

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

Fiscal Year Ended June 30, 2014



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

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

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, 2014

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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, 2014, 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, 2014, 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.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the Municipality's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for these component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component units. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Qualified Opinion on the Aggregately Discretely Presented Component Units" paragraph , the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the **Municipality of Coamo**, as of June 30 , 2014, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2014, 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 **5** through **15** and Budgetary Comparison information on page **75**, 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.

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 **78** thru **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 **82** and **85** 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.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, on our consideration of the **Municipality of Coamo's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Coamo's** internal control over financial reporting and compliance.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 30, 2015

Stamp No. 2705429 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

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, 2014. 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 \$27,022,298 or forty five percent (45%) of total assets.
- The Municipality's Governmental Activities total Net Position increased by \$3,165,686 or thirteen percent (13%) from the prior fiscal year-end balance.
- At the end of fiscal year 2014, total liabilities of the Municipality Governmental Activities amounted to \$33,090,785. Out of said amount, \$28,017,247 corresponded to long-term liabilities of which \$24,119,495 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 \$18,144,035 or \$3,193,593 over the similar figure corresponding to the previous fiscal year 2012-2013.
- At the end of the current fiscal year, the fund balance of the Municipality's General Fund amounted to \$2,249,827, or \$239,066 more than the previous fiscal year.
- The actual General Fund budgetary activities resulted in a favorable balance of \$455,724.

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Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2014

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, 2014. 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.

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Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2014

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.

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.

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. The Municipality's five major

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Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2014

governmental funds are:

- The General Fund
- The Special Revenue Fund – Federal Grants
- The Special Revenue Fund – State and Local Grants
- The Capital Projects 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.

c) Notes to Basic Financial Statements

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

d) Other Supplementary Information

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

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Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2014

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 \$27,022,298 at the end of 2014, as compared with \$23,856,612 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 \$3,165,686 increase reflected in the governmental activities Net Position figure:

	Governmental activities	
	June 30, 2014	June 30, 2013
Assets:		
Current assets	\$ 24,513,855	\$ 20,004,830
Non-current assets:		
Capital assets, net	35,599,228	32,703,809
Total assets	<u>60,113,083</u>	<u>52,708,639</u>
Liabilities:		
Current liabilities, excluding long-term obligations	5,073,538	3,187,165
Long-term obligations:		
Due within one year	3,607,990	2,856,855
Due after one year	24,409,257	22,808,007
Total liabilities	<u>33,090,785</u>	<u>28,852,027</u>
Net position:		
Net investment in capital assets	18,522,392	18,668,149
Restricted	15,418,053	12,623,745
Unrestricted	(6,918,147)	(7,335,282)
Total net position	<u>\$ 27,022,298</u>	<u>\$ 23,856,612</u>

The Statement of Activities reflects that for fiscal year 2014, the revenues derived from several programs plus current operating revenues, when compared to total expenses, represent a net increase amounted to \$3,165,686 in governmental activities net position. Approximately thirty percent (30%) of the Municipality's governmental activities total revenue came from taxes, while sixty five percent (65%) resulted from grants and contributions, including federal aid. The Municipality's governmental activities expenses included items such as general government, urban and economic development, health and welfare, public safety, public works, culture, recreation and education, community development and interest on long term obligations.

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Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2014

Approximately twenty eight percent (28%) of total expenses resulted from general government, six percent (6%) of total expenses resulted from urban and economic development, twelve percent (12%) of total expenses resulted from health and welfare, three percent (3%) of total expenses resulted from public safety, twenty one percent (21%) of total expenses resulted from public works, twenty two percent (22%) of total expenses resulted from culture, recreation and education, three percent (3%) 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, 2014 and 2013:

	Governmental activities	
	June 30, 2014	June 30, 2013
Program revenues:		
Program-specific operating grants and contributions	\$ 6,619,559	\$ 2,622,890
Program-specific capital grants and contributions	2,625,988	2,888,650
Charges for services	332,726	572,007
Total program revenues	<u>9,578,273</u>	<u>6,083,547</u>
General revenues:		
Property taxes	4,240,463	4,041,066
Municipal license taxes	1,380,044	1,315,443
Sales and use taxes	1,766,777	1,700,696
Construction excise taxes	313,477	587,590
Unrestricted grants and contributions	7,886,408	7,736,976
Other general revenues (various sources)	1,068,382	623,543
Total general revenues	<u>16,655,551</u>	<u>16,005,314</u>
Total revenues	<u>26,233,824</u>	<u>22,088,861</u>
Program expenses:		
General government	6,381,804	5,842,289
Health and welfare	2,808,346	2,422,554
Public works	4,787,508	5,309,743
Public safety	784,436	838,019
Culture, recreation and education	5,147,679	996,400
Community development	685,897	1,027,504
Urban and economic development	1,341,601	935,327
Interest on long-term obligations	1,130,867	989,137
Total expenses	<u>23,068,138</u>	<u>18,360,973</u>
Change in net position	3,165,686	3,727,888
Net position, at beginning of fiscal year	23,856,612	20,128,724
Net position, at end of fiscal year	<u>\$ 27,022,298</u>	<u>\$ 23,856,612</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2014

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 \$18,144,035, which represents an increase of \$3,193,593 when compared with the prior year. Out of the indicated balance, \$14,703,356 was restricted for the following purposes: (1) to liquidate statutory debts (\$1,622); 2) to pay for capital projects (\$8,400,058); 3) for debt service payments (\$5,304,142); and 4) for other purposes (\$997,534). Also, \$1,394,148 were committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$201,674); 2) to pay for capital projects (\$772,471); and 3) for other purposes (\$420,003). As of June 30, 2014, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund balance of \$2,046,531.

The following table presents the condensed financial position of governmental funds at June 30, 2014 and 2013:

	2014	2013
Assets:		
Total assets - major governmental funds	\$ 24,745,566	\$ 18,611,376
Total assets - other governmental funds	75,748	946,190
Combined total assets	<u>24,745,566</u>	<u>19,557,566</u>
Liabilities:		
Total liabilities - major governmental funds	6,677,279	4,260,018
Total liabilities - other governmental funds	-	347,106
Combined total liabilities	<u>6,677,279</u>	<u>4,607,124</u>
Fund balances (deficits):		
Restricted - major governmental funds	14,627,608	12,137,466
Restricted - other governmental funds	75,748	208,322
Committed - major governmental funds	1,394,148	243,862
Committed - other governmental funds	-	390,762
Unassigned - major governmental funds	2,046,531	1,970,030
Combined total fund balances	<u>18,144,035</u>	<u>14,950,442</u>
Total liabilities and fund balances	<u><u>\$ 24,821,314</u></u>	<u><u>\$ 19,557,566</u></u>

COMMONWEALTH OF PUERTO RICO
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Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2014

BUDGETARY HIGHLIGHTS

a) General Fund

The original and the final budget of the general fund for the fiscal year ended June 30, 2014 amounted to \$13,553,810. 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, 2014 were \$ 13,714,120, which is 1% (\$160,310) 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, 2014 were \$13,258,396, which is 2% (\$295,414), 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 \$345,533 more than budgeted; in interest on deposits, which had actual revenues that were \$103,419 more than budgeted; in miscellaneous revenues, which had actual revenues that were \$238,608 more than budgeted; and in sales taxes and construction excise taxes, which had actual revenues that were \$101,232 and \$519,523 less than budgeted, respectively.

Also, the most significant fluctuations in actual expenditures and encumbrances occurred in public works and public safety, which had actual expenditures, and encumbrances that were \$187,565 and \$152,832 lower than budgeted, respectively, and general government, which had actual expenditures and encumbrances that were \$205,895 more than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$ 49,020,774 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$ 13,421,546 at June 30, 2014. The net capital assets of governmental activities increased during the current fiscal year due to the current fiscal year's capital additions and reclassifications (\$3,835,912), which were partially offset by the depreciation expense and reclassifications (\$940,493) for the same period.

The capital additions made to capital assets during the fiscal year ended June 30, 2014 were the following:

Construction in progress	\$ 2,085,654
Buildings, structures and improvements	1,178,732
Machinery, equipment, furniture and fixtures	543,434
Licensed vehicles	28,092
Capital additions for the fiscal year ended June 30, 2014	<u>\$ 3,835,912</u>

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Fiscal Year Ended June 30, 2014

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 2014-2015.

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.

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Management's Discussion and Analysis (Continued)
Fiscal Year Ended June 30, 2014

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 2014-2015.

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, 2014**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Statement of Net Position
June 30, 2014

	Primary Government Governmental activities
Assets	
Current assets:	
Cash in commercial banks	\$ 6,351,734
Cash in fiscal agent	13,392,181
Accounts receivable, net of allowance for doubtful accounts:	
Property taxes	18,948
Intergovernmental	2,248,721
Sales tax	256,437
Municipal license	22,203
Interest	36,938
Due from component units	230,000
Real estate held for sale	1,956,693
Total current assets	24,513,855
Noncurrent assets:	
Capital assets, net of accumulated depreciation and amortization of \$13,421,546	35,599,228
Total noncurrent assets	35,599,228
Total assets	\$ 60,113,083
Current Liabilities (due within one year):	
Accounts payable	\$ 2,611,071
Due to component units	246,539
Intergovernmental payables	246,539
Accrued interest payable on long-term debt	660,411
Unearned revenues	1,308,978
Current portion of long-term obligations:	
Bonds payable	1,064,835
Other debts	2,548,155
Total current liabilities	8,686,528
Noncurrent liabilities (due in more than one year):	
Current portion of long-term obligations:	
Bonds payable	22,203,279
Other debts	2,200,978
Total Noncurrent liabilities	24,404,257
Total liabilities	\$ 33,090,785
Net position:	
Invested in capital assets, net of related debt	\$ 18,522,392
Restricted for:	
Capital projects	9,172,529
Debt service	4,827,987
Other specified purposes	1,417,537
Unrestricted net assets	(6,918,147)
Total net position	\$ 27,022,298

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, 2014

Functions/programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Primary Governmental Activities</u>
PRIMARY GOVERNMENT:					
Governmental activities :					
General government	\$ 6,381,804	\$ -	\$ 126,922	\$ -	\$ (6,254,882)
Health and welfare	2,808,346		2,171,952		(636,394)
Public works	4,787,508	105,133		461,942	(4,220,433)
Public safety	784,436	25,117	42,496	100,218	(616,605)
Culture, recreation and education	5,147,679	61,742	4,020,024		(1,065,913)
Community Development	685,897			728,264	42,367
Urban and economic development	1,341,601	140,734	258,165	1,335,564	392,862
Interest on long-term obligation	1,130,867				(1,130,867)
TOTAL PRIMARY GOVERNMENT	<u>\$ 23,068,138</u>	<u>\$ 332,726</u>	<u>\$ 6,619,559</u>	<u>\$ 2,625,988</u>	<u>\$ (13,489,865)</u>

GENERAL REVENUES

Taxes:

Property taxes	4,240,463
Municipal license taxes	1,380,044
Sales taxes	1,766,777
Construction excise taxes	313,477
Total taxes	<u>7,700,761</u>
Grants and contributions, not restricted to specific programs	7,886,408
Interests on deposits	340,930
Miscellaneous	727,452
Total general revenues	<u>16,655,551</u>
CHANGE IN NET POSITION	3,165,686
NET POSITION - beginning of the year	<u>23,856,612</u>
NET POSITION - end of the year	<u>\$ 27,022,298</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
Fiscal Year Ended June 30, 2014

	MAJOR FUNDS						Total Governmental Funds
	General Fund	Special Revenue Fund - Federal Grants	Special Revenue Fund - State & Local Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Nonmajor Funds	
ASSETS							
Cash in commercial banks	\$ 1,567,000	\$ 1,248,187	\$ 1,536,315	\$ 1,924,484	\$ -	\$ 75,748	\$ 6,351,734
Cash in fiscal agent	1,622	150,661	4,287	8,131,505	5,104,106		13,392,181
Account receivable, net of doubtful accounts:							
Property taxes					18,948		18,948
Municipal license	22,203						22,203
Sales and use tax	75,349				181,088		256,437
Interest	36,938						36,938
Due from other funds	2,264,152						2,264,152
Due from component units	230,000						230,000
Due from governmental entities	-	1,604,501	570,394	73,826			2,248,721
Total assets	<u>\$ 4,197,264</u>	<u>\$ 3,003,349</u>	<u>\$ 2,110,996</u>	<u>\$ 10,129,815</u>	<u>\$5,304,142</u>	<u>\$ 75,748</u>	<u>\$ 24,821,314</u>
LIABILITIES							
Accounts payable	740,338	1,299,015	24,404	608,121			2,671,878
Intergovernmental payable	246,539						246,539
Due to other funds	-	1,351,371	644,276	268,505			2,264,152
Due to component units	3,285	1,260	100,527	80,660			185,732
Unearned revenue	957,275	351,703					1,308,978
Total liabilities	<u>1,947,437</u>	<u>3,003,349</u>	<u>769,207</u>	<u>957,286</u>	<u>-</u>	<u>-</u>	<u>6,677,279</u>
FUND BALANCES							
Fund balance:							
Restricted	1,622		921,786	8,400,058	5,304,142	75,748	14,703,356
Committed	201,674		420,003	772,471			1,394,148
Unassigned	2,046,531						2,046,531
Total fund balances	<u>2,249,827</u>	<u>-</u>	<u>1,341,789</u>	<u>9,172,529</u>	<u>5,304,142</u>	<u>75,748</u>	<u>18,144,035</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,197,264</u>	<u>\$ 3,003,349</u>	<u>\$ 2,110,996</u>	<u>\$ 10,129,815</u>	<u>\$5,304,142</u>	<u>\$ 75,748</u>	<u>\$ 24,821,314</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Fiscal Year Ended June 30, 2014

	MAJOR FUNDS						Total Governmental Funds
	General Fund	Special Revenue Fund - Federal Grants	Special Revenue Fund - State & Local Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Nonmajor Funds	
REVENUES							
Taxes:							
Property taxes	\$ 2,707,472	\$ -	\$ -	\$ -	\$ 1,532,991	\$ -	\$ 4,240,463
Municipal license	1,380,044						1,380,044
Construction excise taxes	313,477						313,477
Sales and use tax	946,327				820,450		1,766,777
Charges of service	191,992		140,734				332,726
Intergovernmental grants and contributions:							
Federal government		5,343,400				275,610	5,619,010
State government	7,309,465	29,422	2,501,063	1,672,995			11,512,945
Investment earnings	340,930						340,930
Miscellaneous	536,924		128,064	7,747		54,717	727,452
Total Revenues	<u>13,726,631</u>	<u>5,372,822</u>	<u>2,769,861</u>	<u>1,680,742</u>	<u>2,353,441</u>	<u>330,327</u>	<u>26,233,824</u>
EXPENDITURES							
Current:							
General government	6,168,879			156,087			6,324,966
Health and welfare	528,426	1,938,838				338,554	2,805,818
Public works	3,724,567	117,687	68,766	766,330			4,677,350
Public safety	720,159	100,219					820,378
Culture, recreation and education	859,426	2,480,991	1,551,372	126,267			5,018,056
Community development	100,714	728,264		94,725			923,703
Urban and economic development	460,946	264,259	323,043	3,453,665			4,501,913
Debt service:							
Principal				674,982	919,835		1,594,817
Interest					970,648		970,648
Total Expenditures	<u>12,563,117</u>	<u>5,630,258</u>	<u>1,943,181</u>	<u>5,272,056</u>	<u>1,890,483</u>	<u>338,554</u>	<u>27,637,649</u>
Excess (Deficiency) of Revenues over expenditures	<u>1,163,514</u>	<u>(257,436)</u>	<u>826,680</u>	<u>(3,591,314)</u>	<u>462,958</u>	<u>(8,227)</u>	<u>(1,403,825)</u>
OTHER FINANCING SOURCES (USES)							
Transfer in from other funds				1,335,231	644,448		1,979,679
Transfer out to other funds	(924,448)				(1,055,231)		(1,979,679)
Special Item-sale of capital assets held for sale				674,982			674,982
Proceeds from debt issuance		257,436		3,665,000			3,922,436
Total Other Financing Sources (uses)	<u>(924,448)</u>	<u>257,436</u>	<u>-</u>	<u>5,675,213</u>	<u>(410,783)</u>	<u>-</u>	<u>4,597,418</u>
NET CHANGE IN FUND BALANCES	239,066	-	826,680	2,083,899	52,175	(8,227)	3,193,593
FUND BALANCE AT BEGINNING OF YEAR	<u>2,010,761</u>	<u>-</u>	<u>515,109</u>	<u>7,088,630</u>	<u>5,251,967</u>	<u>83,975</u>	<u>14,950,442</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,249,827</u>	<u>\$ -</u>	<u>\$1,341,789</u>	<u>\$ 9,172,529</u>	<u>\$ 5,304,142</u>	<u>\$ 75,748</u>	<u>\$ 18,144,035</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position
June 30, 2014

Aggregate fund balance reported in the balance sheet - governmental funds	\$ 18,144,035
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	35,599,228
Capital assets 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, 2014.	1,956,693
The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:	
Bonds payable	(24,119,495)
Note payable to GDB - line of credit	(521,395)
Note payable to Local Saving and Loan Cooperatives Consortium- line of credit	(829,878)
Notes payable to CRIM	(1,085,996)
Compensated absences	(1,460,483)
Accrued interest payable on long-term debt	<u>(660,411)</u>
Net position as reported in the accompanying statement of net position	<u>\$ 27,022,298</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 – Governmental Funds to the Statement of Activities
Fiscal Year Ended June 30, 2014

Net change in fund balances- total governmental funds \$3,193,593

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	(160,219)
Net change in compensated absences liability	103,620
Net change in notes payable to CRIM	(128,386)

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. 2,895,419

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. 264,260

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. 1,594,817

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. (674,982)

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. (3,922,436)

Net changes in net assets reported in the accompanying statements of activities. \$ 3,165,686

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, 2014

1. Summary of Significant Accounting Policies

The Municipality of Coamo (the Municipality) is a local municipal government constituted in 1579 in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by 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 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, 2014, 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, 2014 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, 2014, 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, 2014

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, 2014.

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 required to be 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, 2014

Based on the application of the criteria outlined above, the following are considered component units of the Municipality: Municipal Enterprise “Piscinas Aguas Termales”, Municipal Enterprise “Teatro Hollywood”, Municipal Enterprise “Restaurante el Mirador”, Municipal Enterprise “Mantenimiento y Ornato”, Municipal Enterprise “Agrícola Illescana”, Municipal Enterprise “Todo Deportes”, and Municipal Enterprise “Servicios de Seguridad”. 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, 2014

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 “Agrícola Illescana”** – This is a for profit organization engaged in the agriculture 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 “Todo Deportes”** – This is a for profit organization engaged in the sport shop retail 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 “Servicios de Seguridad”** – This is a for profit organization engaged in the public and private properties security 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 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.

However, the financial statements of these organizations have not been included in the Municipality's financial statements because audited financial statements were not available for the year ended June 30, 2014.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

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. 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)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

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

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.

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- **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.

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.

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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.

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.

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- ***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, 2014, 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 appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.
- ***Capital projects funds*** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for also in the capital projects funds.

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

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

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major

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governmental fund in the FFS if its total assets, deferred outflow of resources, liabilities, deferred inflow of resources, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, deferred outflow of resources, liabilities, deferred inflow of resources, revenues or expenditures) for all governmental funds. In addition, the same element that meets the 10 percent criterion must be at least 5 percent of the corresponding element total for all governmental and enterprise (proprietary) funds combined. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying FFS are: (1) the general fund, (2) the debt service fund, (3) the special revenue fund-federal grants, the (4) the special revenue fund-state and local grants, and (5) the capital projects fund-state and local grants.

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

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

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

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e) Measurement Focus and Basis of Accounting

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

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

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

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

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

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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 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, 2014, 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, 2014.

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.

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

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

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

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.

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- 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.

f) Stewardship, Compliance and Accountability

Budgetary Control

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

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

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

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

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

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

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

Budgetary Accounting

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

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

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related 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, 2014. Further details of the Municipality's budgetary control at the legal

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level may be obtained from the Municipality's Computerized Accounting System Reports for the fiscal year ended June 30, 2014.

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

g) Deposits

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

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations. At June 30, 2014, the cash available in the pooled cash account amounted to \$2,503,520, 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 general fund amounts to \$1,567,000 and \$1,622, respectively, represents the balance of interest bearing and non-interest bearing accounts for operating expenditures.

Cash in commercial banks and cash with fiscal agent of the special revenue fund – federal grants, amounting to \$1,248,187 and \$150,661, 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 special revenue fund – state and local grants, amounting to \$1,536,315 and \$4,287, respectively, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain state and local financially assisted programs.

Cash in commercial bank and cash with fiscal agent in the capital projects fund – state and local grants, amounting to \$1,924,484 and \$8,131,505, 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.

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Cash with fiscal agent in the debt service fund consists of cash related to property tax and sales and use tax collections amounting to \$5,104,106 which are restricted for the payment of the Municipality's debt service of bonds payable, as required by law.

Cash in commercial bank in the other governmental fund, amounting to \$75,748, represents the balance of interest bearing account which is restricted to finance the operations of certain federal funded program.

h) Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2014. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds".

i) 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.

j) 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.

k) 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

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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, 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.

l) Unearned Revenues

In the governmental fund financial statements, unearned revenue arises when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

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Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net position).

m) 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.

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.

n) 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, 2014 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

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

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

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

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

o) 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.

p) Accounting for Pension Costs

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

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

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

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

q) 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, 2014 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

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

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

The Municipality also obtains medical insurance coverage from a health insurance company for its employees. Different health insurance coverage and premium options are negotiated each year by the Municipality. The current insurance policies have not been cancelled or terminated at June 30, 2014. 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.

r) 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

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classifications that comprise a hierarchy upon use of the resources reported in governmental funds.

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

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

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2014.

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

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resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

s) ***Inter-fund and Intra-entity Transactions***

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

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

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

Also, the Municipality has the following type of intra-entity transactions recorded among primary government and component units in the accompanying GFFS:

- ***Intra-entity transactions*** – Represent the flow of resources between the primary government and its component units, and among component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as inter-fund activity, as described above.

t) ***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.

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u) Future Adoption of Accounting Pronouncements

The GASB has issued the following standards that have effective dates after June 30, 2014:

- 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.
- GASB Statement No. 72 *Fair Value Measurement and Application (Issued 2/15)*. The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

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

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2. Deposits

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

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

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2014.
- **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, 2014, (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, 2014, 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 \$13,392,181 at June 30, 2014, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. 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

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Notes to Basic Financial Statements (Continued)
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concluded that at June 30, 2014, 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, 2014.

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, 2014, 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 revenue collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenue in the GWFS and the general fund. Unearned municipal license tax revenues recorded in the accompanying GWFS and the general fund amounted to \$957,275 at June 30, 2014. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2014-2015, therefore, cannot be used to pay obligations of the fiscal year 2013-2014.

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4. Sales and Use Taxes

On July 4, 2006, the Commonwealth Legislature approved Act No. 117 (“Act 117”) which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth’s sales and use tax.

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80) which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth’s Legislature

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. Effective January 1, 2011 the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050 the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue \$946,327 in the general fund corresponding to the 1% imposition and \$820,450 in the debt service fund corresponding to the Municipal Redemption Fund.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable in the general and debt service funds at June 30, 2014, of \$75,349 and \$181,088, respectively, represents the tax collected on June (or before) by

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individuals, organizations and entities but reported and paid to the Municipality on or before July 10, net of uncollectible accounts.

On June 30, 2013, the Commonwealth approved Act No. 40 which among other things, reduces the municipal sales and use tax from 1.5% to 1% and increasing the Commonwealth sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

The purpose of the Act No. 18 of January 24, 2014 is to create a special fund called Municipal Administration Fund (FAM) under custody of the Governmental Development Bank of Puerto Rico (“GDB”) that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth’s sales and use tax will be deposited in COFINA. From these funds during a transitory period from February 1, 2014 to June 30, 2014 the Commonwealth will deposit \$43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth’s Legislature.

After July 1, 2014, the 6% corresponding to the Commonwealth’s sales and use tax will be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act’s provisions. The Autonomous Municipality of Coamo signed the agreement to be covered.

For municipalities covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,

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- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities has the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

The purpose of the Act No. 19 of January 24, 2014 is to create the Municipal Finance Corporation (COFIM) a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

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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 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, 2014 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, 2014 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

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Notes to Basic Financial Statements (Continued)
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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 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, 2014, property taxes receivable recorded in the debt service fund amounted to \$18,948.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

6. Accounts Payable and Accrued Liabilities

The composition of accounts payable and accrued liabilities balances at June 30, 2014 and for the fiscal year then ended is as follows:

Descriptions:	Major governmental funds				Total governmental funds
	General fund	Special revenue fund – federal grants	Special revenue fund – state & local grants	Capital projects fund – State & local grants	
Accounts payable	\$ 629,808	1,299,015	24,404	608,121	\$ 2,561,348
Accrued liabilities	110,530	-	-	-	110,530
Total	<u>\$ 740,338</u>	<u>1,299,015</u>	<u>24,404</u>	<u>608,121</u>	<u>\$ 2,671,878</u>

7. 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	\$ 448,847	-	448,847	\$ 448,847
Puerto Rico Department of Education	439,039	-	439,039	439,039
Puerto Rico Department of Public Works	73,826	-	73,826	73,826
U.S. Department of Housing and Urban Development	29,335	-	29,335	29,335
Government Development Bank for Puerto Rico	408,840	-	408,840	408,840
U.S. Department of Justice	8,517	-	8,517	8,517
Puerto Rico Administration for Children and Families	44,816	-	44,816	44,816
Puerto Rico Public Housing Administration	270,984	-	270,984	270,984
Puerto Rico Governor's Office - Elderly Affairs	13,108	-	13,108	13,108
Puerto Rico Governor's Office - Youth Affairs	79,986	-	79,986	79,986
Puerto Rico Department of Labor	431,423	-	431,423	431,423
Total intergovernmental receivables	<u>\$ 2,248,721</u>	<u>-</u>	<u>2,248,721</u>	<u>\$ 2,248,721</u>
Intergovernmental payables:				
Payroll (general fund):				
Puerto Rico Department of Labor	\$ 14,422	-	14,422	\$ 14,422
Utilities and Others (general fund):				
Puerto Rico Aqueduct and Sewer Authority	229,637	-	229,637	229,637
Puerto Rico General Services Administration	2,480	-	2,480	2,480
Total intergovernmental payables	<u>\$ 246,539</u>	<u>-</u>	<u>246,539</u>	<u>\$ 246,539</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

8. Inter-fund and Intra-entity Transactions

a) Inter-fund Transaction

The composition of inter-fund balances at June 30, 2014 and for the fiscal year then ended is as follows:

	Due from:	
Due/to:	General fund	Total governmental funds
Special revenue fund – federal grants	\$ 1,351,371	\$ 1,351,371
Special revenue fund – state & local grants	644,276	644,276
Capital projects fund – state & local grants	268,505	268,505
Total	\$ 2,264,152	\$ 2,264,152

	Transfers out:		
Transfers in:	General fund	Debt service fund	Total governmental funds
Debt service fund	\$ 644,448	\$ -	\$ 644,448
Capital projects fund – state & local grants	280,000	1,055,231	1,335,231
Total	\$ 924,448	\$1,055,231	\$ 1,979,679

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 2014.
- Make a non-routinely transfer of resources (general fund unassigned fund balance) from the general fund to a capital project governmental fund to cover specific capital project and other costs.
- Make a non-routinely transfer of resources (deb service fund unassigned fund balance surplus) from the debt service fund to a capital project governmental fund to cover specific capital project and other costs.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers at June 30, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

a) Intra-entity Transaction

Due from component units at June 30, 2014 are as follows:

Payable Entity:	Receivable Entity:	
	General fund	Total due from component units
Municipal Enterprise "Mantenimiento y Ornato"	\$ 200,000	\$ 200,000
Municipal Enterprise "Restaurante el Mirador"	30,000	30,000
Total	<u>\$ 230,000</u>	<u>\$ 230,000</u>

Due to component units at June 30, 2014 are as follows:

Payable Entity:	Receivable Entity:				Total due to component units
	Municipal Enterprise "Mantenimiento y Ornato"	Municipal Enterprise "Teatro Hollywood"	Municipal Enterprise "Servicios de Seguridad"	Municipal Enterprise "Piscina Aguas Termales"	
General fund	\$ -	\$ 37	\$ 3,248	\$ -	\$ 3,285
Special revenue fund—federal grants	-	1,260			1,260
Special revenue fund—state & local grants	100,027	-		500	100,527
Capital projects fund—state & local grants	80,660	-			80,660
Total	<u>\$ 180,687</u>	<u>\$ 1,297</u>	<u>\$ 3,248</u>	<u>\$ 500</u>	<u>\$ 185,732</u>

The principal purposes of intra-entity receivables and payables are:

- Recognize in the general fund the outstanding balance of the loans granted to components units to finance its operations.
- Recognize in the component units the outstanding balances of accounts receivable from the primary government for good supplied or services rendered to the primary government.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

2. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2014:

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	\$ 4,484,978	-	-	\$ 4,484,978
Construction in progress	-	2,085,654	-	2,085,654
Total capital assets, not being depreciated	4,484,978	2,085,654	-	6,570,632
Capital assets, being depreciated:				
Buildings, structures, and improvements	32,723,396	1,178,732	-	33,902,128
Infrastructure	1,216,116	-	-	1,216,116
Machinery and equipment, and furniture and fixtures	2,443,127	543,434	-	2,986,561
Licensed vehicles	4,317,245	28,092	-	4,345,337
Total capital assets, being depreciated	40,699,884	1,750,258	-	42,450,142
Total cost basis of capital assets	\$ 45,184,862	3,835,912	-	\$ 49,020,774
	Accumulated Depreciation at beginning of fiscal year	Additions	Reductions/ Reclassifications	Accumulated Depreciation at end of fiscal year
Accumulated depreciation:				
Buildings, structures, and improvements	\$ 8,373,372	550,754	-	\$ 8,924,126
Infrastructure	304,029	60,806	-	364,835
Machinery and equipment, and furniture and fixtures	850,178	161,845	-	1,012,023
Licensed vehicles	2,953,474	167,088	-	3,120,562
Total accumulated depreciation	12,481,053	940,493	-	13,421,546
Net capital assets, governmental activities	\$ 32,703,809	2,895,419	-	\$ 35,599,228

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2014.

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, 2014.

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, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2014 was charged to functions/programs in the accompanying statement of activities as follows:

General government	\$	34,309
Public safety		53,764
Economic and urban development		145,329
Health and welfare		22,232
Community development		32,014
Public works		225,602
Culture, recreation, and education		427,243
Total depreciation and amortization expense	\$	940,493

3. Unearned Revenues

At June 30, 2014, unearned revenues recorded as liabilities in the GWFS and the governmental fund financial statements are as follows:

	General fund	Special revenue fund federal grants	Total governmental funds	Statement of net assets
<i>Unearned revenues:</i>				
Municipal licenses	\$ 957,275	-	957,275	\$ 957,275
Intergovernmental grants and contributions	-	351,703	351,703	351,703
Total unearned revenues	\$ 957,275	351,703	1,308,978	\$ 1,308,978

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

4. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2014 is as follows:

	<u>Balance at beginning of fiscal year</u>	<u>Borrowings Or additions</u>	<u>Payments And Deductions</u>	<u>Balance at end of fiscal year</u>	<u>Balance due within one year</u>
<i><u>Governmental activities:</u></i>					
Bonds payable:					
General and public obligation serial bonds	\$ 21,374,330	3,665,000	919,835	\$ 24,119,495	\$ 1,059,835
Notes payable:					
Municipal Revenue Collection Center:					
Law No. 42 of January 26, 2000	643,725	-	17,728	625,997	17,728
Law No. 146 of October 11, 2001 – Delinquent property tax accounts sold	313,885	-	16,520	297,365	16,520
Final settlement – fiscal year 13-14	-	162,634	-	162,634	162,634
Saving and Loans Cooperatives Consortium:					
Interim construction loan for construction of affordable cost housing units	1,504,860	-	674,982	829,878	829,878
Puerto Rico Government Development Bank:					
Line of credit for construction of affordable cost housing units	263,959	257,436	-	521,395	521,395
Compensated absences	1,564,103	1,061,302	1,164,922	1,460,483	1,000,000
Totals for governmental activities	<u>\$ 25,664,862</u>	<u>5,146,372</u>	<u>2,793,987</u>	<u>\$ 28,017,247</u>	<u>\$ 3,607,990</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, 2014

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 a sales and uses taxes of one (1) percent, which are deposited in COFIM to guarantee the payment of long-term bonds. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of the Municipality.

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, 2014:

	<u>Outstanding balance</u>
<u>General Obligation and Public Improvement Bonds:</u>	
1995 serial bonds (face amount of \$1,430,000) due in annual principal installments ranging from \$25,000 to \$140,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2014) through July, 1, 2014.	\$ 140,000
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% at June 30, 2014) through July, 1, 2014.	30,000
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 (6.19% at June 30, 2014) through July, 1, 2017.	100,000

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

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 (4.73% at June 30, 2014) through July 1, 2024.	270,000
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 (4.73% at June 30, 2014) through July 1, 2026.	1,445,000
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 (4.73% at June 30, 2014) through July 1, 2027.	590,000
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.	6,376,495
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 (1.48% at June 30, 2014) through July 1, 2031.	270,000
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 (1.48% at June 30, 2014) through July 1, 2031.	865,000
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 (1.48% at June 30, 2014) through July 1, 2032.	335,000
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 (1.48% at June 30, 2014) through July 1, 2032.	1,485,000
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, 2014) through July 1, 2034.	850,000

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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

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 (1.48% at June 30, 2014) through July 1, 2033.	165,000
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 (1.48% at June 30, 2014) through July 1, 2033.	1,197,000
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 (1.48% at June 30, 2014) through July 1, 2033.	721,000
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, 2014) through July 1, 2034.	660,000
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, 2014) through July 1, 2035.	150,000
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, 2014) through July 1, 2017.	260,000
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 (6% at June 30, 2014) through July 1, 2035.	245,000
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, 2014) through July 1, 2035.	2,005,000
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, 2014) through July 1, 2036.	905,000

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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

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, 2014) through July 1, 2036.	1,170,000
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 (6% at June 30, 2014) through July 1, 2019.	220,000
2012 serial bonds (face amount of \$505,000) due in annual principal installments ranging from \$20,000 to \$55,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2014) through July 1, 2028.	505,000
2012 serial bonds (face amount of \$3,160,000) due in annual principal installments ranging from \$75,000 to \$280,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2014) through July 1, 2033.	<u>3,160,000</u>
Total bonds payable	<u><u>\$ 24,119,495</u></u>

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

Interest expense on bonds payable amounted to \$970,648 for the fiscal year ended June 30, 2014. Annual debt service requirements of maturity for bonds payable are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2015	\$ 1,059,835	1,188,495	\$ 2,248,330
2016	944,835	1,525,782	2,470,617
2017	999,835	1,463,838	2,463,673
2018	1,065,835	1,397,602	2,463,437
2019	1,012,835	1,331,458	2,344,293
2020-2024	5,812,175	5,621,026	11,433,201
2025-2029	7,276,145	3,475,518	10,751,663
2030-2034	4,893,000	1,289,805	6,182,805
2035-2039	1,055,000	96,188	1,151,188
Totals	<u><u>\$ 24,119,495</u></u>	<u><u>17,389,712</u></u>	<u><u>\$ 41,509,207</u></u>

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

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, 2014:

- **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 \$625,997, at June 30, 2014.

- **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 \$297,365, at June 30, 2014.

Fiscal Year 2013-2014 Settlement Statement – On December 31, 2014, CRIM, as required by law, prepared the final settlement for the fiscal year 2013-2014, whereby a comparison

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Notes to Basic Financial Statements (Continued)
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was made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. According to the final settlement, advances to the Municipality exceeded the amount actually collected by the CRIM, and therefore, according to law, a payable to the CRIM amounted to \$162,634 should be recorded in the GWFS at June 30, 2014.

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 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, 2014, the balance of this interim construction loan amounted to \$829,878.

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 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, 2014, the balance of this line of credit amounted to \$521,395.

f) Compensated Absences

At June 30, 2014, the government-wide statement of net position – governmental activities includes a liability amounting \$1,460,483, of which \$842,331 represents accrued sick leave benefits, and \$618,152 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

5. Employees' Retirement Systems

a) Act No. 447 and System 2000 (until June 30, 2013)

As of June 30, 2014 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems.

The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

The system operates under Act 447, approved on May 15, 1951 effective on January 1, 1952 and Act 1 of February 16, 1990 for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended Act. No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan.

There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was \$10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 9.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for

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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

b) Act No. 3 of 2013 (beginning July 1, 2013)

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").
- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act No. 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.
- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.
- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment).
- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.00%.
- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- Retirement age was modified as follows:
 - Act No. 447 regular employees: age 58 to 61,
 - Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,

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Fiscal Year Ended June 30, 2014

- Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).
- Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).
- Due to changes to Special Laws, the minimum monthly pension for current retirees was increased from \$400 to \$500.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 (\$5,000 x .25%).
- Survivor benefits were modified.

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

Fiscal year ended June 30,	Total
2014	\$ 510,511
2013	512,976
2012	540,620
Totals	\$ 1,564,107

c) Act No. 32 of 2013 (beginning July 1, 2013)

On June 25, 2013, Act No. 32 was approved in order to amend Act No. 447 of 1957 by creating a new Article 5-117 Additional Uniform Contribution (AUC), with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

Act No. 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars (\$140,000,000).
- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at

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Fiscal Year Ended June 30, 2014

least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars (\$1,000,000,000). If, for any fiscal, the certified AUC is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

For the fiscal year 2013-2014, \$41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)). For the fiscal year ended June 30, 2014, the AUC partially subsidy received by the Municipality from OMB was \$225,180, which equaled the total contribution required.

In addition to the pension benefits described above, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from \$600 to \$200 (current retirees),
- Elimination of summer bonus of \$100 (current retirees),
- No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees).
- Eliminated all Special Law benefits to future retirees.

Act No. 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established

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Fiscal Year Ended June 30, 2014

based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2014. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

6. Commitments, Contingencies and Uncertainties

Encumbrances

The Municipality has reported, outstanding encumbrances amounting to \$201,674 in the general fund at June 30, 2014. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

Claims and Judgments

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

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, 2014. 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

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

7. Fund Balance

As of June 30, 2014, fund balance is comprised of the following:

Fund balances (deficit)	General fund	Special revenue fund – federal grants	Special revenue fund – state & local grants	Capital projects fund – state & local grants	Debt service fund	Other nonmajor funds	Total
<i>Restricted for:</i>							
General government	\$ 1,622	-	-	-	-	-	\$ 1,622
Health and welfare	-	-	-	-	-	75,748	75,748
Public works	-	-	244,261	229,182	-	-	473,443
Public safety	-	-	8,343	-	-	-	8,343
Culture and recreation and education	-	-	27,925	152,320	-	-	180,245
Community development	-	-	-	312,873	-	-	312,873
Urban and economic development	-	-	641,257	7,705,683	-	-	8,346,940
Debt service	-	-	-	-	5,304,142	-	5,304,142
<i>Committed to:</i>							
General government	72,775	-	43,232	-	-	-	116,007
Health and welfare	522	-	-	-	-	-	522
Public works	96,350	-	123,308	156,393	-	-	376,051
Public safety	50	-	1,912	-	-	-	1,962
Culture and recreation and education	3,260	-	-	-	-	-	3,260
Community development	28,717	-	251,551	616,078	-	-	896,346
Urban and economic development	-	-	-	-	-	-	-
<i>Unassigned</i>	2,046,531	-	-	-	-	-	2,046,531
Total fund balances	<u>\$ 2,249,827</u>	<u>-</u>	<u>1,341,789</u>	<u>9,172,529</u>	<u>5,304,142</u>	<u>75,748</u>	<u>\$ 18,144,035</u>

8. Subsequent Events

a) Authorization of a Municipal Enterprise

On January 2015, the Legislature of the Municipality of Coamo issued an Ordinance to authorize the establishment of a municipal enterprise to undertake commercial activities (convention center), 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).

b) Implementation of Acts 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014. The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM).

For those municipalities that signed the agreement to be covered by these Acts (including the Municipality of Coamo), the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality.

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Fiscal Year Ended June 30, 2014

If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act No. 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincón) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR, by its acronyms in Spanish). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

However, for those municipalities that voluntarily decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014. For those municipalities that want to be certified as collection agents for COFIM, the implementation date is January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base. The Municipality of Coamo has submitted the application to be a certified collection agent and it was approved by COFIM by Governing Board.

c) Implementation of Act No. 57 of May, 2014 Puerto Rico Energetic Transformation and Relief Act

On May 22, 2014, the Commonwealth Legislature approved Act No. 57 that includes the adoption of an aggressive public policy of energy conservation and use by the Public Sector facilities. Said Act established, among other things, a significant amendment to the actual calculation of the Annual Contribution in Lieu of Taxes that the Puerto Rico Electric Power Authority (PREPA) must pay to the Municipalities. This amendment includes: (1) A mechanism to achieve efficiency in the energy used by the municipalities, by establishing a maximum base

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

amount on the annual energy consumption; (2) An special incentive to all municipalities that comply with the base amount determined as the maximum annual energy consumption; and (3) A uniform formula to calculate the maximum base amount of annual consumption that will be measured in a three-year interval. Said Act delegated the oversight and regulatory functions to the State Office of Energetic Public Policy and to the Energy Regulatory Commission. These changes will apply to the fiscal year 2014-2015.

End of Notes to Basic Financial Statements

**Required Supplementary Information
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2014**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
 Budgetary Comparison Schedule – General Fund (Continued)
 (See Notes to Budgetary Comparison Schedule)
 Fiscal Year Ended June 30, 2014

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(budgetary</u> <u>basis)</u>	<u>final budget –</u> <u>over (under)</u>
Revenues:				
Property taxes	\$ 2,707,472	2,707,472	2,707,472	\$ -
Sales and use tax	1,047,559	1,047,559	946,327	(101,232)
Municipal license tax	1,335,179	1,335,179	1,380,044	44,865
Construction excise taxes	833,000	833,000	313,477	(519,523)
Intergovernmental grants and contributions	6,963,932	6,963,932	7,309,465	345,533
Interest on deposits	225,000	225,000	328,419	103,419
Charges for services	143,352	143,352	191,992	48,640
Miscellaneous	298,316	298,316	536,924	238,608
Total revenues	<u>13,553,810</u>	<u>13,553,810</u>	<u>13,714,120</u>	<u>160,310</u>
Expenditures and encumbrances:				
General government	5,658,465	5,885,438	6,091,333	(205,895)
Public safety	879,422	873,041	720,209	152,832
Public works	4,177,769	4,008,482	3,820,917	187,565
Health and welfare	530,702	530,603	528,426	2,177
Culture, recreation and education	918,099	910,624	862,686	47,938
Urban and economic development	552,225	519,738	460,946	58,792
Community development	152,113	150,774	129,431	21,343
Total expenditures	<u>12,868,795</u>	<u>12,878,700</u>	<u>12,613,948</u>	<u>264,752</u>
Revenues over (under) expenditures and encumbrances	<u>685,015</u>	<u>675,110</u>	<u>1,100,172</u>	<u>425,062</u>
Other financing sources (uses):				
Transfer to other governmental funds	(685,015)	(675,110)	(644,448)	30,662
Total other financing sources (uses)	<u>(685,015)</u>	<u>(675,110)</u>	<u>(644,448)</u>	<u>30,662</u>
Net increase (decrease) in fund balance (deficit)	<u>\$ -</u>	<u>-</u>	<u>455,724</u>	<u>\$ 455,724</u>

Reconciliation of differences:

Sources/inflows of financial resources:				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 13,714,120
Differences - budgetary basis to GAAP:				
Differences in bases of accounting:				
GAAP adjustments to revenues				12,511
Total revenues reported on the statement of revenues, expenditures and changes in fund balances				<u>\$ 13,726,631</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)				\$ 13,258,396
Timing differences:				
Current year encumbrances recorded as expenditures for budgetary purposes				(201,674)
Prior year encumbrances recorded as expenditures for GAAP purposes				39,159
Entity differences				
Non-budgeted transfer to other governmental fund (budget carryover)				280,000
Non-budgeted expenditures				111,684
Total expenditures and transfer out to other funds as reported on the statement of revenues, expenditures and changes in fund balances				<u>\$ 13,487,565</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, 2014

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, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2014.

Financial Data Schedules
Fiscal Year Ended June 30, 2014

COMMONWEALTH OF PUERTO RICO
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Financial Data Schedule
Year Ended June 30, 2014

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
Balance Sheet		
111	Cash-unrestricted	\$ 75,748
113	Cash-other restricted	-
100	Total Cash	75,748
150	Total Current Assets	75,748
164	Furniture, equipment and machinery - administration	80,489
166	Accumulated depreciation	(56,432)
160	Total capital assets, net of accumulated depreciation	24,057
180	Total Non-current Assets	24,057
190	Total Assets	\$ 99,805
322	Accrued compensated absences - current portion	\$ 3,030
310	Total Current Liabilities	3,030
354	Accrued compensated absences- Non-current	4,544
350	Total Non-current liabilities	4,544
300	Total Liabilities	7,574
508.1	Invested in capital assets, net of related debt	24,057
511.1	Restricted Net Position	-
512.1	Unrestricted Net Position	68,174
513	Total Net Position	92,231
600	Total Liabilities and Net Position	\$ 99,805

COMMONWEALTH OF PUERTO RICO
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Financial Data Schedule
Year Ended June 30, 2014

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
Income Statement		
70600-010	Housing assistance payments	\$ 241,511
70600-020	Ongoing administrative fees earned	34,099
70600	HUD PHA operating grants	275,610
71100-020	Administrative Fee	144
71100	Investment income - unrestricted	144
71400-010	Housing Assistance Payment	1,000
71400-020	Administrative Fee	-
71400	Fraud recovery	1,000
71500	Other revenue	53,572
70000	Total Revenue	330,326
91100	Administrative salaries	26,465
91500	Employee benefit contributions - administrative	3,189
91600	Office Expenses	10,826
91000	Total Operating-Administrative	40,480
96210	Compensated absences	842
96000	Total Other General Expenses	842
96900	Total Operating Expenses	41,322
97000	Excess Revenue Over Operating Expenses	289,004
97300-050	All Other	251,078
97300	Housing assistance payments	251,078
97350	HAP Portability-in	40,695
97400	Depreciation expense	5,900
90000	Total Expenses	338,995
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ (8,669)

COMMONWEALTH OF PUERTO RICO
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Financial Data Schedule
Year Ended June 30, 2014

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
11030	Beginning equity	\$ 100,900
11170-001	Administrative Fee Equity- Beginning Balance	\$ 94,132
11170-010	Administrative Fee Revenue	34,099
11170-040	Investment Income	144
11170-045	Fraud Recovery Revenue	-
11170-050	Other Revenue	53,572
11170-051	Comment for Other Revenue	Portability Move- In Collections
11170-060	Total Admin Fee Revenues	87,815
11170-080	Total Operating Expenses	41,322
11170-090	Depreciation	5,900
11170-095	Housing Assistance Portability In	40,695
11170-100	Other Expenses	
11170-101	Comment for Other Expense	
11170-110	Total Expenses	87,917
11170-002	Net Administrative Fee	(102)
11170-003	Administrative Fee Equity- Ending Balance	94,030
11170	Administrative Fee Equity	\$ 94,030
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 6,768
11180-010	Housing Assistance Payment Revenues	241,511
11180-015	Fraud Recovery Revenue	1,000
11180-030	Total HAP Revenues	242,511
11180-080	Housing Assistance Payments	251,078
11180-100	Total Housing Assistance Payments Expenses	251,078
11180-002	Net Housing Assistance Payments	(8,567)
11180-003	Housing Assistance Payments Equity-Ending Balance	(1,799)
11180	Housing Assistance Payments Equity	\$ (1,799)
11190-210	Total ACC HCV Units	720
11190	Unit Months Available	720
11210	Unit Months Leased	671

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

Notes To Financial Data Schedule
Year Ended June 30, 2014

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, 2014**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2014

<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		\$ 13,589
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Child and Adult Care Food Program	10.558	N/AV	<u>15,792</u>
Subtotal – US Department of Agriculture			<u>29,381</u>
US Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Voucher	14.871		275,610
Affordable Housing Development in Main Street Rejuvenation Projects	14.878		6,825
Emergency Solutions Grant Program	14.231		61,590
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	728,264
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:			
Shelter Plus Care Program	14.238	N/AV	59,749
Pass-through the Department of Public Housing of the Commonwealth of Puerto Rico:			
Public and Indian Housing	14.850	N/AV	<u>1,375,004</u>
Subtotal – US Department of Housing and Urban Development			<u>2,507,042</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, 2014

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>81,351</u>
Subtotal – US Department of Justice			<u>81,351</u>
US Department of Education:			
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Twenty-First Century Community Learning Centers	84.287	N/AV	<u>2,480,991</u>
Subtotal – US Department of Education			<u>2,480,991</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	1,353
Special Program for Aging – Title III - Part B – Grant for Supportive Services and Senior Centers	93.044	N/AV	55,160
National Family Caregiver Support – Title III – Part E	93.052	N/AV	8,017
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:			
Community Services Block Grant	93.569	N/AV	19,850
Child Care and Development Block Grant	93.575	N/AV	234,624
Family Violence Prevention and Services	93.591	N/AV	42,496

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, 2014

<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 Puerto Rico Development Disabilities Council:			
Developmental Disabilities Basic Support and Advocacy Grant	93.630	N/AV	37,229
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>14,385</u>
Subtotal – US Department of Health and Human Services			<u>413,114</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	N/AV	88,265
Pass-through the Governor’s Office for Public Security Affairs of the Commonwealth of Puerto Rico:			
State Homeland Security Grant Program	97.067	N/AV	<u>18,867</u>
Subtotal – US Department of Homeland Security			<u>107,132</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 5,619,011</u></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, 2014

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, 2014. 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, 2014.

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	\$ 5,343,401	\$ 275,610	\$ 5,619,011
Nonfederal programs expenditures and other adjustments	<u>286,857</u>	<u>62,944</u>	<u>349,801</u>
Total expenditures in the fund financial statements	<u>\$ 5,630,258</u>	<u>\$ 338,554</u>	<u>\$ 5,968,812</u>



López-Vega, CPA, PSC

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- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' 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, 2014, 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 30, 2015.

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 **2014-001** and **2014-002** that we consider to be significant deficiencies.

**INDEPENDENT AUDITORS' 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

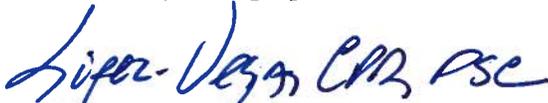
As part of obtaining reasonable assurance about whether **Municipality of Coamo's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 30, 2015

Stamp No. 2705430 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

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**INDEPENDENT AUDITORS' 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, 2014. **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's** 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, 2014.

**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 **2014-003** and **2014-005**. 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 **2014-003** through **2014-005** 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 30, 2015.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 30, 2015

Stamp No. 2705431 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, 2014

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 and aggregate discretely presented component units	
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
84.287	Twenty First Century Community Learning Centers

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

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2014

Section II – Financial Statements Findings

Finding Reference	2014-001
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 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, 2014

Section II – Financial Statements Findings

Finding Reference	2014-002
Requirement	Financial Reporting – Accounting Records
Statement of Condition	<p>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.</p> <p>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.</p>
Criteria	<p>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.</p>
Cause of Condition	<p>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.</p>
Effect of Condition	<p>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.</p>
Recommendation	<p>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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2014

Section II – Financial Statements Findings

Finding Reference **2014-002 (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, 2014

Section III – Major Federal Award Program Findings and Questioned Cost

Finding Reference	2014-003
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	We performed a housekeeper activity test of ten (10) participant’s files and found that 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 visit the participant’s housing unit to ensure the quality of services, according to operational guide established by pass-through entity
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, 2014

Section III – Major Federal Award Program Findings and Questioned Cost

Finding Reference **2014-003 (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 actions 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 performance will be monitored by the Federal Programs Department Director.

Implementation Date: March 2015

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, 2014

Section III – Major Federal Award Program Findings and Questioned Costs

Reference	2014-004
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 2014-001

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Prior Years Audit Findings
Fiscal Year Ended June 30, 2014

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
13-03	14.228	<p><u>We performed a housekeeper activity test of ten (10) participant's files and found the following exceptions: (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.</u></p> <p>Partial corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2014-003.</p>
13-04	14.228	<p><u>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.</u></p> <p>Corrective actions were taken.</p>
13-05	14.228	<p><u>Section II – Financial Statements Findings – Finding Reference 13-01</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2014-001.</p>
13-06	14.850	<p><u>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: (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.</u></p> <p>Corrective actions were taken.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Prior Years Audit Findings (Continued)
Fiscal Year Ended June 30, 2014

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
13-07	14.850	<p><u>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: (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”.</u></p> <p>Corrective actions were taken.</p>
13-08	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) 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.</u></p> <p>Corrective actions were taken.</p>
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 2014-003.</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>Corrective actions were taken.</p>

**COMMONWEALTH OF PUERTO RICO
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Schedule of Prior Years Audit Findings (Continued)
Fiscal Year Ended June 30, 2014

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
12-05	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>Corrective actions were taken.</p>
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 2014-01.</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>Corrective actions were taken.</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>Corrective actions were taken.</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>Corrective actions were taken.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

Schedule of Prior Years Audit Findings (Continued)
Fiscal Year Ended June 30, 2014

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-03	14.228	<p><u>We performed a housekeeper activities test of ten (10) participant's files and found the following exceptions: In the ten (10) participant's files, we noted that the eligibility approval form was not completed by the program staff. In the ten (10) participant's files, we did not find evidence that demonstrate if the program staff visited at least twice per month the participant's housing unit to ensure the quality of services.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.</p>
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>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.</p>
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>

**COMMONWEALTH OF PUERTO RICO
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Schedule of Prior Years Audit Findings (Continued)
Fiscal Year Ended June 30, 2014

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 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>
11-05	14.228 14.255	<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>