount of deposits	\$ 1,389,326	859,286	7,284,924	5,167,276	640,092	\$ 15,340,904

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, 2013, 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 \$938,840 at June 30, 2013. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2013-2014, therefore, generally cannot be used to pay obligations of the fiscal year 2012-2013.

The unearned revenue recorded in the general fund at June 30, 2013, include municipal license tax revenues of the fiscal year 2012-2013 amounting to \$938,840, which were collected in advance from taxpayers between January and June, 2013 (known in Spanish as "Patente en Suspense").

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4. Sales and Use Taxes

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

At June 30, 2013, 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, 2013, of \$78,764 and \$63,284, 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).

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

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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, 2013 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, 2013 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.

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

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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, 2013, property taxes receivable recorded in the debt service fund amounted to \$21,407.

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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

6. Intergovernmental Receivables and Payables

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

	Major Governmental Funds	Other governmental funds	Total governmental funds	Statement of net Assets
Intergovernmental receivables:				
Entity or Program:				
Puerto Rico Office of the Commissioner of Municipal Affairs	\$ 230,351		230,351	\$ 230,351
Puerto Rico Municipal Revenue Collection Center	203,831		203,831	203,831
Puerto Rico Department of Public Works	73,826		73,826	73,826
U.S. Department of Housing and Urban Development	304,264		304,264	304,264
Government Development Bank for Puerto Rico	151,408		151,408	151,408
U.S. Department of Justice	38,201		38,201	38,201
Puerto Rico Emergency Management Agency	56,222		56,222	56,222
U.S. Department of Agriculture	27,544		27,544	27,544
Puerto Rico Administration for Children and Families	21,397		21,397	21,397
Puerto Rico Public Housing Administration	492,533		492,533	492,533
Puerto Rico Governor's Office - Elderly Affairs	12,038		12,038	12,038
Puerto Rico Governor's Office - Youth Affairs		18,953	18,953	18,953
Puerto Rico Department of Labor	-	287,145	287,145	287,145
Other Public Housing Agencies - Section 8 HCV	-			
Total intergovernmental receivables	\$1,611,615	\$306,098	\$1,917,713	\$1,917,713
Intergovernmental payables:				
Payroll (general fund):				
Puerto Rico Department of Labor	\$ 23,273		23,273	\$ 23,273
Utilities and Others (general fund):				
Puerto Rico Aqueduct and Sewer Authority	121,030	-	121,030	121,030
Puerto Rico General Services Administration	120		120	120
Total intergovernmental payables	\$ 144,423	-	144,423	\$ 144,423

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, 2013

7. Inter-fund Transactions

The composition of inter-fund balances at June 30, 2013 and for the fiscal year then ended is as follows:

<u>Due/advances to:</u>	<u>Due from:</u>				
	Major governmental funds				
	General fund	Special revenue fund – federal grants	Capital projects fund – State & local grants	Other governmental funds	Total governmental funds
Major governmental funds:					
General fund	\$ -	-	-	-	\$ -
Special revenue fund – federal grants	1,465,427	-	-	-	1,465,427
Capital projects fund – state & local grants	160,467	-	-	-	160,467
Non-major governmental funds:	317,379	-	-	-	317,379
Total	\$ 1,943,273	-	-	-	\$ 1,943,273
	<u>Transfers out:</u>				
	General fund	Total governmental funds			
<u>Transfers in:</u>					
Major governmental funds:					
Debt service fund	\$ 647,754	\$ 647,754			
Capital projects fund – state & local grants	100,000	100,000			
Non-major governmental funds:	275,000	275,000			
Total	\$ 1,022,754	\$ 1,022,754			

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, capital project fund – state and local grants, and non-major funds 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 routinely transfer of resources 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 2013.
- Make a non-routinely transfer of resources (general fund unassigned fund balance) 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, 2013.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2013:

a) Governmental Activities

	Cost basis at beginning of fiscal year	Additions	Reductions/ Reclassifications	Cost basis at end of fiscal year
<i>Cost basis:</i>				
Capital assets, not being depreciated:				
Land	\$ 4,301,378	183,600	-	\$ 4,484,978
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>4,301,378</u>	<u>183,600</u>	<u>-</u>	<u>4,484,978</u>
Capital assets, being depreciated:				
Buildings, structures, and improvements	30,852,946	1,870,450	-	32,723,396
Infrastructure	1,216,116	-	-	1,216,116
Machinery and equipment, and furniture and fixtures	2,065,510	455,311	77,694	2,443,127
Licensed vehicles	4,245,896	71,349	-	4,317,245
Total capital assets, being depreciated	<u>38,380,468</u>	<u>2,397,110</u>	<u>77,694</u>	<u>40,699,884</u>
Total cost basis of capital assets	<u>\$ 42,681,846</u>	<u>2,580,710</u>	<u>77,694</u>	<u>\$ 45,184,862</u>
	Accumulated Depreciation at beginning of fiscal year	Additions	Reductions/ Reclassifications	Accumulated Depreciation at end of fiscal year
Accumulated depreciation:				
Buildings, structures, and improvements	\$ 7,823,761	549,611	-	\$ 8,373,372
Infrastructure	243,223	60,806	-	304,029
Machinery and equipment, and furniture and fixtures	710,179	217,693	77,694	850,178
Licensed vehicles	2,748,954	204,520	-	2,953,474
Total accumulated depreciation	<u>11,526,117</u>	<u>1,032,630</u>	<u>77,694</u>	<u>12,481,053</u>
Net capital assets, governmental activities	<u>\$ 31,155,729</u>	<u>1,548,080</u>	<u>-</u>	<u>\$ 32,703,809</u>

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2013.

The infrastructure assets recorded in the accompanying statement of net position 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, 2013.

Several real property assets, including buildings, structures, land and land improvements have not been recorded in the accompanying statement of net position at June 30, 2013.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2013 was charged to functions/programs in the accompanying statement of activities as follows:

General government	\$	33,417
Public safety		55,473
Economic and urban development		127,975
Health and welfare		19,667
Community development		29,196
Public works		341,731
Culture, recreation, and education		425,171
Total depreciation and amortization expense		\$ 1,032,630

9. Unearned Revenues

At June 30, 2013, unearned revenues recorded as liabilities 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	\$ 938,840	-	-	-	938,840	\$ 938,840
Intergovernmental grants and contributions	-	369,506	-	-	396,506	396,506
Total unearned revenues	\$ 938,840	369,506	-	-	1,308,346	\$ 1,308,346

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COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

10. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2013 is as follows:

	Balance at beginning of fiscal year	Borrowings Or additions	Payments And Deductions	Balance at end of fiscal year	Balance due within one year
<u>Governmental activities:</u>					
Bonds payable:					
General and public obligation serial bonds	\$ 22,241,165	-	866,835	\$ 21,374,330	\$ 919,835
Notes payable:					
Municipal Revenue Collection Center:					
Law No. 42 of January 26, 2000	660,406	-	16,681	643,725	16,681
Law No. 146 of October 11, 2001 – Delinquent property tax accounts sold	330,405	-	16,520	313,885	16,520
Law No. 146 of October 11, 2001- Land Information Management System	-	-	-	-	-
Saving and Loans Cooperatives Consortium:					
Interim construction loan for construction of affordable cost housing units	2,334,665	546,548	1,376,353	1,504,860	1,504,860
Puerto Rico Government Development Bank:					
Line of credit for construction of affordable cost housing units	88,241	175,718	-	263,959	263,959
Compensated absences	1,378,368	317,235	131,500	1,564,103	135,000
Totals for governmental activities	<u>\$ 27,033,250</u>	<u>1,039,501</u>	<u>2,407,889</u>	<u>\$ 25,664,862</u>	<u>\$ 2,856,855</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, 2013

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, 2013:

<u>General Obligation and Public Improvement Bonds:</u>	<u>Outstanding balance</u>
1995 serial bonds (face amount of \$1,430,000) due in annual principal installments ranging from \$25,000 to \$140,000; plus interests due in semiannual installments at variable rates (7.7% at June 30, 2013) through July, 1, 2014.	\$ 270,000
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, 2013) through July, 1, 2014.	50,000
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, 2013) through July, 1, 2017.	120,000

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

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, 2013) through July 1, 2013.	20,000
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, 2013) through July 1, 2024.	285,000
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, 2013) through July 1, 2026.	1,510,000
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, 2013) through July 1, 2027.	615,000
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.	6,674,330
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, 2013) through July 1, 2031.	280,000
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, 2013) through July 1, 2031.	890,000
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, 2013) through July 1, 2032.	345,000
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, 2013) through July 1, 2032.	1,520,000

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Notes to Basic Financial Statements (Continued)
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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, 2013) through July 1, 2034.	865,000
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, 2013) through July 1, 2033.	170,000
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, 2013) through July 1, 2033.	1,224,000
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, 2013) through July 1, 2033.	736,000
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, 2013) through July 1, 2034.	675,000
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, 2013) through July 1, 2035.	155,000
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, 2013) through July 1, 2017.	315,000
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, 2013) through July 1, 2035.	250,000
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, 2013) through July 1, 2035.	2,040,000

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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

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, 2013) through July 1, 2036. 920,000

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, 2013) through July 1, 2036. 1,190,000

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, 2013) through July 1, 2019. 255,000

Total bonds payable \$ 21,374,330

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 \$979,468 for the fiscal year ended June 30, 2013. Annual debt service requirements of maturity for bonds payable are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2014	\$ 919,835	\$ 891,851	\$ 1,811,686
2015	964,835	1,288,105	2,252,940
2016	844,835	1,281,469	2,126,304
2017	889,835	1,226,876	2,116,711
2018	945,835	1,168,702	2,114,537
2019-2023	4,805,175	4,971,109	9,776,284
2024-2028	6,062,175	3,237,159	9,299,334
2029-2033	4,248,805	1,375,418	5,624,223
2034-2038	1,693,000	203,233	1,896,233
Totals	<u>\$ 21,374,330.00</u>	<u>\$15,643,922.00</u>	<u>\$ 37,018,252.00</u>

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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

c) Notes Payable to Municipal Revenue Collection Center

The Municipality had the following notes payables to Municipal Revenue Collection Center (CRIM, by its Spanish acronym) at June 30, 2013:

- **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 \$643,725, at June 30, 2013.

- **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 \$313,885, at June 30, 2013.

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Fiscal Year Ended June 30, 2013

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 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, 2013, the balance of this interim construction loan amounted to \$1,504,860.

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, 2013, the balance of this line of credit amounted to \$263,959.

f) Compensated Absences

At June 30, 2013, the government-wide statement of net position – governmental activities includes a liability amounting \$1,564,103, of which \$913,587 represents accrued sick leave benefits, and \$650,516 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:

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

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

- ***Merit Annuity***

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

- ***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.

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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

- ***Occupational Disability Annuity***

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

- ***Nonoccupational Disability Annuity***

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

- ***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

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MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2005 are being financed by the Municipality and the other participating employers.

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

- ***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, 2013

- ***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, 2013

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>
2013	\$ 227,336	285,640	\$ 512,976
2012	247,430	293,190	540,620
2011	259,924	279,182	539,106
Totals	<u>\$ 734,690</u>	<u>858,012</u>	<u>\$ 1,592,702</u>

During the fiscal years ended June 30, 2013, 2012, and 2011, the Municipality and the participating employees contributed at least 100 percent of the required contributions to ERS and System 2000. The authority under which obligations to contribute to ERS and System 2000 by the plans' members, employers and other contributing entities (i.e., state or municipal contributions) are established or may be amended by law by the House of Representatives, the Senate and the Governor of the Commonwealth of Puerto Rico.

Readers can obtain copies of the audited basic financial statements (GAAP basis) of ERS and System 2000 by writing to Mr. Francisco Del Castillo Orozco, 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 \$39,109 in the general fund at June 30, 2013. 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, 2013

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, 2013. 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, 2013

13. Fund Balance

As of June 30, 2013, 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	-	-	-	-	83,975	83,975
Public works	-	-	504,402	-	6,030	510,432
Public safety	-	-	-	-	8,343	8,343
Culture and recreation and education	-	-	154,009	-	84,977	238,986
Community development	-	-	5,546,266	-	24,997	5,571,263
Urban and economic development	-	-	679,200	-	-	679,200
Debt service	-	-	-	5,251,967	-	5,251,967
<i>Committed to:</i>						
General government	34,393	-	-	-	43,231	77,624
Health and welfare	-	-	-	-	-	-
Public works	1,620	-	204,753	-	169,922	376,295
Public safety	260	-	-	-	1,912	2,172
Culture and recreation and education	792	-	-	-	-	792
Community development	47	-	-	-	175,697	175,744
Urban and economic development	1,997	-	-	-	-	1,997
<i>Unassigned</i>	1,970,030	-	-	-	-	1,970,030
Total fund balances (deficit)	<u>\$ 2,010,761</u>	<u>-</u>	<u>7,088,630</u>	<u>5,251,967</u>	<u>515,109</u>	<u>\$ 14,950,442</u>

14. Subsequent Events

On January 2014, the Legislature of the Municipality of Coamo issued an Ordinance to authorized the establishment of a municipal enterprise to undertake commercial activities (public and private facilities security 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).

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The ERS financial situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date"). The Act establishes the following: (i) it freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS's defined benefit formula (those who joined the ERS prior to January 1, 2000 whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service) (the "Defined Benefit Employees"); (ii) it provides that, beginning on July 1, 2013, the retirement benefits accruing on and after the Effective Date for Defined Benefit Employees will be based on a defined contribution plan and will be paid out in the form of a lifetime annuity (upon retirement, the employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013 in the form of a lifetime annuity); (iii) it provides that defined contribution benefits accrued pursuant to System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment; (iv) it eliminates the so called "merit pension" that provided to participants who joined the Employees Retirement System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

55 or greater) of the average salary earned during the highest 36 months of employment; (v) it increases the retirement age for various groups of participants; (vi) it increases the employee contribution to the ERS from 8.275% to a minimum of 10%; (vii) it eliminates or reduces various retirement benefits previously granted by special laws and the System will benefit from the savings generated; (viii) it increases the minimum pension from \$400 to \$500 per month for current retirees; and (ix) it eliminates or modifies other benefits, such as disability and survivor benefits.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in the approved Law; amend paragraph (b) of section 4020.01; amended paragraph (b) of section 4020.02, and amend paragraph (a) and repealing paragraph (c) of section 6080.14 of the law No. 1 - 2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico", for the purposes of restructuring the sales and use tax so that tax rate is six (6) percent statewide and one (1) percent at municipal level; to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

End of Notes to Basic Financial statements

**Required Supplementary Information
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2013**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
 Budgetary Comparison Schedule – General Fund (Continued)
 (See Notes to Budgetary Comparison Schedule)
 Fiscal Year Ended June 30, 2013

	<u>Budgeted amounts</u>		<u>Actual amounts (budgetary basis)</u>	<u>Variance with final budget – over (under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 2,622,884	2,622,884	2,622,884	\$ -
Sales and use tax	1,005,355	1,005,355	936,687	(68,668)
Municipal license tax	1,318,928	1,318,928	1,315,443	(3,485)
Construction excise taxes	679,000	679,000	587,590	(91,410)
Intergovernmental grants and contributions	6,895,677	6,895,677	7,153,971	258,294
Interest on deposits	225,000	225,000	309,623	84,623
Charges for services	146,800	146,800	161,227	14,427
Miscellaneous	400,000	400,000	632,361	232,361
Total revenues	<u>13,293,644</u>	<u>13,293,644</u>	<u>13,719,786</u>	<u>426,142</u>
Expenditures and encumbrances:				
General government	5,910,459	5,698,961	5,701,367	(2,406)
Public safety	946,809	864,084	743,991	120,093
Public works	3,659,535	4,008,771	3,914,102	94,669
Health and welfare	529,774	529,773	526,546	3,227
Culture, recreation and education	912,686	897,035	837,105	59,930
Urban and economic development	504,110	462,214	431,524	30,690
Community development	140,936	143,471	131,553	11,918
Total expenditures	<u>12,604,309</u>	<u>12,604,309</u>	<u>12,286,188</u>	<u>318,121</u>
Revenues over (under) expenditures and encumbrances	<u>689,335</u>	<u>689,335</u>	<u>1,433,598</u>	<u>744,263</u>
Other financing sources (uses):				
Transfer to other governmental funds	(689,335)	(689,335)	(647,754)	41,581
Total other financing sources (uses)	<u>(689,335)</u>	<u>(689,335)</u>	<u>(647,754)</u>	<u>41,581</u>
Net increase (decrease) in fund balance (deficit)	<u>\$ -</u>	<u>-</u>	<u>785,844</u>	<u>\$ 785,844</u>

Reconciliation of differences:

Sources/inflows of financial resources:			
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule			\$ 13,719,786
Differences - budgetary basis to GAAP:			
Differences in bases of accounting:			
GAAP adjustments to revenues			(162,356)
Total revenues reported on the statement of revenues, expenditures and changes in fund balances			<u>\$ 13,557,430</u>

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)			\$ 12,933,942
Timing differences:			
Current year encumbrances recorded as expenditures for budgetary purposes			(39,109)
Prior year encumbrances recorded as expenditures for GAAP purposes			4,486
Entity differences			
Non-budgeted transfer to other governmental fund (budget carryover)			375,000
Non-budgeted expenditures			3,399
Total expenditures and transfer out to other funds as reported on the statement of revenues, expenditures and changes in fund balances			<u>\$ 13,277,718</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, 2013

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, 2013 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2013.

Financial Data Schedules
Fiscal Year Ended June 30, 2013

MUNICIPALITY OF COAMO
COMMONWEALTH OF PUERTO RICO

FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2013

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
Balance Sheet		
111	Cash-unrestricted	\$ 77,207
113	Cash-other restricted	6,768
100	Total Cash	<u>83,975</u>
150	Total Current Assets	<u>83,975</u>
164	Furniture, equipment and machinery - administration	74,189
166	Accumulated depreciation	(50,532)
160	Total capital assets, net of accumulated depreciation	<u>23,657</u>
180	Total Non-current Assets	<u>23,657</u>
190	Total Assets	<u>\$ 107,632</u>
322	Accrued compensated absences - current portion	\$ 2,693
310	Total Current Liabilities	<u>2,693</u>
354	Accrued compensated absences- Non-current	4,039
350	Total Non-current liabilities	<u>4,039</u>
300	Total Liabilities	<u>6,732</u>
508.1	Invested in capital assets, net of related debt	23,657
511.1	Restricted Net Position	6,768
512.1	Unrestricted Net Position	70,475
513	Total Net Position	<u>100,900</u>
600	Total Liabilities and Net Position	<u>\$ 107,632</u>

MUNICIPALITY OF COAMO
COMMONWEALTH OF PUERTO RICO

FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2013

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
Income Statement		
70600-010	Housing assistance payments	\$ 242,128
70600-020	Ongoing administrative fees earned	37,941
70600	HUD PHA operating grants	280,069
71100-020	Administrative Fee	41
71100	Investment income - unrestricted	41
71400-010	Housing Assistance Payment	1,383
71400-020	Administrative Fee	1,383
71400	Fraud recovery	2,766
71500	Other revenue	44,321
70000	Total Revenue	327,197
91100	Administrative salaries	39,941
91600	Office Expenses	5,127
91000	Total Operating-Administrative	45,068
96210	Compensated absences	2,073
96000	Total Other General Expenses	2,073
96900	Total Operating Expenses	47,141
97000	Excess Revenue Over Operating Expenses	280,056
97300-050	All Other	260,989
97300	Housing assistance payments	260,989
97350	HAP Portability-in	36,275
97400	Depreciation expense	6,434
90000	Total Expenses	350,839
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ (23,642)

MUNICIPALITY OF COAMO
COMMONWEALTH OF PUERTO RICO

FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2013

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
11030	Beginning equity	\$ 124,542
11170-001	Administrative Fee Equity- Beginning Balance	\$ 100,296
11170-010	Administrative Fee Revenue	37,941
11170-040	Investment Income	41
11170-045	Fraud Recovery Revenue	1,383
11170-050	Other Revenue	44,321
11170-051	Comment for Other Revenue	Portability Move- In Collections
11170-060	Total Admin Fee Revenues	83,686
11170-080	Total Operating Expenses	47,141
11170-090	Depreciation	6,434
11170-095	Housing Assistance Portability In	36,275
11170-100	Other Expenses	
11170-101	Comment for Other Expense	
11170-110	Total Expenses	89,850
11170-002	Net Administrative Fee	(6,164)
11170-003	Administrative Fee Equity- Ending Balance	94,132
11170	Administrative Fee Equity	\$ 94,132
11180-001	Housing Assistance Payments Equity - Begining Balance	\$ 24,246
11180-010	Housing Assistance Payment Revenues	242,128
11180-015	Fraud Recovery Revenue	1,383
11180-030	Total HAP Revenues	243,511
11180-080	Housing Assistance Payments	260,989
11180-100	Total Housing Assistance Payments Expenses	260,989
11180-002	Net Housing Assistance Payments	(17,478)
11180-003	Housing Assistance Payments Equity-Ending Balance	6,768
11180	Housing Assistance Payments Equity	\$ 6,768
11190-210	Total ACC HCV Units	720
11190	Unit Months Available	720
11210	Unit Months Leased	696

MUNICIPALITY OF COAMO
COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL DATA SCHEDULE
YEAR ENDED JUNE 30, 2013

NOTE A – BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national manager center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2013**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2013

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
US Department of Agriculture:			
Direct Program:			
Rural Housing Preservation Grant Program	10.433		\$ 14,266
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Child and Adult Care Food Program	10.558	N/AV	11,509
Pass-through the USDA Rural Development State Office:			
Rural Business Enterprise Grant Program	10.769	N/AV	<u>75,000</u>
Subtotal – US Department of Agriculture			<u>100,775</u>
US Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Voucher	14.871		280,069
Affordable Housing Development in Main Street Rejuvenation Projects	14.878		495,253
Emergency Solutions Grant Program	14.231		28,024
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	1,626,034
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:			
Shelter Plus Care Program	14.238	N/AV	2,515
Pass-through the Department of Public Housing of the Commonwealth of Puerto Rico:			
Public and Indian Housing	14.850	N/AV	<u>1,119,291</u>
Subtotal – US Department of Housing and Urban Development			<u>3,551,186</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Expenditures of Federal Awards (Continued)
Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	CFDA Number	Entity Identifying Number	Federal Expenditures
US Department of Justice:			
Pass-through the Department of Justice of the Commonwealth of Puerto Rico:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/AV	<u>51,201</u>
Subtotal – US Department of Justice			<u>51,201</u>
US Department of Health and Human Services:			
Pass-through the Governor’s Office for Elderly Affairs of the Commonwealth of Puerto Rico:			
Special Program for Aging – Title III - Part D – Disease Prevention and Health Services	93.043	N/AV	1,589
Special Program for Aging – Title III - Part B – Grant for Supportive Services and Senior Centers	93.044	N/AV	58,041
National Family Caregiver Support – Title III – Part E	93.052	N/AV	5,566
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:			
Child Care and Development Block Grant	93.575	N/AV	245,926
Family Violence Prevention and Services	93.591	N/AV	40,163
Pass-through the Department of the Health of the Commonwealth of Puerto Rico:			
Assistance Program for Chronic Disease Prevention and Control	93.945	N/AV	<u>25,231</u>
Subtotal – US Department of Health and Human Services			<u>376,516</u>
US Department of Homeland Security:			
Pass-through the Governor’s Authorized Representative Office (GAR) of the Commonwealth of Puerto Rico:			
Disaster Grants – Public Assistance	97.036		172,620

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, 2013

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
Pass-through the Governor's Office for Public Security Affairs of the Commonwealth of Puerto Rico:			
State Homeland Security Grant Program	97.067		<u>62,597</u>
Subtotal – US Department of Homeland Security			<u>235,217</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,314,895</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, 2013

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, 2013. 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, 2013.

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.

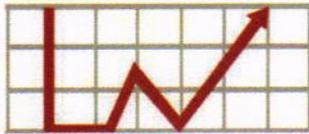
NOTE C - PASS - THROUGH GRANTOR'S NUMBER

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:

<u>Description</u>	<u>Special Revenue Fund- Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 4,034,826	\$ 280,069	\$ 4,314,895
Nonfederal programs expenditures and other adjustments	233,258	961,335	1,194,593
Total expenditures in the fund financial statements	<u>\$ 4,268,084</u>	<u>\$ 1,241,404</u>	<u>\$ 5,509,488</u>



López-Vega, CPA, PSC

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INDEPENDENT AUDITOR'S 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, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 27, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Coamo's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Coamo's** internal control.

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item **13-03** and **13-08** that we consider to be significant deficiencies.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Coamo's** financial statements are free from 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*.

Municipality of Coamo's Response to Findings

Municipality of Coamo's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Municipality of Coamo's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 27, 2014

Stamp No. 2675812 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



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited **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 **Municipality of Coamo's** major federal programs for the year ended June 30, 2013. **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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality of Coamo's** major federal programs based on our audit of the types of compliance requirements referred to above. 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 **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 on compliance for each major federal program. However, our audit does not provide a legal determination of **Municipality of Coamo's** compliance.

Opinion on Each Major Federal Program

In our opinion, **Municipality of Coamo** complied, in all material respects, with the types of 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, 2013.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-
133 (CONTINUED)**

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 **13-03** and **13-08**. Our opinion on each major federal program is not modified with respect to these matters.

Municipality of Coamo response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Autonomous Municipality of **Municipality of Coamo**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Municipality of Coamo is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Municipality of Coamo**'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-
133 (CONTINUED)**

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items **13-03** through **13-08** to be significant deficiencies.

Municipality of Coamo's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Municipality of Coamo's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

We noted certain matters that we reported to management of the **Municipality of Coamo** in a separate letter dated March 27, 2014.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 27, 2014

Stamp No. 2675813 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified 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: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes **X** No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants – State’s Program
14.850	Public and Indian Housing
14.871	Section 8 Hosing Choice Voucher
14.878	Affordable Housing Development in Main Street Rejuvenation Projects – Hope VI Main Street Grant Program

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2013

Section II – Financial Statements Findings

Finding Reference	13-01
Requirement	Fixed\Capital Assets and Expenditures – Subsidiary Ledger
Statement of Condition	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
Criteria	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.
Cause of Condition	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect of Condition	The Municipality's Government-Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
Recommendation	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, necessary to comply with the requirements of the GASB Statement No. 34.
Questioned Costs	None
Management Response and Corrective Action	The Municipality's Finance Department staff plan to continue your effort in order to update the capital assets subsidiary ledger ,principally the infrastructure assets.
	Implementation Date: December 2014
	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, 2013

Section II – Financial Statements Findings

Finding Reference **13-02**

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, 2013

Section II – Financial Statements Findings

Finding Reference **13-02 (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.

Implementation Date: July 2015

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, 2013

Section III – Major Federal Award Program Findings and Questioned Cost

Finding Reference	13-03
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Allowable Activities-Housekeepers activity
Statement of Condition	<p>We performed a housekeeper activity test of ten (10) participant’s files and found the following exceptions:</p> <ul style="list-style-type: none">a) In eight (8) participant’s files, we noted that the service contract (Form OCAM-AH-005) that established the service plan to be offered by the CDBG Program between the Municipality and the participant was not signed.b) In the ten (10) participant’s files, although we did find evidence that visits were performed during the contract period, the program staff did not visited at least twice per month the participant’s housing unit to ensure the quality of services, according to the activity procedures guide.
Criteria	Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Municipality has an operational guide that includes all procedures and program’s requirements for housekeeper activities.
Cause of Condition	The Municipality’s controls and procedures failed to assure that the participant’s files include all the required documents to comply with the program requirements.
Effect of Condition	The Municipality is not in compliance with the Code of Federal Regulations 24, Section 570.484 and with the operational guide.
Recommendation	We recommended management to follow the procedures established by the Office of the Commissioner of Municipal Affairs (OCAM) in the procedures manual, including the use of the forms included on it.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2013

Section III – Major Federal Award Program Findings and Questioned Cost

Finding Reference **13-03 (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 according to the guide "Guía Operacional para la Prestación del Servicio de Auxiliares en el Hogar". Regarding the required visits, a revised Guide has been submitted to OCAM reducing the number of visits to one (1), which be applied prospectively. Also, the Program staff will be monitored frequently for compliance, by the Federal Programs Department Director.

Implementation Date: April 2014

Responsible Person: Mrs. Marilyn Colón Arce
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2013

Section III – Major Federal Award Program Findings and Questioned Costs

Reference	13-04
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Cash Management
Statement of Condition	During our Cash Management test, we examined eleven (11) cash advances received by the program during the fiscal year 2012-2013, and we found that in nine (9) requisitions of funds (a total of \$852,614), the Municipality made the disbursements between four (4) to twenty one (21) days after the deposits.
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality’s disbursements procedures failed to assure that funds requested and received from the Pass-through Grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the pass-through grantor and the disbursements made by the Municipality.
Questioned Costs	None
Management Response and Corrective Action	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 2014
	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, 2013

Section III – Major Federal Award Program Findings and Questioned Costs

Reference	13-05
Program	Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Equipment and Real Property Management
Statement of Condition	Section II – Financial Statements Findings – Finding Reference 13-01

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2013

Section III – Major Federal Award Program Findings and Questioned Costs

Reference	13-06
Program	Public and Indian Housing (CFDA 14.850); U.S. Department of Housing and Urban Development
Requirement	Davis-Bacon Act
Statement of Condition	<p>During our Davis-Bacon Act test, we verified one (1) construction's file project, related to "Las Palmas Housing Project", and we found the following:</p> <ul style="list-style-type: none">a) We did not obtain evidence that the Municipality's monitors certified the weekly payroll supplied by the contractors.b) We noted that during the fiscal year 2012-2013, the Municipality did not apply adequate monitoring procedure to required on-site visits to monitor the classifications of workers and wage rates paid.
Criteria	Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Cause of Condition	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.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Recommendation	<p>We recommend that the Municipality should establish defined procedure to monitor the enforcement of the Act's regulation. Those procedures would include the following:</p> <ul style="list-style-type: none">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, 2013

Section III – Major Federal Award Program Findings and Questioned Costs

Reference **13-06 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Program staff with the responsibilities about compliance enforcement with Davis-Bacon Act requirements was oriented about the requirement to perform the required visits to the project, and monitor the classifications of the workers. Also, we will instruct the 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. But, it's important to comment that the construction activities are not a principal activity of this Federal Program.

Implementation Date: April 2014

Responsible Person: Mrs. Marilyn Colón Arce
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2013

Section III – Major Federal Award Program Findings and Questioned Costs

Reference	13-07
Program	Public and Indian Housing (CFDA 14.850); U.S. Department of Housing and Urban Development
Requirement	Eligibility Test
Statement of Condition	<p>During our Eligibility Test, we examined five (5) participant’s files related to “Las Palmas Housing Project”, five (5) participant’s files related to “Coamo Housing Project” and five (5) participant’s files related to “Eden Housing Project” and we found the following:</p> <ul style="list-style-type: none">a. Five (5) participant’s files did not include the Enterprises Income Verification (EIV) related to “Las Palmas Housing Project”.b. There (3) participant’s files did not include the Enterprises Income Verification (EIV) related to “Coamo Housing Project”.c. Four (4) participant’s files did not include the Enterprises Income Verification (EIV) related to “Eden Housing Project”.
Criteria	<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> <p>Notice PIH 2010-19 provides guidance related to (74 FR 68924, 24 CFR 5.233, 24 CFR 5.236):</p> <ul style="list-style-type: none">(1) the mandated use of HUD’s Enterprise Income Verification (EIV) system in its entirety to verify tenant employment and income information during mandatory reexamination, interim reexaminations and new participant admissions about family composition and income, as publish in the 74 FR 68924;(2) maintain the Income Report in the Tenant file along with the form HUD-50058 and other supporting documentation to support income and rent determinations;

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2013

Section III – Major Federal Award Program Findings and Questioned Costs

Reference	13-07 (Continued)
Criteria	(Continued) (3) review the EIV Income Report to confirm/validate family-reported income within 120 days of the PIC submission date for each new admission, and interim reexamination; (4) immediately update their policies and procedures to reflect these new provisions The Puerto Rico Public Housing Administration established the Eligibility and Continuance Occupancy Policies Guide with the policies related to the use, and control of the EIV Report.
Cause of Condition	The Program's officers has not follow policies and procedures to comply with the provisions of the 74 FR 68924, 24 CFR to obtain all required documentation to validate the participant's eligibility.
Effect of Condition	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 of HAP payments.
Recommendation	The Program must establishe policies and procedures in accordance to the Notice PIH 2010-19 to incorporate the EIV Report Income in each action taken to verify tenant employment and income information.
Questioned Costs	None
Management Response and Corrective Action	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 2014 Responsible Person: Mrs. Marilyn Colón Arce Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2013

Section III – Major Federal Award Program Findings and Questioned Costs

Reference	13-08
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development
Requirement	Eligibility Test
Statement of Condition	<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> <ol style="list-style-type: none">a. EIV Income Report was not obtained for one (1) participant at the time of conducting the annual reexamination of the family income and compositions.b. EIV Income Report was not obtained for the four (4) new admissions at the time of conducting the examination of the family income and compositions.
Criteria	<p>Code of Federal Regulations 24, Sections 5.609 establishes 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), establish 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> <p>Notice PIH 2010-19 provides guidance related to (74 FR 68924, 24 CFR 5.233, 24 CFR 5.236):</p> <ol style="list-style-type: none">(1) the mandated use of HUD's Enterprise Income Verification (EIV) system in its entirety to verify tenant employment and income information during mandatory reexamination, interim reexaminations and new participant admissions about family composition and income, as published in the 74 FR 68924;(2) maintain the Income Report in the Tenant file along with the form HUD-50058 and other supporting documentation to support income and rent determinations;(3) review the EIV Income Report to confirm/validate family-reported income within 120 days of the PIC submission date for each new admission, and interim reexamination;(4) immediately update their policies and procedures to reflect these new provisions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2013

Section III – Major Federal Award Program Findings and Questioned Costs

Reference	13-08 (Continued)
Cause of Condition	The Program's officers has not updated the policies and procedures to comply with the provisions of the 74 FR 68924, 24 CFR to obtain all required documentation to validate the participant's eligibility.
Effect of Condition	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 of HAP payments.
Recommendation	The Program must established policies and procedures in accordance to the Notice PIH 2010-19 to incorporate the EIV Report Income in each action taken to verify tenant employment and income information.
Questioned Costs	None
Management Response and Corrective Action	<p>We will review the documentation protocol and will instruct the Program's Staff in order to strength our internal control and procedures to comply with the required verification hierarchy. It's important to comment that the purpose of HUD's EIV System is to make integrated income data available from one source income verification during required income reexaminations; in other words, to verify tenant employment and income information during mandatory reexaminations of family composition and income; EIV is not available for verifying of income of applicants (new participants). Our Municipality will implement PIH Notice 2010-19 as indicated by HUD setting forth procedures to verify EIV 120 days after admission.</p> <p>Implementation Date: April 2014</p> <p>Responsible Person: Mrs. Marilyn Colón Arce Federal Programs Department Director</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Prior Years Audit Findings (Continued)
Fiscal Year Ended June 30, 2013

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
12-03	14.228	<p><u>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.</u></p> <p>Partial corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-03.</p>
12-04	14.228 14.255	<p><u>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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-04.</p>
12-05	14.228 14.255	<p><u>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.</u></p> <p>The compliance requirement was no evaluated during fiscal year 2012-2013, because no construction contracts were issued.</p>
12-06	14.228 14.255	<p><u>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.</u></p> <p>Corrective action was taken.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Prior Years Audit Findings (Continued)
Fiscal Year Ended June 30, 2013

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
12-07	14.228 14.255	<p><u>Section II – Financial Statements Findings – Finding Reference 12-01</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-05.</p>
12-08	14.850	<p><u>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: (a) Eight (8) participant’s files did not include the Enterprises Income Verification (EIV) related to “Las Palmas Housing Project”; (b) Ten (10) participant’s files did not include the Enterprises Income Verification (EIV) related to “Coamo Housing Project”; (c) Eight (8) participant’s files did not include the Enterprises Income Verification (EIV) related to “Eden Housing Project”.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-07.</p>
12-09	14.871	<p><u>During our verification, the Municipality did not perform the required Housing Quality Control re-inspections during the fiscal year 2011-2012.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-08.</p>
12-10	14.871	<p><u>During our Eligibility Test, we examined twenty (20) participant’s files and we found the following deficiencies in the enterprises income verification (EIV): (a) In seventeen (17) participant’s files the PHA did not fill the Tenant Certification page in its entirety; (b) One (1) participant’s file did not include the Enterprises Income Verification (EIV).</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 13-09.</p>
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 13-03.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Prior Years Audit Findings (Continued)
Fiscal Year Ended June 30, 2013

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-04	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 13-04</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 13-06.</p>
11-03	14.228 14.255	<p><u>We performed a housekeeper activities test of ten (10) participant’s files and found the following exceptions: (a) In the ten (10) participant’s files, we noted that the eligibility approval form was not completed by the program staff; (b) In the ten (10) participant’s files, we did not find evidence that demonstrate if the program staff visited at least twice per month the participant’s housing unit to ensure the quality of services.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding reference 13-03.</p>
11-04	14.228 14.255	<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: (a) In eight (8) requisitions of funds (a total of \$795,058.17), we observed that the Municipality made the disbursements between seven (7) to forty two (42) days after the deposits. (b) Also, the Community Development Block Grant-State Program cash account maintained a monthly average cash balance of \$58,380 in books.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding reference 13-04.</p>

