ROMAN TORO & CO., PSC
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May 24, 2018

Honorable Mayor and Members of
The Municipal Assembly
Municipality of San Sebastián

We have audited the financial statements of Municipality of San Sebastián (the Municipality) for the fiscal year ended June 30, 2017, and have issued our report thereon dated March 27, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 3, 2017. As per you request, we are also communicating to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Municipality are described in Note 2 to the financial statements. New accounting policies were adopted and the application of existing policies was not changed during year, as further discussed in the notes. We noted no transactions entered into by the Municipality during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimate of its pension obligation, contingencies and accumulated vacations. We evaluated the key factors and assumptions used to develop the accounting estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of pension obligations and the going concern of the Commonwealth of Puerto Rico in separate notes to the financial statements because certain judgment was required to determine the significance of these matters and the impact to the financial statements.

In all, the financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit; however, pension information could not be audited because the audited information was not provided by the PR Employee Retirement System.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 27, 2018.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Municipality's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Required Supplementary Information

We applied certain limited procedures to the management discussion and analysis, the budgetary comparison information, and the employee retirement system information, and the financial data schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Matters

During the course of our audit, we discussed with management certain issues which could impact future operations of the Municipality and should be aware, in order to develop adequate responses if deemed necessary. We are summarizing these issues in the following paragraphs.

Doubts as to Government of Puerto Rico's Going Concern

The Commonwealth and most of its public corporations are in the midst of a profound fiscal crisis. Despite various measures undertaken in recent years to stimulate the economy, reduce government expenses and increase revenues, the Commonwealth has been unable to spur economic growth and eliminate the recurrent excess of expenditures over revenues. The Commonwealth's financial position deterioration, in conjunction with continued structural imbalances between revenues and expenditures and the Commonwealth's recent inability to access the capital markets, have resulted in substantial doubt regarding the Commonwealth ability to continue as a going concern.

The Puerto Rico Government Development Bank (GDB), in particular, has reported that it is currently in the process of implementing its liquidation, and is limited in providing services to government entities. Under the current law, the GDB is the principal means of debt financing for all Municipalities; however, the GDB cannot provide financing for capital projects or for emergency financing to cover budget shortfalls or accumulated deficits. This significantly limits the capability of Municipalities to plan and provide services.

Going concern of an entity is an assumption that should be reviewed regularly by each entity. Current guidance can be found at GASB Statement No. 56, which provides suggestions as to which indicators may indicate substantial doubt about going concern including for example, recurring periods in which expenses/expenditures significantly exceed revenues; consistent working capital deficiencies; default on bonds, loans or similar agreements; denial of usual trade credit from suppliers; restructuring of debt (other than refundings); the need to seek new sources or methods of financing or to dispose of substantial assets; work stoppages or other labor difficulties; the need to significantly revise operations; legal proceedings, legislation, or similar matters that might jeopardize intergovernmental revenues and the fiscal sustainability of key governmental programs; loss of a principal taxpayer; or uninsured or underinsured catastrophe such as a hurricane; however, more indicators may exist which are not included in the Statement.

Once substantial doubt exists and the indicators identified, the governments should evaluate this indicators and develop an adequate response and plan to continue as a going concern. Current guidance emphasizes that the evaluation must be made periodically as long as the indicators persist, and that any plans should be amended or updated correspondingly.

Given the current fiscal and economic situations affecting all Municipalities, the Municipality should consult with its advisors and develop a fiscal plan to address the situations affecting the Municipality, including PROMESA, GDB, and any other identifiable threats for the next fiscal year, while closely monitoring its cash budgeting procedures (as opposed to its revenues and expenditures budget) to assure it maintains or has access to adequate levels of cash resources for its operations, otherwise its operations may be affected due to the extraordinary circumstances of the central government and the GDB. As of this communication, the current situation is unsustainable for all Municipalities in the long term, and perhaps in the short-term for cash strapped, deficit spending governments. Therefore, the Municipality can consider options jointly with its industry peers in order to identify and promote common interests, and better prepare to meet current and future challenges.

Restriction on Use

This information is intended solely for the information and use of the Mayor, Municipal Assembly, and management of the Municipality of San Sebastián and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

ROMAN TORO & CO., CPAs, CSP