OC-DA-123

abr. 19 (Rev.)
OC-19-12

Estado Libre Asociado de Puerto Rico
OFICINA DEL CONTRALOR
San Juan, Puerto Rico

Certificación de Cumplimiento con la *Ley 273-2003*, según enmendada; y de Notificación de Envío de Cartas de Recomendaciones (*Management Letters*), Informes de Auditoría, Estados Financieros Auditados y Otros[1]

Yo, Juan Carlos García Padilla (nombre del funcionario principal) Funcionario Principal de Municipio de Coamo (nombre de la entidad)

4022 (número de entidad) certifico a la Oficina del Contralor de Puerto Rico (Oficina) que relacionado con el año fiscal terminado al 30 de junio de 18 :

1. Recibimos fondos públicos por $12,102,384 .
2. Efectuamos desembolsos de fondos federales por $4,218,283 . No aplica ☐.
3. Tenemos la obligación de cumplir con ☒ la *Ley 273-2003, Ley de Normas Contractuales sobre Independencia en las Auditorías de Entidades Gubernamentales*[2], según enmendada, y con ☒ el *Single Audit Act*. En cumplimiento de estos:

   a. El 28 de marzo de 2018 formalizamos el contrato número 19-01 para realizar la auditoría de los ☒ Estados Financieros y/o el ☒ *Single Audit Report*.

   b. El 1 de abril de 2019 recibimos el *Informe de Auditoria* del 31 de marzo de 2019 de los auditores externos.

   c. El 25 de marzo de 2019 los auditores externos comparecieron para presentar el informe final y comunicar los hallazgos y las recomendaciones.

[1] La entidad debe remitir a esta Oficina, en formato **PDF** y no más tarde del 31 de mayo siguiente al año fiscal auditado, el *Formulario OC-DA-123* firmado por el funcionario principal, con los documentos que se especifican en el Apartado 3-e y f del mismo. Esto, mediante la aplicación *Certificaciones Anuales de la Oficina del Contralor*. La aplicación está disponible en la sección de Contraloría Digital en nuestra página en Internet: *www.ocpr.gov.pr*.

[2] En el Artículo 1 de la *Ley 273-2003* se establece que, para propósitos de dicha *Ley*, la frase *cualquier entidad de gobierno* incluye a todos los organismos con facultad de contratar, de las ramas Ejecutiva, Legislativa y Judicial tales como: departamentos, dependencias, municipios, corporaciones públicas y sus subsidiarias, afiliadas o cualesquiera entidades gubernamentales que tengan personalidad jurídica propia.

d. Relacionado con las cartas finales de recomendaciones (*Management Letters*):

☐ El 1 de abril de 2019 recibimos las cartas finales de recomendaciones (*Management Letters*) emitidas por los auditores externos el 31 de marzo de 2019. El archivo electrónico, en formato **PDF**, de las mismas fue remitido a su Oficina el 23 de abril de 2019.

☐ Los auditores externos no emitieron las cartas finales de recomendaciones (*Management Letters*).

e. Se incluye el archivo electrónico, en formato PDF, de los siguientes documentos e informes:

☐ Informes de auditorías emitidos en forma final

☒ Estados financieros auditados

☒ Informes de Control Interno sobre Cumplimiento y la Opinión sobre Cumplimiento

☒ *Single Audit Report*

☒ Copia del *Form SF-SAC, Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations*, y del recibo de envío al *Federal Audit Clearinghouse*.

☐ Otros (especifique): _____

f. Relacionado con el *Informe Especial Sobre el Cumplimiento de las Recomendaciones Contenidas en los Informes de Auditoría de la Oficina del Contralor de Puerto Rico y la Corrección de las Situaciones Comentadas en sus Informes Previos (Informe Especial)*:

☒ Se incluye el archivo electrónico, en formato **PDF**, del *Informe Especial* emitido por los auditores externos el 28 de mayo de 2019.

☐ No aplica, ya que no tenemos recomendaciones pendientes de cumplimentar relacionadas con los informes publicados al 28 de febrero del año fiscal auditado.

4. ☐ No tenemos la obligación por ley, reglamento o acuerdo financiero, de contratar auditores externos para realizar la auditoría de los estados financieros del año fiscal terminado al ____ de _____ de _____.

En Coamo, Puerto Rico, hoy 30 de mayo de 2019.

_____
Firma del Funcionario Principal

Commonwealth of Puerto Rico
Municipality of Coamo

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH ADDITIONAL REPORTS AND SCHEDULES REQUIRED BY GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE)

Fiscal Year Ended June 30, 2018

Honorable Juan C. García Padilla
Mayor

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Basic Financial Statements, Required Supplementary Information and Independent Auditors' Report (with Additional Reports and Schedules Required by Government Auditing Standards and the Uniform Guidance)

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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, 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, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Municipality's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this include the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparations and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate for our audit opinions

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Adverse
Aggregate discretely presented component unit	Adverse
General Fund	Adverse
Debt Service Fund	Unmodified
Special Revenue Fund – Federal Grants	Adverse
Capital Projects Fund – State and Local Grants	Adverse
Aggregate Remaining Fund Information	Adverse

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Adverse Opinion on the Governmental Activities

Capital assets recognition and related accounting records

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter of the capital assets, accumulated depreciation and net capital assets, stated at $64,006,991, $17,662,175 and $46,344,816, respectively, in the accompanying Statement of Net Position as of June 30, 2018. As a result, we were unable to determine whether any adjustments to these amounts were necessary.

Noncompliance GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"

The Retirement System Administration (ERS) has not provided the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2018. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.

Also, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In addition, the Retirement System Administration (ERS) has not provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2017 (Municipality's measurement date), necessary to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as of June 30, 2018. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on the Governmental Activities" paragraphs, the financial statements referred to above do not present fairly the financial position of the governmental activities of the **Municipality of Coamo**, Puerto Rico, as of June 30, 2018, 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.

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 those 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 Municipality has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the amount of assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the aggregate discretely presented component units that would have been presented in the Municipality's financial reporting entity's financial statements cannot be reasonably determined at this time.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate 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**, Puerto Rico, as of June 30, 2018, or the changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Adverse Opinion on General Fund, Special Revenue Fund – Federal Grants, Capital Project Fund – State and Local Grants and Aggregate Remaining Fund Information

As of June 30, 2018, the Municipality has a debt balance in dispute with the Employees' Retirement System Administration (ERS) amounting to $453,703 related to the Additional Uniform Contribution (AUC) for the fiscal year 2016-17. As a result, the Municipality has not recognized this liability and its corresponding expenditure in the funds financial statements. Accounting principles generally accepted in the United States of America require that governmental funds accrue liabilities and expenditures, under the modified-accrual basis of accounting, in the period in which the government incurs the liability for those types of liabilities that are normally due and payable in full when incurred, such as statutory expenditures. Recognition of this type of debt would increase the liabilities, decrease the fund balance and change the expenditures of the General Fund.

Management has not adopted a methodology for reviewing the collectability of the due from/to other funds, and due from/to component units for expenditures incurred by the Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants, Aggregate Remaining Fund Information and covered by the General Fund and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables including due from/to other funds and component units, which would decrease assets and fund balance and change the expenditures of the General Fund, Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and of the Aggregate Remaining Fund Information. The amount by which this departure would affect the assets, fund balance, and expenditures of the General Fund, Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and the Aggregate Remaining Fund Information has not been determined.

Management has not adopted a methodology for reviewing the collectability of the due from governmental entities for expenditures incurred by the Special Revenue Fund –Federal Grants, Capital Project Fund – State

and Local Grants and the Aggregate Remaining Fund Information and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables which would decrease assets and fund balance and change the expenditures of the Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and of the Aggregate Remaining Fund Information. The amount by which this departure would affect the assets, fund balance, and expenditures of the Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and the Aggregate Remaining Fund Information has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on General Fund, Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and of the Aggregate Remaining Fund Information" paragraphs, the financial statements referred to above do not present fairly the financial position of the General Fund, Special Revenue Fund – Federal Grants, Capital Project Fund - State and Local Grants and the Aggregate Remaining Fund Information of the Municipality of Coamo, as of June 30, 2018, 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 Debt Service Fund of the **Municipality of Coamo,** Puerto Rico, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with 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 **6** through **17** and Budgetary Comparison information on page **91**, 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.

Management has omitted historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statement No. 73 and in GASB Statement No. 75, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an

essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 Schedule shown in pages **94** through **97** 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 **99** through **101** is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Financial Data Schedule 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 Schedule 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2019, on our consideration of **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 this 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

LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 31, 2019

Stamp No. 2758808 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

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, 2018. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follows 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's governmental activities as of the end of the indicated fiscal year amounted to $13,780,691 or eighteen percent (18%) of the sum of total assets plus total deferred outflows of resources.

- The Municipality's governmental activities' total net position increased by $1,749,064.

- At the end of fiscal year 2018, total liabilities of the Municipality's governmental activities amounted to $60,351,457. Out of said amount, $55,515,233 corresponded to long-term liabilities of which $20,049,155 represents the outstanding balance of bonds issued, and $33,452,578 represents the Municipality's proportionate share of the net pension liability of the Puerto Rico Government Employees' Retirement System. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.

Governmental Funds' Highlights:

- As of the close of the current fiscal, the Municipality's governmental funds reported combined ending fund balances of $13,677,248, or $1,066,213 more than the similar figure corresponding to the previous fiscal year 2016-2017, as restated.

- At the end of the current fiscal year**,** the fund balance of the Municipality's general fund amounted to $1,980,124, or $834,871 lower than the previous fiscal year.

- The actual general fund's budgetary activities resulted in an unfavorable balance of $270,598.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of the 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, 2018. 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.

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's 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 near term financing decisions. Both the governmental funds' balance sheet and the statement of revenues, expenditures, and changes in fund balances 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 the statement of revenues, expenditures, and changes in fund balances. The Municipality's four major governmental funds are:

- The General Fund
- The Special Revenue Fund – Federal 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) Required Supplementary Information

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes 1) General Fund's budgetary comparison schedule, reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end and, 2) pension plan and employer trend information related to the net pension liability and employer contributions; but the ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2017 nor has provided to the Municipality certain required information necessary to properly implement the provisions and therefore, management decided to omit required supplementary information in accordance GASB Statement No. 73 and 75.

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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 and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $13,780,691 at the end of 2018, as compared with $12,031,627 at the end of the previous year, as restated. The following condensed Statements of Net Position of the Primary Government shows, on a comparative basis, the most important components of the $1,749,064 increase reflected in the governmental activities' net position figure:

	Governmental activities	
	June 30, 2018	**June 30, 2017, as restated**
Assets:		
Current assets	$ 20,475,125	$ 19,575,547
Non-current assets:		
Capital assets, net	46,344,816	46,376,084
Total assets	66,819,941	65,951,631
Deferred outflows of resources:		
Deferred outflows for pensions	7,952,464	7,952,464
Total deferred outflows of resources	7,952,464	7,952,464
Liabilities:		
Current liabilities, excluding long-term obligations	12,024,150	4,450,923
Long-term obligations:		
Due within one year	18,314,272	2,068,684
Due after one year	30,013,035	54,712,604
Total liabilities	60,351,457	61,232,211
Deferred inflows of resources:		
Deferred inflows for pensions	640,257	640,257
Total deferred inflows of resources	640,257	640,257
Net position:		
Net investment in capital assets	32,590,731	31,950,592
Restricted	11,147,947	11,140,412
Unrestricted	(29,957,987)	(31,059,377)
Total net position	$ 13,780,691	$ 12,031,627

The Statement of Activities reflects that, for the fiscal year 2018, the revenues derived from several programs plus current operating revenues, when compared to total expenses, represented a net increase amounting to $1,749,064 in governmental activities' net position. Approximately thirty-seven percent (37%) of the Municipality's governmental activities total revenue came from taxes, while fifty-nine percent (59%) 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.

Approximately twenty-nine percent (29%) of total expenses resulted from general government, eight percent (8%) of total expenses resulted from urban and economic development, eight percent (8%) of total expenses resulted from health and welfare, three percent (3%) of total expenses resulted from public safety, thirty-one percent (31%) of total expenses resulted from public works, fourteen percent (14%) of total expenses resulted from culture, recreation and education, one percent (1%) of total expenses resulted from community development, while six percent (6%) 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 statements of activities for the fiscal years ended June 30, 2018 and 2017:

	Governmental activities	
	June 30, 2018	**June 30, 2017, as restated**
Program revenues:		
Program-specific operating grants and contributions	$ 6,636,363	$ 5,986,386
Program-specific capital grants and contributions	638,065	3,225,633
Charges for services	150,618	217,356
Total program revenues	7,425,046	9,429,375
General revenues:		
Property taxes	4,002,113	4,317,142
Municipal license taxes	1,248,710	1,479,827
Sales and use taxes	1,547,638	1,638,902
Construction excise taxes	240,952	242,475
Unrestricted grants and contributions	3,943,442	6,772,234
Other general revenues (various sources)	749,323	862,331
Total general revenues	11,732,178	15,312,911
Total revenues	19,157,224	24,742,286
Program expenses:		
General government	4,984,488	4,841,864
Health and welfare	1,396,413	2,861,441
Public works	5,464,846	3,797,790
Public safety	553,221	774,792
Culture, recreation and education	2,311,024	4,633,139
Community development	229,577	684,666
Urban and economic development	1,414,567	1,786,817
Interest on long-term obligations	1,054,024	1,094,558
Total expenses	17,408,160	20,475,067
Change in net position	1,749,064	4,267,219
Net position, at beginning of fiscal year	12,031,627	7,764,408
Net position, at end of fiscal year	$ 13,780,691	$ 12,031,627

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, unrestricted fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to $13,677,248, which represents an increase of $1,066,213 when compared with the prior year, as restated. Out of the indicated balance, $9,799,372 was restricted for the following purposes: (1) to pay for capital projects; 3) for debt service payments; and 4) for other purposes. Also, $2,034,406 were committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year; 2) to pay for capital projects; and 3) for other purposes. As of June 30, 2018, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund balance of $1,490,147, and a non-spendable fund balance of $353,323 related to long-term due from component units.

The following table presents the condensed financial position of governmental funds at June 30, 2018 and 2017:

	2018	**2017, as restated**
Assets:		
Total assets - major governmental funds	$ 20,415,372	$ 20,719,350
Total assets - other governmental funds	2,207,629	1,481,576
Combined total assets	22,623,001	22,200,926
Liabilities:		
Total liabilities - major governmental funds	7,080,211	6,931,126
Total liabilities - other governmental funds	528,847	772,011
Combined total liabilities	7,609,058	7,703,137
Deferred Inflows of Resources (DIR's):		
Total DIR's - major governmental funds	1,327,701	1,740,657
Total DIR's - other governmental funds	8,994	146,097
Combined total deferred inflows of resources	1,336.695	1,886,754
Fund balances (deficits):		
Non-spendable - major governmental funds	353,323	665,915
Restricted - major governmental funds	9,799,372	8,811,082
Restricted - other governmental funds	444,419	388,193
Committed - major governmental funds	809,037	496,458
Committed - other governmental funds	1,225,369	175,275
Unassigned - major governmental funds	1,490,147	2,074,112
Combined total fund balances	13,677,248	12,611,035
Total liabilities, deferred inflows of resources and fund balances	$ 22,623,001	$ 22,200,926

BUDGETARY HIGHLIGHTS

a) General Fund

The original and the final budget of the general fund for the fiscal year ended June 30, 2018 amounted to $11,009,528. 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, 2018 were $9,851,288, which is 10.5% ($1,158,240) lower 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, 2018 were $9,469,439, which is 8% ($887,642) lower than the budgeted expenditures and other financing uses.

The most significant fluctuations in actual revenues occurred in municipal license taxes, which had actual revenues that were $179,555 lower than budgeted; and in sales and use taxes, intergovernmental grants and contributions and miscellaneous, which had actual revenues that were $106,122, $327,059, and $642,533 less than budgeted, respectively.

Also, the most significant fluctuations in actual expenditures and encumbrances occurred in general government, public works and public safety, which had actual expenditures, and encumbrances that were $473,985, $165,774 and $109,955 lower than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested $ 64,006,991 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of $ 17,662,174 at June 30, 2018. The net capital assets of governmental activities decreased during the current fiscal year due to fact that the current fiscal year's capital additions ($1,060,537), which were offset by the depreciation expense ($1,091,805) for the same period.

The capital additions made to capital assets during the fiscal year ended June 30, 2018 were the following:

Construction in progress	$ 179,227
Buildings, structures and improvements	578,807
Infrastructure	16,933
Machinery, equipment, furniture and fixtures	218,061
Licensed vehicles	67,509
Capital additions for the fiscal year ended June 30, 2018	$ 1,060,537

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 the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF, for its Spanish acronym), 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 BUDGET

a) Impact of Hurricane Maria

On September 2017 Puerto Rico was impacted by Hurricanes Irma and Maria, major category 4 hurricanes, causing a level of widespread destruction in many areas of the island including infrastructure, housing, environment, public and private property and disrupting the Commonwealth and municipal operations. Since the U.S. President approved a disaster declaration for Puerto Rico, federal disaster assistance has been made available to supplement the local recovery efforts in the affected areas.

The Municipality performed an assessment of all suffered damages and performed significant recovery efforts, financed with municipal funds. Since the U.S. President approved a disaster declaration for Puerto Rico as a result of Hurricane Maria, federal disaster assistance has been made available to supplement the local recovery efforts in the affected areas. Management submitted financial data to FEMA in order to request assistance under Community Disaster Loan Program

("CDL"). As a result, on June 14, 2018 FEMA issued to the Municipality a promissory note for a maximum amount of $4,010,031 for financial assistance under the Community Disaster Loan Program ("CDL"). The note is payable from and secured by a pledge of the Municipality's revenues. The Municipality has not requisitioned loan funds as of June 30, 2018. In addition, Management has submitted claims to insurance companies and evidence of recovery related costs to FEMA for reimbursement through public assistance grants. As June 30, 2018 the Municipality received $1,316,824 from FEMA.

b) Effect of Commonwealth and GDB fiscal conditions

The Commonwealth's latest revised Fiscal Plan provides for the reduction and eventual elimination of a substantial portion of the Commonwealth's subsidy to municipalities, which may adversely affect the ability of municipal governments to continue providing essential services and servicing their debt obligations. Already in fiscal year 2017-2018, the total municipal appropriation was reduced by $150 million, bringing a new baseline of $220 reduction in the Commonwealth's subsidies to the municipalities. This reduction was partially mitigated by the Commonwealth with a one-time allotment to municipalities as a result of Hurricanes Irma and Maria, which took place in fiscal year 2017-2018 for the amount of $78 million, ($1,000,000 to each municipality). The reduction will be gradually implemented by 20% on each successive year starting at $44M in fiscal year 2019 to $176M in fiscal year 2023, before ultimately phasing out the subsidies in fiscal year 2024.

As a result of the fiscal challenges affecting GDB, the entity completed its wind-down of its fundamental operations on March 23, 2018. GDB historically served as an important source of liquidity to municipal governments by providing financing to such entities. However, given GDB's situation it is no longer in a position to provide such financings. The conditions described above impacted the Municipality's fiscal operations during fiscal year 2017-2018. Notwithstanding, the Municipality is currently implementing mitigation plans including among others: (1) decrease in appropriations of fiscal year 2018-2019 general fund budget, (2) no longer paying excess of vacations and sick leave starting in fiscal year 2017-2018, (3) reducing Christmas bonus, (4) reducing payroll costs by not hiring new employees, as they resign or retire, (5) cost reduction procedures on contracted services, and (6) collecting approved financial assistance funds under FEMA - Community Disaster Loan Program.

c) Next year's budget

In addition to the fiscal factors discussed above, the Municipality's officials considered certain economic factors such as estimates for the growth or decline in population, personal income, housing statistics and unemployment rates when establishing the fiscal year's 2018-2019 budget. The Municipality's unemployment rate as of June 2018 stands at 14.4%, and the Commonwealth rate stands at 9.3%. For the year 2018-2019, the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund of $11,657,565, including an estimate of $1,336,677 for financial assistance under the Community Disaster Loan Program ("CDL"). The decrease responds to the projected fund cuts from Commonwealth's subsidies as required by the its fiscal plan and a projected decline in operational revenues as result of the Island's economic situation.

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, 2018

COMMONWEATH OF PUERTO RICO
MUNICIPALITY OF COAMO
Statement of Net Position
June 30, 2018

	Primary Government
	Governmental activities
Assets	
Current assets:	
Cash in commercial banks	$ 8,450,226
Cash in fiscal agent	6,957,631
Accounts receivable, net of allowance for doubtful accounts:	
Property taxes	69,669
Intergovernmental	3,347,383
Sales tax	69,893
Municipal license	9,615
Due from component units	396,573
Due from primary government	
Real estate held for sale	1,174,135
Total current assets	20,475,125
Noncurrent assets:	
Capital assets, net of accumulated depreciation and amortization of $17,662,174	46,344,816
Total noncurrent assets	46,344,816
Total assets	$ 66,819,941
Deferred outflows of resources:	
Deferred outflows for pensions	$ 7,952,464
Total deferred outflows of resources:	$ 7,952,464
Current Liabilities (due within one year):	
Accounts payable	$ 2,060,372
Due to component units	221,687
Intergovernmental payables	894,890
Accrued interest payable on long-term debt	549,177
Unearned revenues	1,110,098
Current portion of long-term obligations:	
Bonds payable	6,342,144
Other debts	845,782
Total current liabilities	12,024,150
Noncurrent liabilities (due in more than one year):	
Noncurrent portion of long-term obligations:	
Bonds payable	18,314,272
Other debts	30,013,035
Total Noncurrent liabilities	48,327,307
Total liabilities	$ 60,351,457
Deferred inflows of resources:	
Deferred inflows for pensions	$ 640,257
Total deferred inflows of resources	$ 640,257
Net position:	
Invested in capital assets, net of related debt	$ 32,590,731
Restricted for:	
Capital projects	2,229,938
Debt service	8,159,918
Other specified purposes	758,091
Unrestricted net assets	(29,957,987)
Total net position	$ 13,780,691

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

COMMONWEATH OF PUERTO RICO
MUNICIPALITY OF COAMO
Statement of Activities
June 30, 2018

Functions/programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Primary Government: Governmental Activities
PRIMARY GOVERNMENT:					
Governmental activities :					
General government	$ 4,984,488	$ -	$ -	$ -	$ (4,984,488)
Health and welfare	1,396,413	-	2,453,530	-	1,057,117
Public works	5,464,846	119,577	1,904,026	42,730	(3,398,513)
Public safety	553,221	4,441	23,379	4,908	(520,493)
Culture, recreation and education	2,311,024	26,600	2,068,508	-	(215,916)
Community development	229,577	-	-	106,482	(123,095)
Urban and economic development	1,414,567	-	186,920	483,945	(743,702)
Interest on long-term obligation	1,054,024	-	-	-	(1,054,024)
TOTAL PRIMARY GOVERNMENT	$ 17,408,160	$ 150,618	$ 6,636,363	$ 638,065	$ (9,983,114)

GENERAL REVENUES	
Taxes:	
Property taxes	4,002,113
Municipal license taxes	1,248,710
Sales taxes	1,547,638
Construction excise taxes	240,952
Total taxes	7,039,413
Grants and contributions, not restricted to specific programs	3,943,442
Interests on deposits	26,198
Miscellaneous	513,180
Special item-insurance proceed	209,945
Total general revenues	11,732,178
CHANGE IN NET POSITION	1,749,064
NET POSITION-beginning of the year, as restated	12,031,627
NET POSITION-end of the year	$ 13,780,691

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

COMMONWEATH OF PUERTO RICO
MUNICIPALITY OF COAMO
Balance Sheet
Governmental Funds
June 30, 2018

	MAJOR FUNDS					
	General Fund	Special Revenue Fund - Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash in commercial banks	$ 670,281	$ 628,302	$ 3,412,999	$ 1,852,154	$ 1,886,490	$ 8,450,226
Cash in fiscal agent	1,856	170,359	3,713,366	3,067,145	4,905	6,957,631
Account receivable, net of doubtful accounts:						
Property taxes	-	-	-	69,669	-	69,669
Municipal license	9,615	-	-	-	-	9,615
Sales and use tax	69,893	-	-	-	-	69,893
Due from other funds	3,319,611	-	-	-	2,400	3,322,011
Due from component units	353,323	-	-	-	43,250	396,573
Due from governmental entities	430,749	2,481,058	164,992	-	270,584	3,347,383
Total assets	$ 4,855,328	$ 3,279,719	$ 7,291,357	$ 4,988,968	$ 2,207,629	$ 22,623,001
LIABILITIES						
Accounts payable	$ 723,042	$ 851,860	$ 387,237	$ -	$ 98,233	$ 2,060,372
Intergovernmental payable	894,890			-	-	894,890
Due to other funds	718	2,209,289	836,970	-	275,034	3,322,011
Advances to other funds						-
Due to component units	31,171	-	34,936	-	155,580	221,687
Unearned revenue	890,928	219,170	-	-	-	1,110,098
Total liabilities	2,540,749	3,280,319	1,259,143	-	528,847	7,609,058
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	334,455	904,335	88,911	-	8,994	1,336,695
Total deferred inflows of resources	334,455	904,335	88,911	-	8,994	1,336,695
FUND BALANCES						
Fund balance:						
Nonspendable	353,323	-	-	-	-	353,323
Restricted	1,856	(904,935)	5,269,064	4,988,968	444,419	9,799,372
Committed	134,798	-	674,239	-	1,225,369	2,034,406
Unassigned	1,490,147	-	-	-	-	1,490,147
Total fund balances	1,980,124	(904,935)	5,943,303	4,988,968	1,669,788	13,677,248
TOTAL LIABILITIES AND FUND BALANCES	$ 4,855,328	$ 3,279,719	$ 7,291,357	$ 4,988,968	$ 2,207,629	$ 22,623,001

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Statement of Revenues, Expenditures and
Changes in Fund Balance - Governmental Funds
Year Ended June 30, 2018

	MAJOR FUNDS					
	General Fund	Special Revenue Fund - Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property taxes	$ 2,256,584	$ -	$ -	$ 1,411,074	$ -	$ 3,667,658
Municipal license	1,248,710	-	-	-	-	1,248,710
Construction excise taxes	240,952	-	-	-	-	240,952
Sales and use tax	695,932	-	-	851,706	-	1,547,638
Charges of service	131,317	-	-	-	19,301	150,618
Intergovernmental grants and contributions:						
Federal government	-	4,629,969	-	-	277,800	4,907,769
State government	5,024,698	4,510	483,945	-	1,681,462	7,194,615
Investment earnings	15,628	-	-	10,570	-	26,198
Miscellaneous	237,467	-	240,745	-	34,968	513,180
Total Revenues	9,851,288	4,634,479	724,690	2,273,350	2,013,531	19,497,338
EXPENDITURES						
Current:						
General government	4,743,055	-	-	-	-	4,743,055
Health and welfare	499,317	546,435	-	-	331,143	1,376,895
Public works	3,259,021	1,946,826	100,124	-	179,150	5,485,121
Public safety	535,697	4,908	-	-	-	540,605
Culture, recreation and education	418,277	1,387,632	-	-	327,879	2,133,788
Community development	154,141	49,141	4,651	-	-	207,933
Urban and economic development	401,232	6,244	1,019,780	-	248,438	1,675,694
Debt service:						
Principal	-	-	-	1,065,835	-	1,065,835
Interest	-	-	-	1,047,229	-	1,047,229
Total Expenditures	10,010,740	3,941,186	1,124,555	2,113,064	1,086,610	18,276,155
Excess (Deficiency) of Revenues over expenditures	(159,452)	693,293	(399,865)	160,286	926,921	1,221,183
OTHER FINANCING SOURCES (USES)						
Transfer in from other funds	-	53,518	791,799	652,447	22,972	1,520,736
Transfer out to other funds	(675,419)	-	-	(791,799)	(53,518)	(1,520,736)
Special Item-insurance proceed	-	-	-	-	209,945	209,945
Impairment loss on deposits in governmental bank	-	-	-	(364,915)	-	(364,915)
Total Other Financing Sources (uses)	(675,419)	53,518	791,799	(504,267)	179,399	(154,970)
NET CHANGE IN FUND BALANCES	(834,871)	746,811	391,934	(343,981)	1,106,320	1,066,213
FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED	2,814,995	(1,651,746)	5,551,369	5,332,949	563,468	12,611,035
FUND BALANCE AT END OF YEAR	$ 1,980,124	$ (904,935)	$ 5,943,303	$ 4,988,968	$ 1,669,788	$ 13,677,248

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, 2018

Aggregate fund balance reported in the balance sheet - governmental funds	$ 13,677,248
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 governmenal funds	46,344,816
Certain revenue streams recorded in the statement of activities do not necessarily provide current financial resources, therefore, sometimes are deferred in the governmental funds. This is the net change in deferred inflows of resources items, that are measurable but not available at fiscal year end.	1,336,695
Capital asset held for sale reported in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital asset held for sale at June 30, 2018.	1,174,135
Deferred outflows for pensions are reported in the statement of net position but are not reported in the governmental funds	7,952,464
Deferred inflows for pensions are reported in the statement of net position but are not reported in the governmental funds	(640,257)
The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:	
Bonds payable	(20,049,155)
Net pension liability	(33,452,578)
Note payable to GDB - line of credit	(155,220)
Notes payable to CRIM	(774,477)
Compensated absences	(1,083,803)
Accrued interest payable on long-term debt	(549,177)
Net position as reported in the accompanying statement of net position	$ 13,780,691

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds to the Statements of Activities
For the Year Ended June 30, 2018

Net change in fund balances- total governmental funds	$ 1,066,213
Governmental activities amounts reported in the statement of activities and the statement of Revenues, expenditures and changes in fund balances governmental funds are different because:	
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognize for transactions that are not normally paid with expendable financial resources. In the Statements of Activities , however, wich is presented in the accrual basis, expenses and liabilities are presented regardless of when finacial resources are available:	
Net change in accrued interest payable on long-term debt	(6,795)
Net change in compensated absences liability	161,080
Net change in notes payable to CRIM	39,140
Govermental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expenses. This the amount by which capital outlays exceed depreciation expenses.	(31,268)
Govermental 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 is the amount invested in real estate held for sale.	4,918
Repayment of principal of long-term obligations is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	1,065,835
Certain deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities. This is the net change in the deferred inflows of resource (earned and unavailable revenues) for revenue streams that are measurable but not available at June 30, 2018.	(550,059)
Net changes in net assets reported in the accompayning statements of activities	$ 1,749,064

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

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, 2018, 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, 2018 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 funds 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), (2) a general fund budgetary comparison schedule reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end and, (3) a pension plan and employer trend information related to the net pension liability and employer contributions. RSI is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements. The *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, 2018, based on the Municipality's knowledge of the transactions, events and conditions 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 required 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 limited procedures in accordance with auditing standards generally accepted in the United States of America. Also, although required, a pension plan and employer trend information related to the Municipality's proportionate share of the net pension liability and annual contributions are not presented.

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 Statement No. 14, "*The Financial Reporting Entity"*, as amended by GASB Statements No. 39 and 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 the Municipality's 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 based on the nature and significance of the organization's relationship with the Municipality.

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 "Mantenimiento y Ornato", Municipal Enterprise "Todo Deportes", Municipal Enterprise "Servicios de Seguridad", Municipal Enterprise "Centro de Convenciones" and, Municipal Enterprise "Desarrollo de Vivienda Urbana". Each of these organizations is a 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 a 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's income for an amount equivalent to seventy-five percent (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's commercial activities have 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 business. 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's income for an amount equivalent to seventy-five percent (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's commercial activities have 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 business. 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's income for an amount equivalent to seventy-five percent (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's commercial activities have 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 business. 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's income for an amount equivalent to seventy-five percent (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 have 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 business. 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's income for an amount equivalent to seventy-five percent (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's commercial activities have been conducted in a Municipality's facility, as required by law.

- **Municipal Enterprise "Centro de Convenciones"** – This is a for profit organization engaged in the administration and operation of a convention center. 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's income for an amount equivalent to seventy-five percent (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's commercial activities have been conducted in a Municipality's facility, as required by law.

- **Municipal Enterprise "Desarrollo de Vivienda Urbana"** – This is a for profit organization engaged in the development projects for construction of affordable cost housing units in connection with a urban revitalization effort. 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's income for an amount equivalent to seventy-five percent (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's commercial activities have been conducted in a Municipality's facility, as required by law.

The financial data for these organizations must be presented as a total in a separate column in the government-wide financial statements to emphasize that these entities are legally separate from the Municipality. In addition, detailed financial data for each organization must be presented in separated columns or rows in the combining statement of net position – major component units, and in the combining statement of activities – major component units. However, financial data for these organizations are not included in this report. Complete financial statements of the discretely presented component units can be obtained from the Administrative Office of Municipal

Enterprises of Coamo, PO Box 480, Coamo, PR 00769. The financial statements of the discretely presented component units have a year end of June 30, 2018.

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 inflows of resources equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is reported in three categories:

- **Net investment in capital assets** – This net position category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds.

- **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, nor 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 revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program

revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include 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 revenues are reported instead as general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.). Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Municipality does not allocate general government (indirect) expenses to other functions.

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

General government:
- Municipal Legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Office of federal programs

Urban and economic development:
- Department of planning and economic development

Public safety:
- Department of emergency management
- Department of municipal police

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

Culture, recreation and education:
- Department of sports and recreation
- Department of culture and tourism

Health and welfare:
- Department of aging and adult services

Community development:
- Department of citizen affairs

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly

identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and (3) special items.

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

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

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

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

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

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

The *general government* function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the FFS as indirect cost allocations permitted under some federal programs, the Municipality has reported

these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

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

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

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

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

d) Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, deferred outflows of resources, liabilities, deferred inflows 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 – 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.

- ***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, 2018, 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 fund types are reported individually as separate columns in the FFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the FFS if its total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, deferred outflows of resources, liabilities, deferred inflows 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, and (4) the capital projects fund-state and local grants.

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

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

The capital projects fund – state and local grants is the accounting entity in which revenues derived from local funds and state grants or other restricted revenue sources related to capital projects, are 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 and use taxes are accumulated for the payment of general long-term debt principal, interest, and related costs.

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

e) Measurement Focus and Basis of Accounting

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

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

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

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 taxes 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 types of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For most 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 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 a 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 – 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 90 days after June 30, 2018, 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 inflows of resources (earned and unavailable) at June 30, 2018.

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 inflows of resources (earned and unavailable).

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

All revenues, expenditures, 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.

- 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, but are not recorded in the accompanying governmental funds' financial statements.

f) Stewardship, Compliance and Accountability

Budgetary Control

According to Law No. 81, the Mayor and its Administrative Cabinet prepare an annual budget 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 Office of Management and Budget of the Commonwealth of Puerto Rico and the Municipal Legislature no later than the immediately preceding May 31. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 15.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have three (3) days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are

automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

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

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

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 provides information about the general 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, 2018. Further details of the Municipality's budgetary control at the legal level may be obtained from the Municipality's Computerized Accounting System Reports for the fiscal year ended June 30, 2018.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental funds' 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 schedule.

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, 2018, the cash available in the pooled cash account amounted to $2,659,238, 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 amount to $670,281 and $1,856, respectively, and represent 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 $628,302 and $170,359, respectively, represent the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain federal financially assisted programs.

Cash in commercial bank and cash with fiscal agent in the capital projects fund – state and local grants, amounting to $3,412,999 and $3,713,366, respectively, consist principally of the balance of interest bearing and non-interest bearing accounts related to state and local grants and unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of major capital assets.

Cash in commercial banks and cash with fiscal agent in the debt service fund consist of cash related to property tax and sales and use tax collections amounting to $1,852,154 and $3,067,145, respectively, which are restricted for the payment of the Municipality's debt service of bonds payable, as required by law.

Cash in commercial banks and cash with fiscal agent in the other governmental funds, amounting to $1,886,490 and $4,905, respectively, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain state, federal funded and local financially assisted programs.

h) Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2018. 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 held for sale in the accompanying statement of net position consist of a development project for the of affordable cost housing units in connection with a Main Street revitalization effort. Those real estate 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 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 acquisition value/entry price (the price that would be paid to acquire an asset with equivalent service assets with equivalent service potential in an orderly market transaction on the acquisition date). 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:

	Years
Building and site improvements	50
Infrastructure	50
Works 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.

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

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.

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 will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Primary Government has one major item that qualifies for reporting in this category and that is the deferred outflows for pensions (i.e., difference between actual and expected experience, change in proportion, differences between employer's contributions and proportionate share of contributions, and contributions subsequent to the measurement date), reported in the government-wide statement of net position. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the statement of net position and the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Primary Government has only one type of item arising under the modified-accrual basis of accounting that qualifies for reporting in this category, and that is unavailable revenue. Deferred inflows of resources at the governmental fund level arise when potential revenue that does not meet the "available" criteria for revenue recognition in the current period under the modified-accrual basis of accounting. In subsequent periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet, and the revenue is recognized. The Primary Government also has one item that qualifies for reporting in this category in the government-wide Statement of Net Position and that is the deferred inflows for pensions (i.e., difference between actual and expected experience, net difference between projected and actual earnings on pension plan investments, change in proportion, and differences between employer's contributions and proportionate share of contributions).

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, 2018 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.

The liability for compensated absences is in the statement of net position. A liability for compensated absences is reported in the governmental funds 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 funds 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 payables 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

The Municipality accounts for pension costs in accordance with the requirements of GASB Statement No. 68 as a participant employer of the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). Accordingly, pension costs are reported based on its proportional share of the collective net pension liability, pension expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, pension costs have all been determined on the same basis as they are reported by the Plan. Effective on July 1, 2017, the Municipality and other participants of the ERS converted to a new PayGo model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. Paygo payments are recorded as expenditures\expenses in the financial statements.

q) Accounting for other postemployment benefits ("OPEB")

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" is effective for the Municipality starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2018 basic financial statements, nor has it provided to the Municipality with the required information to implement the referred accounting pronouncement. The Municipality's contribution for OPEB is included as part of the Paygo charges billed on a monthly basis by the Puerto Rico Department of Treasury ("PRDT"). Paygo payments are recorded as expenditures\expenses in the financial statements.

r) 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, 2018 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, 2018. 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.

s) Fund Balances

On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions No. 54"* (GASB No. 54). GASB No. 54, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. Also, this statement establishes fund balance classifications that comprise a hierarchy upon use of the resources reported in governmental funds.

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

- ***Nonspendable*** – Represents resources that are not in a spendable form or contractually required to be maintained intact.

- ***Restricted*** – Represents 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*** – Represents resources intended to be used by the Municipality for specific purposes but that 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 the "*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*** – Represents 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 in 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, 2018.

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

t) Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

u) 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.

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.

v) 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.

w)* Adoption of new accounting pronouncements – *GASB Statements No. 75, 81, 85 and 86

Effective July 1, 2017 the Municipality adopted the provisions of the following accounting pronouncements:

- GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45,

"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", for OPEB. Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", establishes new accounting and financial reporting requirements for OPEB plans. The ERS has not issued its 2017 basic financial statements, nor has it provided to the Municipality with the required information to implement the requirements of the statement.

- GASB Statement No. 81 "*Irrevocable Split-Interest Agreements*" The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.

- GASB Statement No. 85 "*Omnibus 2017*" The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics: (1) blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (2) reporting amounts previously reported as goodwill and "negative" goodwill, (3) classifying real estate held by insurance entities, (4) measuring certain money market investments and participating interest-earning investment contracts at amortized cost, (5) timing of the measurement of pension or OPEB liabilities and expenditures, (6) recognized in financial statements prepared using the current financial resources measurement focus, (7) recognizing on-behalf payments for pensions or OPEB in employer financial statements, (8) presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, (9) classifying employer-paid member contributions for OPEB, (10) simplifying certain aspects of the alternative measurement method for OPEB and (11) accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. The ERS has not issued its 2017 basic financial statements, nor has it provided to the Municipality with the required information to implement certain topics related of the statement.

- GASB Statement No. 86 "*Certain Debt Extinguishment Issues*" The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in

substance. For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. The adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.

x) Future Adoption of Accounting Pronouncements

The GASB has issued the following standards that have effective dates after June 30, 2018:

- GASB Statement No. 83 "*Certain Asset Retirement Obligations*" This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (fiscal year ended June 30, 2019). Earlier application is encouraged.

- GASB Statement No. 84 "*Fiduciary Activities*" The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (fiscal year ended June 30, 2020). Earlier application is encouraged.

- GASB Statement No. 87 "*Leases*" The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will

increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (fiscal year ended June 30, 2021). Earlier application is encouraged.

- GASB Statement No. 88 "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*" The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (fiscal year ended June 30, 2019). Earlier application is encouraged.

- GASB Statement No. 89 "*Accounting for Interest Cost Incurred before the End of a Construction Period*" The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (fiscal year ended June 30, 2021). Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

- GASB Statement No. 90 "*Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*" The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (fiscal year ended June 30, 2020). Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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

2. Deposits

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

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

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the 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, 2018.

- **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, 2018, (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, 2018, 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 maintained at the GDB, amounting to $6,957,631 at June 30, 2018, are uninsured and uncollateralized. Moreover, an impairment loss amounting to $364,915 related to defaults by GDB on deposit transactions have been incurred by the Municipality (in the Debt Service Fund) through June 30, 2018. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

  Pursuant to the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA or the Act"), a Financial Oversight and Management Board for Puerto Rico ("the Oversight Board") was established, which, as part of its authority, designated the Commonwealth and some of its instrumentalities, including GDB, as covered entities. Covered instrumentalities should develop and submit a fiscal plan to the Oversight Board for further certification and approval. GDB faced a critical fiscal situation which left the entity with significant non-performing assets, limited liquidity and the inability to repay its debts as they come due. The approved GDB's fiscal plan establishes an "orderly wind-down", financial restructuring and closing of GDB operations, as the Commonwealth concluded of the inability of GDB to become a viable going concern and reinstate its past banking operations. GDB completed its wind-down of its fundamental operations on March 23, 2018.

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The Puerto Rico Fiscal Agency and Financial Advisory Authority ("A/AFAF") was created pursuant Act No. 21 of 2016 and Act 2 of 2017 as an independent public corporation and governmental instrumentality to assume all fiscal agency, financial advisory, and reporting functions of GDB. Following the certification of GDB's fiscal plan, AAFAF, GDB and certain supporting creditors negotiated the terms of a Restructuring Support Agreement ("RSA"), (as amended), which provides for the restructuring of a significant portion of GDB's liabilities ("Participating Bond Claims" as defined by the RSA). The Municipality's deposits at GDB, which are uninsured and uncollateralized, were subject to the provisions of the RSA. Following is the bank balance of deposits (equal to carrying amount) as of June 30, 2018:

	Deposits Balance					
Description	**General Fund**	**Special Revenue Fund - Federal Grants**	**Capital Project Fund - State & Local Grants**	**Debt Service Fund**	**Other Governmental Funds**	**Total**
Unspent balance of bonds and notes proceeds, issued mainly for operational purposes	$ 1,856	$ -	$ -	$ -	$ -	$ 1,856
Non-negotiable certificate of deposit (excess CAE)	-	-	-	810,923	-	810,923
Non-negotiable certificates of deposit (excess IVU)	-	-	-	241,780	-	241,780
Unspent balance of the property taxes collections deposited in the "CAE Redemption Fund" and restricted for the repayment of the Municipality's general and special obligation bonds and notes	-	-	-	2,287,140	-	2,287,140
Unspent balance of the sales and use taxes collections deposited in the "Municipal Redemption Fund" and restricted for the repayment of the Municipality's special obligation bonds and notes	-	-	-	92,217	-	92,217
Unspent balance of a federal and local government grants, for capital constructions and improvements	-	170,359	-	-	4,905	175,264
Unspent balance of bonds and notes proceeds, issued mainly for capital constructions and improvements	-	-	3,713,366	-	-	3,713,366
Gross amount of deposits as of June 30, 2018	1,856	170,359	3,713,366	3,432,060	4,905	7,322,546
Custodial credit loss recorded in fiscal year 2017-2018				(364,915)		(364,915)
Net amount of deposits as of June 30, 2018	**$ 1,856**	**$ 170,359**	**$ 3,713,366**	**$ 3,067,145**	**$ 4,905**	**$ 6,957,631**

A final RSA was approved on April 6, 2018 and finally executed effective November 29, 2018.

- **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, 2018.

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, 2018, 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) is 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 $890,928 at June 30, 2018. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2018-2019, therefore, cannot be used to pay obligations of the fiscal year 2017-2018.

4. Sales and Use Taxes

As imposed by Commonwealth and Municipal laws and regulations, the citizens of Puerto Rico are subject to sales and use taxes ("SUT") on a broad range of goods and services. The total tax is imposed at a combined 11.5% rate of which 10.5% belongs to the Commonwealth (collection process administered through the PRDT) and 1% for the municipalities (collection process administered through the Municipal Finance Corporation – "COFIM"). The tax is due the 20th day of each month based on tax collected in the preceding month. Merchants at the Municipality of Coamo render their tax return and payment through COFIM's web site or through a bank institution.

Effective on February 1, 2014 the Commonwealth approved Act No. 18 and Act No. 19, as amended by Act No. 84 of 2016, to 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 these

legislations the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations. Act No. 18 known as the "Municipal Administration Fund Law" creates a special fund called "Municipal Administration Fund" ("FAM") currently administered by COFIM and under custody of a private commercial bank. The FAM permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Municipality of Coamo signed the agreement to be covered. Act No. 19 created the Municipal Finance Corporation ("COFIM"), a public corporation and a component unit of GDB, to issue bonds and use other financing mechanisms to pay or refinance all or a portion of the municipalities' debt obligations payable from the 1% municipal SUT. The Act includes provisions for municipalities that do not want to be covered by Act No. 18. Special rules apply for those municipalities. As discussed above the Municipality of Coamo signed the agreement to be covered by Act No. 18.

The FAM is funded with an amount attributable to the .5% of the Commonwealth's SUT for the current fiscal year. The .5% is distributed as follows:

a. .2% deposited in the Municipal Development Fund to be distributed to the municipalities to finance operational costs,

b. .2% deposited in a Municipal Redemption Fund or may be deposited in the municipalities' general fund. The municipalities have the option to maintain funds in the Municipal Redemption Fund to increase its debt margin and,

c. .1% 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 outstanding balance of the Municipal Redemption Fund as of June 30, 2016 remains at GDB and is not available for spending. These funds are subject to the GDB RSA executed on November, 2018. Starting July 2016 all FAM's .2% SUT revenues belonging to the Municipal Redemption Fund and deposited in a private commercial bank designated by COFIM.

The debt service fund reported revenues of $851,706 corresponding to the IVU Municipal Redemption Fund and under the custody of a private commercial bank. Once a reserve equivalent to twelve months of debt service on all outstanding general obligations is funded, any surplus in the IVU Municipal Redemption Fund is placed at the disposal of the Municipality. Upon request, these surplus funds, known as "excess IVU funds" are distributed to the Municipality at any time and whenever requested. Generally, these funds are transferred to the Municipality's general or a special revenue fund. The Municipality recorded these excess IVU funds as transfers-out in the debt service fund and as transfers-in the general or special revenue fund.

Pursuant to Act no. 19 as amended, the first collections of the 1% municipal SUT are deposited into the COFIM's sinking fund until the greater of: .3% of the 1% municipal SUT or an Annual Rental Fee ("RFA"). The RFA for current and thereafter is 1.5% of the RFA of the preceding fiscal period. The

excess amount of 1% municipal SUT remaining after the required deposit to the COFIM's sinking fund (the "1% Municipal Transfer") is transferred to the general fund of municipalities or to the IVU Municipal Redemption Fund as decided by the municipality. Since COFIM has not issue debt payable from COFIM's Sinking Fund, the 1% SUT is transferred directly to the municipalities.

For the fiscal year ended June 30, 2018 the Municipality recorded as revenue $695,932 in the general fund of which corresponds to the 1% Municipal Transfer.

5. Property Taxes

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is generally assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2018 are 8.53% for personal property and 10.53% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund **("Basic Tax")**	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund **("Special Tax")**	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund **("Municipal CAE Tax")**	3.50%	3.50%
Total tax rate:	8.53%	10.53%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	**8.33%**	**10.33%**

Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value.

Collections from the Basic Tax, plus 35% of net revenues from the lottery system and 2.5% of net internal revenues from the Commonwealth's General Fund corresponding to the municipalities are deposited by the CRIM in a trust known as the *Municipal Matching Fund*, where AAFAF serves as trustee and a private bank serves as the custodian. Collections of this fund are distributed among the municipalities following specific rules and formulas set forth by law. Collections that correspond to

the Commonwealth CAE Tax are transferred to the *Commonwealth General Obligation Redemption Fund* and those that correspond to the Municipal CAE Tax and any other revenues that are needed to service municipal general obligations are transferred to the *Municipal Public Debt Redemption Fund*.

The *Municipal Public Debt Redemption Fund* is a trust fund in which GDB serves as trustee and a private bank serves as the custodian. It was established for the deposit of any CAE Tax it collects on behalf of the municipalities. Pursuant to the Trust Deed, the *Municipal Public Debt Redemption Fund* is composed of two Sub-Funds: (1) the GDB Sub- Fund and (2) the MFA/Private Sector Sub-Fund. In the GDB Sub-Fund, the CRIM was required to deposit on a monthly basis the CAE Tax revenues necessary to meet annual debt service on bonds, notes and loans issued by GDB. In the MFA/Private Sector Sub-Fund, the CRIM is required to deposit on a monthly basis the CAE Tax revenues necessary to meet annual debt service on bonds, notes and loans issued or bought by the Municipal Finance Agency ("MFA"), the federal government or private banks. The GDB Sub-Fund remains at GDB but the CRIM is not depositing CAE Tax revenues since April 2016. Subsequent to that date, all CAE Tax revenues are deposited by the CRIM in the MFA/Private Sector Sub-Fund, held by a private commercial bank. Since January 2017 principal and interest payments on bonds, notes and loans issued by GDB are also serviced by the MFA/Private Sector Sub-Fund.

The *Municipal Public Debt Redemption Fund* is a trust fund in which AAFAF serves as trustee and a private bank serves as the custodian. Pursuant to the Trust Deed, the *Municipal Public Debt Redemption Fund* is composed of two Sub-Funds: (1) the GDB Sub-Fund and (2) the MFA/Private Sector Sub-Fund. The *GDB Sub-Fund*, accounts for the Municipal CAE Tax revenues necessary to meet annual debt service on bonds, notes and loans issued by GDB. Since April 2016, Municipal CAE Tax collections of the GDB Sub-Fund are deposited in a private commercial bank. The *MFA/Private Sector Sub-Fund* accounts for the Municipal CAE Tax revenues necessary to meet annual debt service on bonds, notes and loans issued or bought by the Municipal Finance Agency ("MFA"), the federal government or private banks. Municipal CAE Tax collections of the MFA/Private Sector Sub-Fund are deposited in a private commercial bank. Once a reserve equivalent to twelve months of debt service on all outstanding general obligations is funded, any surplus in the *Municipal Public Debt Redemption Fund* is placed at the disposal of the Municipality. Upon request and approval of AAFAF, once in a year these surplus funds, known as "excess CAE funds" are distributed to the Municipality net of withdrawal for payment of debts to governmental agencies, if any. Generally, these funds are transferred to the Municipality's general fund. The Municipality recorded these excess CAE funds as transfers-out in the debt service fund and as transfers-in the general fund.

Certain of these excess funds of fiscal years prior to 2017 were invested by GDB in nonnegotiable certificates of deposits held by GDB in the Municipality's name. Those funds are subject to the GDB RSA executed on November 2018.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The 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 amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal

year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A receivable of $334,455 from the final settlement of fiscal year 2017-2018 is recorded as deferred inflows of resources since is not available are required by current standards.

6. Accounts Payable and Accrued Liabilities

The composition of accounts payable and accrued liabilities balances at June 30, 2018 and for the fiscal year then ended is as follows:

	Major governmental funds				
Descriptions:	**General Fund**	**Special Revenue Fund – Federal Grants**	**Capital Projects Fund – State and Local Grants**	**Other Governmental Funds**	**Total Governmental Funds**
Accounts payable	$ 435,894	$ 851,860	$ 387,237	$ 98,233	$ 1,773,224
Accrued liabilities	287,148	-	-	-	287,148
Total	$ 723,042	$ 851,860	$ 387,237	$ 98,233	$ 2,060,372

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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 Position
Intergovernmental receivables:				
Entity or Program:				
Puerto Rico Office for Socioeconomic and Community Development	$ 28,616	$ -	$ 28,616	$ 28,616
Puerto Rico Department of Education	690,113	122,624	812,737	812,737
Puerto Rico Office for the Improvements of Public Schools	88,912	34,944	123,856	123,856
Puerto Rico Childcare and Childhood Integral Development Administration	311,036	-	311,036	311,036
U.S. Department of Agriculture	4,440	-	4,440	4,440
U.S. Department of Homeland Security - FEMA	582,741	-	582,741	582,741
U.S. Department of Housing and Urban Development	13,998	192	14,190	14,190
Puerto Rico Public Housing Administration	205,028	-	205,028	205,028
Puerto Rico Governor's Office - Elderly Affairs	50,471	-	50,471	50,471
Puerto Rico Infrastructure Authority Office	76,080	-	76,080	76,080
Puerto Rico Municipal Revenue Collection Center	334,456	-	334,456	334,456
Puerto Rico Department of Transportation	83,823	-	83,823	83,823
Puerto Rico Department of Sports and Recreation	607,085	-	607,085	607,085
Puerto Rico Department of Labor	-	112,824	112,824	112,824
Total intergovernmental receivables	$ 3,076,799	$ 270,584	$ 3,347,383	$ 3,347,383
Intergovernmental payables:				
Payroll (general fund):				
Puerto Rico Department of Labor	$ 4,661	$ -	$ 4,661	$ 4,661
Utilities and Others (general fund):				
Puerto Rico Aqueduct and Sewer Authority	840,939	-	840,939	840,939
Puerto Rico Electric Power Authority	49,290	-	49,290	49,290
Total intergovernmental payables	$ 894,890	$ -	$ 894,890	$ 894,890

Intergovernmental receivables and payables represent the pending settlements of the aforementioned intergovernmental transactions, which are considered by management to be fully realizable at June 30, 2018.

The Commonwealth and most of its public corporations are in the midst of a profound fiscal, economic and liquidity crisis, which have adversely affected its credit ratings, its ability to obtain financing at reasonable interest rates and its ability to pay obligations in reasonable time. As a result, the Commonwealth has relied more heavily on short-term financings and interim loans from the Government Development Bank for Puerto Rico (GDB), and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB and increased near-term financing risk.

But the Municipality's management understands that all of the intergovernmental receivables at June 30, 2018 are fully collectible based upon past collection experience and current economic conditions and, that the potential effects of the Commonwealth's economic situation in the financial position and results of operations in the municipalities cannot be presently determined.

8. Inter-fund and Intra-entity Transactions

a) Inter-fund Transaction

The composition of inter-fund balances at June 30, 2018 and for the fiscal year then ended is as follows:

	Due from:		
Due to:	**General Fund**	**Other Governmental Funds**	**Total Governmental Funds**
General Fund	$ -	$ 718	$ 718
Special Revenue Fund – Federal Grants	2,207,607	1,682	2,209,289
Capital Projects Fund – State and Local Grants	836,970	-	836,970
Other Governmental Funds	275,034	-	275,034
Total	$ 3,319,611	$ 2,400	$ 3,322,011

	Transfers out:			
Transfers in:	**General Fund**	**Debt Service Fund**	**Other Governmental Funds**	**Total Governmental Funds**
Debt Service Fund	$ 652,447	$ -	$ -	$ 652,447
Special Revenue Fund – Federal Grants	-	-	53,518	53,518
Capital Projects Fund – State and Local Grants	-	791,799	-	791,799
Other Governmental Funds	22,972	-	-	22,972
Total	$ 675,419	$ 791,799	$ 53,518	$ 1,520,736

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 bonds. These debt service payments were made on January and July 2018.

- Make a non-routinely transfer of resources (general fund unassigned fund balance) from the general fund to a special revenue governmental fund to cover specific urban and economic development project and other costs.

- Make a non-routinely transfer of resources (debt 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, 2018.

b) Intra-entity Transaction

Due from component units at June 30, 2018 are as follows:

	Receivable Entity:		
Payable Entity:	**General Fund**	**Other Governmental Funds**	**Total Due from Component Units**
Municipal Enterprise "Servicios de Seguridad"	$ 144,775	$ -	$ 144,775
Municipal Enterprise "Piscinas Aguas Termales"	-	43,250	43,250
Municipal Enterprise "Estación de Gasolina"	100,000	-	100,000
Municipal Enterprise "Desarrollo de Vivienda Urbana"	108,548	-	108,548
Total	$ 353,323	$ 43,250	$ 396,573

Due to component units at June 30, 2018 are as follows:

Payable Entity:	**Municipal Enterprise "Mantenimiento y Ornato"**	**Municipal Enterprise "Centro de Convenciones"**	**Municipal Enterprise "Servicios de Seguridad"**	**Total Due to Component Units**
General Fund	$ 7,918	$ 195	$ 23,058	$ 31,171
Capital Projects Fund – State and Local Grants	34,936	-	-	34,936
Other Governmental Funds	34,944	-	120,636	155,580
Total	$ 77,798	$ 195	$ 143,694	$ 221,687

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

- Recognize in the general fund the outstanding balance of the loans granted to component units to finance its operations.

- Recognize in the component units the outstanding balances of accounts receivable from the primary government for goods supplied or services rendered to the primary government.

9. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018:

a) Governmental Activities

	Cost basis at beginning of fiscal year	Additions	Reductions/ Reclassifications	Cost basis at end of fiscal year
Cost basis:				
Capital assets, not being depreciated:				
Land	$ 4,539,978	$ -	$ -	$ 4,539,978
Construction in progress	5,124,805	179,227	-	5,304,032
Total capital assets, not being depreciated	9,664,783	179,227	-	9,844,010
Capital assets, being depreciated:				
Buildings, structures, and improvements	42,093,817	578,807	-	42,672,624
Infrastructure	1,983,442	16,933	-	2,000,375
Machinery and equipment, and furniture and fixtures	4,232,195	218,061	-	4,450,256
Licensed vehicles	4,972,217	67,509	-	5,039,726
Total capital assets, being depreciated	53,281,671	881,310	-	54,162,981
Total cost basis of capital assets	$ 62,946,454	$ 1,060,537	$ -	$ 64,006,991

	Accumulated Depreciation at beginning of fiscal year	Additions	Reductions/ Reclassifications	Accumulated Depreciation at end of fiscal year
Accumulated depreciation:				
Buildings, structures, and improvements	$ 10,618,271	$ 611,957	$ -	$ 11,230,228
Infrastructure	570,128	96,916	-	667,044
Machinery and equipment, and furniture and fixtures	1,833,024	265,089	-	2,098,113
Licensed vehicles	3,548,947	117,843	-	3,666,789
Total accumulated depreciation	16,570,370	1,091,805	-	17,662,174
Net capital assets, governmental activities	$ 46,376,084	$ (31,268)	$ -	$ 46,344,817

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2018.

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, 2018.

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, 2018.

Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2018 was charged to functions/programs in the accompanying statement of activities as follows:

General government	$ 80,712
Public safety	16,982
Economic and urban development	254,359
Health and welfare	21,314
Community development	28,919
Public works	212,638
Culture, recreation, and education	476,881
Total depreciation and amortization expense	$ 1,091,805

As a result of the impact of Hurricane Maria, the Municipality performed an assessment of all suffered damages to its capital assets and performed significant recovery efforts, financed with municipal funds. The Municipality received an advance of $209,945 in insurance recovery on these damages. Management evaluated capital assets in terms of impairment, as required by current governmental accounting standards and determined that none of its capital assets are subject to impairment loss.

10. Unearned Revenues

At June 30, 2018, 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 Position
Unearned revenues:				
Municipal licenses	$ 890,928	$ -	$ 890,928	$ 890,928
Intergovernmental grants and contributions	-	219,170	219,170	219,170
Total unearned revenues	$ 890,928	$ 219,170	$ 1,110,098	$ 1,110,098

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11. Deferred Inflow of Resources – Governmental Funds

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

Deferred Inflow of Resources:	Major Governmental Funds	Other Governmental Funds	Total Governmental Funds
Entity or Program:			
Puerto Rico Management and Budget Office	$ 8,683	$ -	$ 8,683
Puerto Rico Department of Education	197,630	1,987	199,617
Puerto Rico Office for the Improvements of Public Schools	88,912	-	88,912
Puerto Rico Governor's Office - Elderly Affairs	36,313	-	36,313
Puerto Rico Municipal Revenue Collection Center	334,456	-	334,456
Puerto Rico Department of Transportation	54,622	-	54,622
Puerto Rico Department of Sports and Recreation	607,085	-	607,085
Puerto Rico Department of Labor	-	7,007	7,007
Total Deferred Inflow of Resources	$ 1,327,701	$ 8,994	$ 1,336,695

12. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2018 is as follows:

	(as restated) Balance at beginning of fiscal year	Borrowings and/or additions	Payments and/or Deductions	Balance at end of fiscal year	Balance due within one year
Governmental activities:					
Bonds payable:					
General and public obligation serial bonds	$ 21,114,990	$ -	$ 1,065,835	$ 20,049,155	$ 6,342,144
Notes payable:					
Municipal Revenue Collection Center:					
Law No. 42 of January 26, 2000	565,843	-	22,622	543,221	24,044
Law No. 146 of October 11, 2001 – Delinquent property tax accounts sold	247,774	-	16,518	231,256	16,518
Final settlement – fiscal year 13-14	-	-	-	-	-
COFIM:					
Final settlement – fiscal year 15-16	-	-	-	-	-
Puerto Rico Government Development Bank:					
Line of credit for construction of affordable cost housing units	155,220	-	-	155,220	155,220
Net pension liability	33,452,578	-	-	33,452,578	-
Compensated absences	1,244,883	643,294	804,374	1,083,803	650,000
Totals for governmental activities	$ 56,781,288	$ 643,294	$ 1,909,349	$ 55,515,233	$ 7,187,926

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 line of credit obtained for the construction of affordable cost housing units, such line of credit will be repaid with the proceeds 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.

  Puerto Rico's fiscal crisis affects all instrumentalities, including municipalities. The Commonwealth does not have access to the finance market. The municipalities obtained loans through the Governmental Development Bank (GDB), or commercial banks with the endorsement of GDB. The GDB does not have access to market and ceased the issuance of new loans to municipalities. Therefore, the determination of the Municipality's debt margin depends on the access to the markets of GDB and commercial banking loans to which it does not have access.

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 3.50 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 (the 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 imposes a sales and uses tax of one (1%) percent, which is 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, 2018:

	Outstanding balance
1998 serial bonds (face amount $405,000), due in annual principal installments ranging from $5,000 to $40,000; plus interest due in semiannual installments at variable rates (5.01% at June 30, 2018) through July 1, 2024.	$ 195,000
2001 serial bonds (face amount of $2,015,000), due in annual principal installments ranging from $30,000 to $165,000; plus interest due in semiannual installments at variable rates (5.01% at June 30, 2018) through July 1, 2026.	1,130,000
2002 serial bonds (face amount of $810,000), due in annual principal installments ranging from $15,000 to $60,000; plus interest due in semiannual installments at variable rates (5.01% at June 30, 2018) through July 1, 2027.	465,000
2004 serial bonds (face amount of $10,000,000), due in annual principal installments ranging from $144,000 to $550,000; plus interest due in semiannual installments at variable rates (5.00% at June 30, 2018) through July 1, 2029.	5,051,155
2006 serial bonds (face amount of $310,000), due in annual principal installments ranging from $5,000 to $30,000; plus interest due in semiannual installments at variable rates (2.40% at June 30, 2018) through July 1, 2031.	230,000
2006 serial bonds (face amount of $1,010,000), due in annual principal installments ranging from $15,000 to $80,000; plus interest due in semiannual installments at variable rates (2.40% at June 30, 2018) through July 1, 2031.	750,000
2008 serial bonds (face amount of $370,000), due in annual principal installments ranging from $5,000 to $35,000; plus interest due in semiannual installments at variable rates (2.40% at June 30, 2018) through July 1, 2032.	295,000

	Outstanding balance
2008 serial bonds (face amount of $1,660,000), due in annual principal installments ranging from $20,000 to $135,000; plus interest due in semiannual installments at variable rates (2.40% at June 30, 2018) through July 1, 2032.	1,310,000
2009 serial bonds (face amount of $910,000), due in annual principal installments ranging from $15,000 to $75,000; plus interest due in semiannual installments at variable rates (6% at June 30, 2018) through July 1, 2034.	770,000
2009 serial bonds (face amount of $190,000), due in annual principal installments ranging from $5,000 to $15,000; plus interest due in semiannual installments at variable rates (2.40% at June 30, 2018) through July 1, 2033.	145,000
2009 serial bonds (face amount of $1,317,000), due in annual principal installments ranging from $21,000 to $112,000; plus interest due in semiannual installments at variable rates (2.40% at June 30, 2018) through July 1, 2033.	1,072,000
2009 serial bonds (face amount of $791,000), due in annual principal installments ranging from $10,000 to $66,000; plus interest due in semiannual installments at variable rates (2.40% at June 30, 2018) through July 1, 2033.	646,000
2010 serial bonds (face amount of $705,000), due in annual principal installments ranging from $10,000 to $60,000; plus interest due in semiannual installments at variable rates (5.50% at June 30, 2018) through July 1, 2034.	600,000
2011 serial bonds (face amount of $165,000), due in annual principal installments ranging from $5,000 to $15,000; plus interest due in semiannual installments at variable rates (6% at June 30, 2018) through July 1, 2035.	130,000
2011 serial bonds (face amount of $260,000), due in annual principal installments ranging from $5,000 to $25,000; plus interest due in semiannual installments at variable rates (6% at June 30, 2018) through July 1, 2035.	225,000
2011 serial bonds (face amount of $2,095,000), due in annual principal installments ranging from $25,000 to $175,000; plus interest due in semiannual installments at variable rates (6% at June 30, 2018) through July 1, 2035.	1,830,000

	Outstanding balance
2012 serial bonds (face amount of $930,000), due in annual principal installments ranging from $10,000 to $80,000; plus interest due in semiannual installments at variable rates (6% at June 30, 2018) through July 1, 2036.	835,000
2012 serial bonds (face amount of $1,210,000), due in annual principal installments ranging from $20,000 to $105,000; plus interest due in semiannual installments at variable rates (6% at June 30, 2018) through July 1, 2036.	1,080,000
2012 serial bonds (face amount of $290,000), due in annual principal installments ranging from $35,000 to $50,000; plus interest due in semiannual installments at variable rates (6% at June 30, 2018) through July 1, 2019.	50,000
2012 serial bonds (face amount of $505,000), due in annual principal installments ranging from $20,000 to $55,000; plus interest due in semiannual installments at variable rates (6% at June 30, 2018) through July 1, 2028.	420,000
2012 serial bonds (face amount of $3,160,000), due in annual principal installments ranging from $75,000 to $280,000; plus interest due in semiannual installments at variable rates (6% at June 30, 2018) through July 1, 2033.	2,820,000
Total bonds payable	**$ 20,049,155**

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 qualified for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

Interest expenses on bonds payable amounted to $1,054,024 for the fiscal year ended June 30, 2018.

AAFAF, GDB and certain supporting creditors negotiated the terms of a Restructuring Support Agreement ("RSA"), (as amended), which was finally closed and executed on November 29, 2018. As part of the process, any bond, note and/or loan balances were reduced by an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and were held on deposit at GDB on the Closing Date and by the remaining municipal deposits held at GDB as of the Closing Date on a dollar-for-dollar basis. The

municipality restructured its total long-term debt issued by GDB. The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2018 follows:

Fiscal year ending June 30,	Principal	Interest	Total
2019	$ 1,012,835	$ 1,058,905	$ 2,071,740
2020	1,033,835	990,289	2,024,124
2021	1,094,835	937,219	2,032,054
2022	1,162,835	878,393	2,041,228
2023	1,230,835	910,431	2,141,266
2024-2028	7,087,175	3,854,407	10,941,582
2029-2033	5,453,805	1,662,441	7,116,246
2034-2038	1,973,000	208,720	2,181,720
Totals	**$ 20,049,155**	**$ 10,500,805**	**$ 30,549,960**

c) Notes Payable to Municipal Revenue Collection Center

The Municipality has the following notes payables to Municipal Revenue Collection Center (CRIM, by its Spanish acronym) at June 30, 2018:

- **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 $543,221, at June 30, 2018.

- **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 $231,256, at June 30, 2018.

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

- **Line of credit for affordable cost housing units construction project** – On February 15, 2011, the Municipality obtained a line of credit (up to $849,616) from the Puerto Rico Government Development Bank to finance the construction of affordable cost housing units. The line of credit available balance used for the project, plus interest accrued, will be payable with 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, 2018, the balance of this line of credit amounted to $155,220.

e) Compensated Absences

At June 30, 2018, the government-wide statement of net position – governmental activities include a liability amounting $979,318, of which $620,214 represents accrued sick leave benefits, and $359,104 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

f) Net Pension Liability

At June 30, 2018, the government-wide statement of net position – governmental activities include a liability with the Employee's Retirement System Administration (ERS) amounting $33,452,578. This amount represents the proportionate share of the plan's net pension liability as explained in **Note 13**.

On June 14, 2018, US FEMA issued to the Municipality a promissory note for a maximum amount of $4,010,031 for financial assistance under the Community Disaster Loan Program ("CDL"). The note is payable from and secured by a pledge of the Municipality's revenues. The Municipality has not requisitioned loan funds as of June 30, 2018.

13. Employees' Retirement Systems

a) Plan description

The Municipality is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a trust created by the Commonwealth's Legislature. ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2013 the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,

- *Act No. 1 of February 16, 1990* ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,

- *Act No. 305 of September 24, 1999* ("Act 305"), which amended Act 447 and Act 1, for members hired from January 1, 2000 up to June 3, 2013,

- *Act No. 3 of April 4, 2013* ("Act 3") effective on July 1, 2013 for members participating under Acts No. 447, 1 and 305 or members hired on or after July 1, 2013.

Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employer defined benefit plan. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016, the ERS was designated by the Oversight Board as a "covered instrumentality" pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth's fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As a result of the ERS's severe fiscal and liquidity crisis, on May 21,

2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "District Court").

b) Benefits provided

Eligibility for retirement. Act 3 establish the following retirement eligibility requirements: (1) Act 447 regular employees upon attaining a range between 59 to 61 years (depending of date of birth) and 10 years of creditable service, (2) Act 1 employees upon attaining 55 years with 30 years of creditable service, (3) System 2000 regular employees upon attaining a range between 61 to 65 years (depending of date of birth) and, (4) Act 3 employees hired after July 1, 2013 upon reaching 67 years. High risk employees (state and municipal police, firefighters and custody officials) under Act 447 and Act 1 will be eligible at 55 years with 30 years of creditable service, for System 2000 employees at 55 years of service and for Act 1 employees hired after July 1, 2013 upon reaching 58 years.

Accrued benefits. All members are entitled to a lifetime annuity based on the balance of the deferred contribution individual account at the time of the retirement calculated based on a factor that will incorporate the individual's life expectancy and a rate of return. For Act 447 and Act 1 active participants all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. These participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013 plus the lifetime annuity corresponding to contributions made to the individual account after July 1, 2013 as described above. Act 447 participants, except police and mayors, may elect to coordinate coverage with Social Security benefits ("Coordinated plan"). Under this option participants are subject to a benefit recalculation upon attainment of the Social Security Retirement Age. For all members, if the balance of the defined contribution individual account is less than $10,000 the amount shall be paid as a lump sum instead of an annuity. Effective July 1, 2013 the minimum monthly pension amount for members who retired or disabled before July 1, 2013 is $500.

Termination benefits. Members are eligible to a lump sum payment of the defined contribution individual account as of the date of the permanent separation of service upon termination of service prior to 5 years of service or if the balance of the defined contribution individual account is less than $10,000.

Deferred retirement. Members are eligible at the applicable retirement eligibility age to a lifetime annuity based on the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) upon termination of service with 5 or more years of service (10 years of creditable service for Act 447 and Act1 members) but prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal from the defined contribution individual account.

Death benefits. For non-retired members their designated beneficiaries will receive a refund of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members). For pensioned members retired prior to June 30, 2013 the annual income to a widow or widower or dependent children is equal to 60% of the retirement benefit payable for life for a surviving spouse or disabled children and payable until age 18 or age

25 if pursuing studies for non-disabled children. For pensioned members retired after June 30, 2013 payments to beneficiaries will be the excess, if any, of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) over the total annuity payments paid to the member and any beneficiaries.

Disability benefits. Members who are permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be entitled to the balance of the deferred contribution individual account in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant, plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) at the applicable retirement eligibility age. Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447. A disability benefits program is established which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Office of the Commissioner of Insurance of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the participant.

Special laws and pensioner additional benefits. The Municipality is required to cover other retirement benefits of its retired employees (if retired prior to July 1, 2013) as required by Commonwealth's laws, including: (1) various special laws – ad-hoc cost of living allowance adjustments (COLA) provided in prior years; (2) various special laws –additional minimum pension benefits and, (3) Act 3 retired pensioners "Additional Benefits Program". All of these other retirement benefits are applicable only to employees who retired prior to July 1, 2013 under Act 447 and Act 1. The "Additional Benefits Program" includes: (1) a medication bonus of $100 per member which shall be paid no later than July 15 of each year; (2) a Christmas bonus of $200 per member which shall be paid no later than December 20 of each year and, (3) a matching share of $1,200 for healthcare insurance plan. These costs are billed by ERS and paid by the Municipality through the PayGo system.

c) *Retirement systems reform*

Act No. 106 of August 23, 2017 ("Act 106") was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS's governance and administration, effective on July 1, 2017. Those dispositions are summarized as follows:

Determination of accrued pension benefits as of June 30, 2017 and payments

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner

additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the PRDT,
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits (including other special laws and additional pensioner benefits) as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to additional uniform contributions were eliminated. Payments are made by the employers (the Municipality) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase. On July 20, 2017 ERS sold investments for approximately $297 million.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or municipality to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required. For municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2017-2018, the Municipality was billed and recorded as PayGo expenditures the amount of $755,640, of which $191,385 was recorded as due to Commonwealth Government as of June 30, 2018.

Creation and transition to a new defined contribution plan

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and

adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan.

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts of participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

Reform of ERS's governance and administration

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2017.

d) ***Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions; other required disclosures under GASB Statement 73***

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a PayGo funding administered by the PRDT. As a result, the plans operated by ERS under various benefit structures prior to July 1, 2017 are administered through a trust that do not meet the requirements of ***GASB Statement No. 68*** as of July 1, 2017 and instead, the employers are subject to the requirements of ***GASB Statement No. 73,*** *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".* Since the ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2017 nor has provided to the Municipality certain required information necessary to properly implement the provisions of ***GASB Statement No. 73*** as of and for the fiscal year ended June 30, 2018, amounts related to pensions reported in the government-wide financial statements are the same amounts reported in the 2017 financial statements under ***GASB Statement No. 68.*** Amounts reported as deferred outflows \inflows of resources related to pensions and net pension liability in the government-wide financial statements had not been updated since previous years. In addition, applicable disclosures and required supplementary information have been omitted.

14. Other Postemployment Benefits (OPEB)

1. Plan description

The Municipality is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

2. Benefits provided

ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

3. Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The Municipality's contribution is financed through the monthly Paygo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

4. OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2017 nor has it provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2017 (Municipality's measurement date), necessary to comply with the requirements of ***GASB Statement No. 75*** *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions",* as of June 30, 2018. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

15. Tax Abatements

Governments may use tax abatements to reduce the imposition of taxes to private entities in exchange for a given set of objectives, including economic development, urban renewal, promoting industries, and others. A tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The Municipality provides tax abatements by Ordinance No. 16, 2011-2012 series, to promote new investment in the industrial and commercial sector. Also, by Resolution 12A-55 the Court of First Instance of Puerto Rico determine the Satellite Television are exempt of the Municipal License Tax Law.

The Commonwealth of Puerto Rico provides tax abatements in the Municipality through eight programs— the Tax Incentives Act of 1998; Tax Incentives for the Development of Puerto Rico Act; Act to Promote the Export of Services; Green Energy Incentives Act of Puerto Rico; Tax Exemptions for Hospitals; Agricultural Tax Incentives Act of Puerto Rico; Puerto Rico Tourism Development Act of 2010; Young Entrepreneurs Incentive and Financing Act; Tax Incentives for Historic Zones Act; and “Foreign Trade Zone Act" of 1934.

Also, the Internal Revenue Code administered by the Treasury Department, provides full exemption from the assessment of municipal license tax to municipal volume of business of non-profit savings and loans associations and other similar entities.

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For the fiscal year ended June 30, 2018, the Municipality abated the following taxes based on the imposition of state laws governing the agreements entered into by the Commonwealth and the entities:

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	**Programs Administered by the Finance Department of the Municipality**						**Programs Administered by the Puerto Rico Tourism Company**		
	Ordinance No. 16, Serie 2010-2011 Program			**Resolution 12A-55, Case DPE 2007-3979 (904) Court of First Instance of Puerto Rico**			**Puerto Rico Tourism Development Act of 2010 (Act Number 74 of July 10, 2010, as Amended)**		
1) Purpose of Program.	Promote the establishment of new, or expansion of existing businesses and industries within the Municipality,			Resolution 12A-55, Case DPE 2007-3979 (904) Court of First Instance			To set the public policy to make Puerto Rico a world-class tourist destination, propitiate the right conditions to ensure the continued development and competitiveness of the hotel industry in Puerto Rico, provide the environment for the continuous training of local and foreign capital for investment in tourism projects, tempering the incentives offered to the Puerto Rican tourism industry.		
2) Tax being abated.	Volume of Business Taxes, and Construction Excise Taxes.			Volume of Business Taxes.			Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.		
3) Authority under which abatement agreements are entered into.	Law No. 81 of August 30, 1991, as am ended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; and the Law No. 113 of July 10, 1974, as amended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act.			Law No. 81 of August 30, 1991, as am ended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; and the Law No. 113 of July 10, 1974, as amended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act.			Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal License Tax Act; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.		
4) Criteria to be eligible to receive abatement.	The taxpayer will contribute to maintain and improve the economic and labor stability of the industrial or commercial unit to be established or expanded.			Exempt from payment of municipal license tax by Satellite Television, as required by the court.			Any hotels, condo hotels, Puerto Rican hostels, agro-housing, guest houses, timeshare rights plans and vacation clubs, hostels that belong to the "Posadas de Puerto Rico" program, those certified as "Bed and Breakfast (B&B)" and any other from time to time are part of programs promoted by the Tourism Company, theme parks, golf courses operated by, or associated with, a hotel that is an exempt business under this Act, the Tourism Development Act of Puerto Rico of 1993 or any another similar law of an analogous nature, or golf courses included within a destination or tourist complex (resort), tourist marinas, facilities in port areas for tourism purposes, agrotourism, nautical tourism, medical tourism and other facilities or activities that, due to the special attraction derived from its usefulness as a source of active, passive or fun entertainment, shall be considered an eligible business.		
5) How recipients' taxes are reduced.	Through a reduced rate on Volume of Business for a period of five (5) years, ranging from 0% to .4% per year (minimum jobs created required); and a reduced rate on Construction Excise Taxes on new construction and expansions during the first year of operations, ranging from 1.5% to 3%, depending on total new jobs created.			This Resolution provides full exemption of Volume of Business Taxes.			Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% for 10 years; Volume of Business Taxes of 100% to new business for 10 years, and existing business of 90% for 10 years; and Construction Excise Taxes of 100% of total amount of new construction for 10 years.		
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable volume of business; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.		
7) Provisions for recapturing abated taxes.	N/A			N/A			N/A		
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A			N/A			N/A		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	Volume of Business	Property Taxes	Construction Excise Taxes	Volume of Business	Property Taxes	Construction Excise Taxes	Volume of Business	Property Taxes	Construction Excise Taxes
	$0	**$0**	**$0**	**Not Applicable**	**$12,835**	**Not Applicable**	**$0**	**$0**	**$0**

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	Programs Administered by the Puerto Rico Industrial Development Company								
	Tax Incentives for the Development of Puerto Rico Act (Act No. 73 of May 28, 2008, as Amended)			Tax Incentives Act of Puerto Rico (Act No. 8 of January 24, 1987 as Amended)			Tax Incentives Act of 1998 (Act No. 135 of December 2, 1997 as Amended)		
1) Purpose of Program.	Provide an adequate environment and opportunities for the continued development of our local industry; providing an attractive tax proposal that appeals to foreign direct investments and fosters the economic development and social betterment in Puerto Rico.			To grant incentives to development of manufacturing and services sector to promote the economic development and social betterment in Puerto Rico.			Stimulate the formation of local capital; promote the development of the airport infrastructure and maritime; promote the export of manufactured articles in Puerto Rico; promote the development of strategic industries; promote the development of small and medium businesses; promote the establishment of regional offices and corporate headquarters and distribution centers in Puerto Rico; promote the creation of jobs and the development of human resources; and promote the development and distribution of technology in Puerto Rico		
2) Tax being abated.	Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.			Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.			Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.		
3) Authority under which abatement agreements are entered into.	Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law No. 113 of July 10, 1974, as amended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act; and Law No. 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law No. 113 of July 10, 1974, as amended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act; and Law No. 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law No. 113 of July 10, 1974, as amended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act; and Law No. 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.		
4) Criteria to be eligible to receive abatement.	Any industrial unit whose objective is the production of a manufactured product on a commercial scale; any "bonafide" industrial unit that is established on a permanent basis to produce an article designated under this law; and any service unit that has as its objective the provision on a commercial scale in Puerto Rico of some type of service designed for foreign markets, including markets in the United States.			Any industrial unit whose objective is the production of a manufactured product on a commercial scale; any "bonafide" industrial unit that is established on a permanent basis to produce an article designated under this law; and any service unit that has as its objective the provision on a commercial scale in Puerto Rico of some type of service designed for foreign markets, including markets in the United States.			Any industrial unit whose objective is the production of a manufactured product on a commercial scale; any "bonafide" industrial unit that is established on a permanent basis to produce an article designated under this law; and any service unit that has as its objective the provision on a commercial scale in Puerto Rico of some type of service designed for foreign markets, including markets in the United States.		
5) How recipients' taxes are reduced.	Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% to 100% up to 15 years; Volume of Business Taxes and Construction Excise Taxes of 60% of total amount for 15 years, 100% for industries dedicated to generation of energy using renewable sources for the first 5 years and then 60% for 15 years.			Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90%; Volume of Business Taxes of 60% to 100% of total amount; and 60% to 100% of Construction Excite Taxes during the decree period			Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90%; Volume of Business Taxes of 60% to 100% of total amount; and 60% to 100% of Construction Excite Taxes during the decree period		
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.		
7) Provisions for recapturing abated taxes.	N/A			N/A			N/A		
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A			N/A			N/A		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	Volume of Business	Property Taxes	Construction Excise Taxes	Volume of Business	Property Taxes	Construction Excise Taxes	Volume of Business	Property Taxes	Construction Excise Taxes
	$5,255	**$28,584**	**$0**	**$0**	**$473,750**	**$0**	**$163,674**	**$683,625**	**$0**

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	Programs Administered by the Puerto Rico Industrial Development Company			Administered by the Puerto Rico Treasury Department					
	"Foreign Trade Zone Act" de 1934 (19 U.S.C. 81C (a))			Section 1101 (a) (6) of Internal Revenue Code of Puerto Rico			Agricultural Tax Incentives Act of Puerto Rico (Act No. 225 of December 1, 1995, as Amended)		
1) Purpose of Program.	The Foreign-Trade Zones Act of 1934 was one of two key pieces of legislation passed in 1934 in an attempt to mitigate some of the destructive effects of the Smoot-Hawley Tariffs, which had been imposed in 1930. The Foreign-Trade Zones Act was created to "expedite and encourage foreign commerce" in the United States.			Promote non-profit organizations.			To set the public policy in the agricultural sector and other related economic sectors; establish the requirements to qualify "bona fide" farmers and exempt them from payment of any kind of taxes on personal and real property, municipal volume of business, income, excise taxes and any municipal and/or state tax.		
2) Tax being abated.	Personal Property Taxes, and Volume of Business Taxes.			Real and Personal Property Taxes, and Volume of Business Taxes.			Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.		
3) Authority under which abatement agreements are entered into.	Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law No. 113 of July 10, 1974, as amended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act; and Law No. 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law No. 113 of July 10, 1974, as amended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act; and Law No. 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law No. 113 of July 10, 1974, as amended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act; and Law No. 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.		
4) Criteria to be eligible to receive abatement.	The Foreign-Trade Zones Act of 1934 created a Foreign-Trade Zones Board to review and approve applications to establish, operate, and maintain foreign-trade zones. The Board may approve any zone or subzone which it deems necessary to serve adequately "the public interest".			A non-profit organization with an exemption granted by the Puerto Rico Treasury Department.			Any natural or legal person who during the taxable year for which he claims deductions, exemptions or benefits provided by this law has a current certification issued by the Secretary of Agriculture, in consultation with the Secretary of the Treasury, which certifies that during said year was dedicated to the exploitation of an activity that qualifies as an agricultural business, as said term is defined in subsection (b) of this section, and which derives fifty percent (50%) or more of its gross income from an agricultural business as operator, owner or lessee, as recorded in your/their income tax return, shall be considered an eligible business.		
5) How recipients' taxes are reduced.	Some benefits of operating in Foreign-Trade Zones include: 1) Deferment of customs duties; 2) Deferment of Puerto Rico excise taxes; 3) 100% exemption on Municipal License Taxes on exports to foreign countries; 4) 100% exemption on tangible property, and property and equipment used within the operation; and 5) 60% exemption on the value of the intangible property.			This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; and Volume of Business Taxes.			This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes.		
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business on exports to foreign countries.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.		
7) Provisions for recapturing abated taxes.	N/A			N/A			N/A		
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A			N/A			N/A		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	Volume of Business	Property Taxes	Construction Excise Taxes	Volume of Business	Property Taxes	Construction Excise Taxes	Volume of Business	Property Taxes	Construction Excise Taxes
	$0	**$315,634**	**Not Applicable**	**$29,220**	**$205,338**	**$0**	**$99,700**	**$19,361**	**$0**

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	Programs Administered by the Puerto Rico Treasury Department								
	Law on Cooperative Savings and Credit Societies (Act No. 225 of October 28, 2002)			**Tax Exemptions for Hospitals (Act No. 168 of June 30, 1968, as Amended)**			**Tax Incentives for Historic Zones Act (Act No. 7 of March 4, 1955, as Amended)**		
1) Purpose of Program.	To facilitate and advance the growth and strengthening of savings and credit cooperatives organized under this Act, to encourage broad and full participation in the financial services markets and to promote the expansion of the philosophy and cooperative principles.			To grant incentives to people dedicated to the operation of hospitals and / or homes of health in Puerto Rico and adjacent facilities; and to establish the conditions under the hospitals will enjoy said incentives, as well as to exempt from the payment of contributions bonds, promissory notes or other obligations and fifty (50) percent of the interest on the same, that these entities issue to raise the necessary funds or capital for your purposes.			To grant incentives to eligible rehabilitation and capital improvements to real properties located in the historic zone of "San Juan Bautista" of Puerto Rico, and other historic zones as declared by the Puerto Rican Culture Institute.		
2) Tax being abated.	Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes			Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.			Real Property Taxes		
3) Authority under which abatement agreements are entered into.	Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law No. 113 of July 10, 1974, as am ended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act.; and Law No. 83 of August 30, 1991, as am ended, known as the Municipal Property Tax Act.			Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law No. 113 of July 10, 1974, as amended by Law No. 82 of August 30, 1991, known as the Municipal License Tax Act.; and Law No. 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico;; and Law No. 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.		
4) Criteria to be eligible to receive abatement.	"Cooperative" means any cooperative savings and credit cooperative of first or second degree constituted and organized in accordance with this Act. Those cooperatives whose partners are cooperative entities shall be considered as second-degree cooperatives. "Closed cooperatives" means any first-tier savings and credit cooperative whose members are limited to a particular company or group to the exclusion of other groups. "Insured Cooperative" means any cooperative that receives the stock and deposit insurance that the Corporation will provide. "Adequate Condition Cooperative" means that credit and savings cooperative that has an adequate financial and managerial condition, to be determined according to objective and uniform parameters that the Corporation will define through regulations.			Any people dedicated to the operation of hospitals and/or homes of health in Puerto Rico and adjacent facilities, shall be considered an eligible business.			Any eligible rehabilitation and capital improvements to real properties located in the historic zone of "San Juan Bautista" of Puerto Rico, and other historic zones as declared by the Puerto Rican Culture Institute		
5) How recipients' taxes are reduced.	This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes.			This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes.			This Act, as amended, provide full exemption of Real Property Taxes for five (5) or ten (10) years.		
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.			Full exemption of Real Property Taxes for five (5) years for real properties partially rehabilitated or improved; for ten (10) years in cases of full rehabilitation or restauration of a real property.		
7) Provisions for recapturing abated taxes.	N/A			N/A			N/A		
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A			N/A			N/A		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	Volume of Business	Property Taxes	Construction Excise Taxes	Volume of Business	Property Taxes	Construction Excise Taxes	Volume of Business	Property Taxes	Construction Excise Taxes
	$26,194	**$129,163**	**$0**	**$0**	**$60,329**	**$0**	**Not Applicable**	**$29,971**	**Not Applicable**

16. Commitments, Contingencies and Uncertainties

Encumbrances

The Municipality has reported outstanding encumbrances amounting to $134,798 in the general fund at June 30, 2018. 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.

Construction

As of June 30, 2018, the Municipality has commitments of approximately $750,000 for design, construction, improvements or renovation of certain municipal facilities.

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, 2018. 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 Uniform Guidance of the Office of Management and Budget of the United States of America (Uniform Guidance). Disallowance as a result of these audits may become liabilities of the Municipality.

Effect of Commonwealth and GDB fiscal conditions

The Commonwealth is currently facing a profound fiscal and economic crisis. As a result of this situation, and pursuant to PROMESA, the Oversight Board designated the Commonwealth as a covered entity. Furthermore, on May 3, 2017, a petition of relief was filed by the Oversight Board under Title III of PROMESA, incorporating the automatic stay provisions of Bankruptcy Code section 362 and 922. As a covered entity, the Commonwealth was required to prepare and eventually revise its Fiscal Plan. The latest revised Fiscal Plan provides for the reduction and eventual elimination of a substantial portion of the Commonwealth's subsidy to municipalities, which may adversely affect the ability of municipal governments to continue providing essential services and servicing their debt obligations. Already in fiscal year 2017-2018, the total municipal appropriation was reduced by $150 million, bringing a new baseline of $220 reduction in the Commonwealth's subsidies to the municipalities. This reduction was partially mitigated by the Commonwealth with a one-time allotment to municipalities as a result of Hurricanes Irma and Maria, which took place in fiscal year 2017-2018 for the amount of $78 million, ($1,000,000 to each municipality). The

reduction will be gradually implemented by 20% on each successive year starting at $44M in fiscal year 2019 to $176M in fiscal year 2023, before ultimately phasing out the subsidies in fiscal year 2024. The Plan propose consolidations of municipal services and a property tax reform to help the Municipalities to offset the reduction and become more solvent. These alternatives should require changes in legislation. As of the date hereof, however, no such legislative changes have been implemented. Subsidies constitute approximately 53% of total operating revenues of the general fund.

As a result of the fiscal challenges affecting GDB, the entity completed its wind-down of its fundamental operations on March 23, 2018. GDB historically served as an important source of liquidity to municipal governments by providing financing to such entities. However, given GDB's situation it is no longer in a position to provide such financings. While certain municipalities may be able to obtain financing from private financial institutions to continue funding their public work programs and operations, those private banking institutions have strengthened their requirements for financing.

The conditions described above impacted the Municipality's fiscal operations during fiscal year 2017-2018. Notwithstanding, the Municipality is currently implementing mitigation plans including among others: (1) decrease in appropriations of fiscal year 2018-2019 general fund budget, (2) no longer paying excess of vacations and sick leave starting in fiscal year 2017-2018, (3) reducing Christmas bonus, (4) reducing payroll costs by not hiring new employees, as they resign or retire, (5) cost reduction procedures on contracted services, and (6) collecting approved financial assistance funds under FEMA - Community Disaster Loan Program.

Based on the information available from the Commonwealth related to the implementation of its remediation plans as of the date hereof, we cannot conclude about the ultimate outcome of the Commonwealth's fiscal condition in future fiscal periods and the corresponding effect on future revisions of its fiscal plans or additional mitigation measures. Consequently, as of the date hereof we cannot adequately estimate the possible effects of the elimination of the Commonwealth's subsidies as stated in its fiscal plan and the lack of external financing sources in the Municipality's future fiscal operations. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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17. Fund Balance

As of June 30, 2018, fund balance is comprised of the following:

Fund balances (deficit)	General Fund	Special Revenue Fund – Federal Grants	Capital Projects Fund – State and Local Grants	Debt Service Fund	Other Governmental Funds	Total
Non spendable:						
Long-term due from component units	$ 353,323	$ -	$ -	$ -	$ -	$ 353,323
Restricted for:						
General government	-	-	-	-	-	-
Health and welfare	-	-	-	-	73,423	73,423
Public works	-	-	1,624,401	-	107,439	1,731,840
Public safety	-	(36,910)	-	-	8,344	(28,566)
Culture and recreation and education	-	(804,718)	-	-	33,156	(771,562)
Community development	-	(54,623)	(164,427)	-	217,152	(1,898)
Urban and economic development	-	(8,684)	95,724	-	-	87,040
Debt service	1,856	-	3,713,366	4,988,968	4,905	8,709,095
Committed to:						
General government	35,682	-	-	-	1,044,215	1,079,897
Health and welfare	725	-	-	-	-	725
Public works	85,943	-	(50,038)	-	166,969	202,874
Public safety	-	-	-	-	1,912	1,912
Culture and recreation and education	4,082	-	-	-	-	4,082
Community development	8,356	-	724,277	-	12,273	744,906
Urban and economic development	10	-	-	-	-	10
Unassigned	1,490,147	-		-	-	1,490,147
Total fund balances	$ 1,980,124	$ (904,935)	$ 5,943,303	$ 4,988,968	$ 1,669,788	$ 13,677,248

As the RSA established that GDB will reduce any bond, note and/or loan balances by an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and by the balance of undesignated deposits held by the municipalities at GDB. Therefore, since the original purposes of certain funds changed as a result of the RSA, the Municipality recorded the respective fund balances as restricted for "debt payment under GDB Restructuring Support Agreement".

Also, certain other governmental funds included in the fund statements disclosed fund balance deficits. These deficits result from the recognition of deferred inflows of resources for unavailable revenues. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

18. RESTATEMENTS

During fiscal year ended June 30, 2018, the Municipality measured and recognized beginning audited liabilities, assets, deferred outflows of resources and deferred inflows of resources, and expense/expenditures for pensions provided to employees of the primary government, using the ERS audited financial statements issued as of and for the fiscal year ended June 30, 2016, information which was available on November 2018. The accounting pronouncements requires the Municipality to record the Municipality's proportionate share of the net pension liability in the government-wide financial statements.

Also, during the current fiscal year, the Municipality revised its fund financial statements and its government-wide financial statements, which resulted in the correction of balance of deferred inflows of resources related to unavailable revenues and, long term debt GDB credit line balance reported in the prior year government wide financial statements.

As a result of the correction of errors and omissions, numerous changes were made to beginning balances.

a) Governmental Fund Financial Statements

The following schedule presents a summary of the prior-period adjustments recorded in the accompanying balance sheet – governmental funds, and reconciles the fund balances, as previously reported by the Municipality at June 30, 2017, to the beginning fund balances in the accompanying basic financial statements, as restated:

	Major governmental funds					
	General Fund	Special Revenue Fund – Federal Grants	Capital Project Fund – State and Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
As previously reported in the audited financial statements at June 30, 2017	$4,952,609	$ 3,636,509	$ 6,797,283	$5,332,949	$ 1,481,576	$ 22,200,926
Add/(deduct): prior-period adjustments	-	-		-	-	-
Total assets at June 30, 2017, as restated	$4,952,609	$ 3,636,509	$ 6,797,283	$5,332,949	$ 1,481,576	$ 22,200,926
Liabilities:						
As previously reported in the audited financial statements at June 30, 2017	$2,137,614	$ 3,636,509	1,157,003	-	772,011	$ 7,703,137
Add/(deduct): prior-period adjustments	-	-		-	-	-
Total liabilities at June 30, 2017, as restated	$2,137,614	$ 3,636,509	1,157,003	-	772,011	$ 7,703,137
Deferred inflows of resources:						
As previously reported in the audited financial statements at June 30, 2017	$ -	$ -	$ -	$ -	$ -	$ -
Add/(deduct): prior-period adjustments	-	1,651,746	88,911	-	146,097	1,886,754
Total deferred inflows of resources at June 30, 2017, as restated	$ -	$ 1,651,746	$ 88,911	$ -	$ 146,097-	$ 1,886,754
Fund balance:						
As previously reported in the audited financial statements at June 30, 2017	$2,814,995	$ -	$ 5,640,280	$5,332,949	$ 709,565	$ 14,497,789
Add/(deduct): prior-period adjustments	-	(1,651,746)	(88,911)	-	(146,097)	(1,886,754)
Total fund balance at June 30, 2017, as restated	$2,814,995	$(1,651,746)	$ 5,551,369	$5,332,949	$ 563,468	$ 12,611,035

b) Government-Wide Financial Statements

The following schedule presents a summary of the prior-period adjustments recorded in the accompanying Statement of Net Position, and reconciles the total net position balance at June 30, 2017, as previously reported by the Municipality, to the beginning net position, as restated in the accompanying GWFS:

	Net position - governmental activities
Assets:	
As previously reported in the audited financial statements at June 30, 2017	$ 65,951,631
Add:/(deduct): prior-period adjustments	-
Total net assets at June 30, 2017, as restated	$ 65,951,631
Deferred outflows of resources:	
As previously reported in the audited financial statements at June 30, 2017	$ 1,751,282
Add:/(deduct): prior-period adjustments	6,201,182
Total deferred outflows of resources at June 30, 2017, as restated	$ 7,952,464
Liabilities:	
As previously reported in the audited financial statements at June 30, 2017	$ 56,581,797
Add:/(deduct): prior-period adjustments	4,650,414
Total liabilities at June 30, 2017, as restated	$ 61,232,211
Deferred inflows of resources:	
As previously reported in the audited financial statements at June 30, 2017	$ 604,102
Add:/(deduct): prior-period adjustments	36,155
Total deferred inflows of resources at June 30, 2017, as restated	$ 640,257
Net position:	
As previously reported in the audited financial statements at June 30, 2017	$ 10,517,014
Add:/(deduct): prior-period adjustments	1,514,613
Total net position at June 30, 2017, as restated	$ 12,031,627

19. Subsequent Events

The Municipality has evaluated subsequent events through March 31, 2019 which is the date the financial statements were available to be issued. The following events were identified which management decided should be disclosed:

a. GDB Restructuring Support Agreement

The certification of GDB's fiscal plan, AAFAF, GDB and certain supporting creditors negotiated the terms of a Restructuring Support Agreement ("RSA"), (as amended), which provides for the restructuring of a significant portion of GDB's financial obligations ("Participating Bond Claims" as defined by the RSA), through a Qualifying Modification pursuant to Title VI of PROMESA. As a result of the impact of Hurricanes Irma and Maria over Puerto Rico in September 2017, the Oversight Board requested to the covered instrumentalities to submit a proposed amendment of its fiscal plans. In addition, on March 27, 2018 AAFAF announced certain amendments to the RSA after reaching an agreement with a significant portion of the RSA parties. The amended RSA became effective pursuant to its terms on April 6, 2018, after obtaining the signature of the requisite number of holders of GDB's Participating Bond Claims (as defined in the RSA).

The Commonwealth's Legislature approved the Act No. 109 of August 24, 2017 in order to establish the legislative framework for the restructuring transaction. Pursuant to this Act , as amended by Act No. 147 of July 18, 2018, the GDB Debt Recovery Authority was created as a statutory public trust and a governmental public instrumentality of the Commonwealth of Puerto Rico for the purpose of (1) issuing Restructuring Bonds in order to (a) implement the Restructuring Transaction, (b) facilitate compliance with the GDB Fiscal Plan, and (c) facilitate the funding of essential government or public services by the Government of Puerto Rico and (2) owning and managing the Restructuring Property.

On August 9, 2018 GDB and AAFAF used the solicitation statement to commence the solicitation of votes seeking creditor approval of the Qualifying Modification, which was concluded in September 2018 with the approval of eligible voters. The U.S. District Court for the District of Puerto Rico approved the Qualifying Modification on November 7, 2018, which was finally closed and executed on November 29, 2018 ("closing date").

In general, the holders of the Participating Bond Claims undertake a financial restructuring through a Qualifying Modification by receiving on closing date New Bonds having a face amount equal to $550 for each $1,000 claim (exchange rate of 55%), paying semiannual interest of 7.5% and maturing on 2040. GDB will transfer to the new Issuer as New Bond Collateral the Recovery Authority Assets which includes its Municipal, Commonwealth and Public Corporation's loan portfolio, the beneficial interest on certain GDB retained assets, real estate owned assets and cash.

As part of the amended RSA the following transactions, applicable to the municipalities, were executed:

- **Excess CAE settlement** – GDB paid, in cash, to each municipality that has Excess CAE, an amount equal to 55% of the undisbursed Excess CAE for fiscal years 2015, 2016 and 2017 corresponding to such municipality. The remaining portion of 45% of such undisbursed Excess CAE shall be discharged and no such municipality shall have any further rights or claims with respect thereto and GDB shall have no further liability or obligation thereunder.

- **Recalculation of certain municipal obligations** – (a) the principal amount of any bond, note and/or loan held by GDB as of closing date was reduced by an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and were held on deposit at GDB on the Closing Date. Such application shall be effected by reducing any remaining installments of principal in inverse order of maturity and shall not otherwise affect the repayment schedule of the corresponding bond, note or loan; (b) any remaining municipal deposits held at GDB as of the Closing Date were reduced, on a dollar-for-dollar basis, from the outstanding principal amount of any corresponding bond, note and/or loan relative to the type of corresponding deposit (CAE deposits against CAE loans, IVU deposits against IVU loans, and all undesignated deposits against outstanding principal balance of other loans in the following order: operational loans, revenue loans, IVU loans, then CAE loans). Such application was made in ascending order of outstanding loan balances. In cases where deposits are not enough to pay a loan in full, the application shall be made by reducing installments of principal in inverse order of maturity without affecting the repayment schedule of the bond, note or loan. The following transactions were applicable to the Municipality as of the closing date:

Description	Amount
Balance of bonds, notes and lines of credit issued by GDB, at closing date	$ 19,559,375
Less: unspent bonds, notes, loan proceeds and demand deposits at GDB	(6,199,231)
Restructure balance of Municipality's GDB loans at closing date	**$ 13,360,144**

Furthermore, as part of the provisions of the amended RSA, GDB transferred owned assets to a Public Entity Trust ("PET"), created for the benefit of (a) those non-municipal governmental entities having claims in respect to funds on deposit at GDB and (b) those municipalities with federal funds deposited at GDB. The Municipality's federal funds deposited at GDB at closing date amounted to $170,359.

End of Notes to Basic Financial Statements

Required Supplementary Information
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2018

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Budgetary Comparison Schedule – General Fund (Continued)
(See Notes to Budgetary Comparison Schedule)
Fiscal Year Ended June 30, 2018

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget – over (under)
Revenues:	**Original**	**Final**		
Property taxes	$ 2,256,584	$ 2,256,584	$ 2,256,584	$ -
Sales and use taxes	875,487	875,487	695,932	(179,555)
Municipal license taxes	1,354,832	1,354,832	1,248,710	(106,122)
Construction excise taxes	101,000	101,000	240,952	139,952
Intergovernmental grants and contributions	5,351,757	5,351,757	5,024,698	(327,059)
Interest on deposits	6,000	6,000	15,628	9,628
Charges for services	183,868	183,868	131,317	(52,551)
Miscellaneous	880,000	880,000	237,467	(642,533)
Total revenues	$ 11,009,528	$ 11,009,528	$ 9,851,288	$ (1,158,240)
Expenditures and encumbrances:				
General government	4,592,930	4,576,622	4,102,637	473,985
Public safety	499,317	499,317	499,317	-
Public works	3,388,178	3,510,738	3,344,964	165,774
Health and welfare	743,014	646,377	536,422	109,955
Culture, recreation and education	531,625	499,368	422,359	77,009
Urban and economic development	196,562	174,522	154,151	20,371
Community development	441,422	450,137	409,589	40,548
Total expenditures	$ 10,393,048	$ 10,357,081	$ 9,469,439	$ 887,642
Revenues over (under) expenditures and encumbrances	616,480	652,447	381,849	(270,598)
Other financing sources (uses):				
Transfer to debt service fund	(616,480)	(652,447)	(652,447)	-
Total other financing sources (uses)	(616,480)	(652,447)	(652,447)	-
Net increase (decrease) in fund balance (deficit)	$ -	$ -	$ (270,598)	$ (270,598)

Reconciliation of differences:

Sources/inflows of financial resources:	
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	$ 9,851,288
Differences - budgetary basis to GAAP:	
Differences in bases of accounting:	
GAAP adjustments to revenues	-
Total revenues reported on the statement of revenues, expenditures and changes in fund balances	$ 9,851,288

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)	$ 10,121,886
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary purposes	(134,798)
Prior year encumbrances recorded as expenditures for GAAP purposes	11,143
Entity differences:	
Non-budgeted transfer to other governmental fund	22,972
Non-budgeted expenditures	664,956
Total expenditures and transfer out to other funds as reported on the statement of revenues, expenditures and changes in fund balances	$ 10,686,159

See accompanying notes to financial statements.

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 assignments 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, 2018 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2018.

Section 8 Housing Choice Voucher Program
Financial Data Schedule
Fiscal Year Ended June 30, 2018

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Financial Data Schedule
Year Ended June 30, 2018

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
	Balance Sheet	
111	Cash-unrestricted	$ 92,846
113	Cash-other restricted	-
100	**Total Cash**	**92,846**
124	Account receivable – other government	2,593
120	**Total receivables, net of allowance for doubtful accounts**	**2,593**
150	**Total Current Assets**	**95,439**
164	Furniture, equipment and machinery - administration	82,533
166	Accumulated depreciation	(75,454)
160	**Total capital assets, net of accumulated depreciation**	**7,079**
180	**Total Non-current Assets**	**7,079**
190	**Total Assets**	**$ 102,518**
312	Accounts payable <= 90 days	$ 13,485
322	Accrued compensated absences - current portion	4,587
333	Accounts payable - other government	8,531
310	**Total Current Liabilities**	**26,603**
354	Accrued compensated absences- Non-current	6,880
350	**Total Non-current liabilities**	**6,880**
300	**Total Liabilities**	**33,483**
508.1	Net investment in capital assets	7,079
511.1	Restricted Net Position	(2,607)
512.1	Unrestricted Net Position	64,563
513	**Total Net Position**	**69,035**
600	**Total Liabilities and Net Position**	**$ 102,518**

Income Statement

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Financial Data Schedule
Year Ended June 30, 2018

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
70600-010	Housing assistance payments	$ 240,771
70600-020	Ongoing administrative fees earned	37,029
70600	**HUD PHA operating grants**	**277,800**
71100-020	Administrative Fee	413
71100	**Investment income - unrestricted**	**413**
71400-010	Housing Assistance Payment	890
71400-020	Administrative Fee	890
71400	**Fraud recovery**	**1,780**
71500	Other revenue	32,475
72000-010	Housing Assistance Payment	12
72000	**Investment income - restricted**	**12**
70000	**Total Revenue**	**312,480**
91100	Administrative salaries	30,840
91500	Employee benefit contributions - administrative	1,253
91600	Office Expenses	15,855
91000	**Total Operating-Administrative**	**47,948**
96210	Compensated absences	1,772
96000	**Total Other General Expenses**	**1,772**
96900	**Total Operating Expenses**	**49,720**
97000	**Excess Revenue Over Operating Expenses**	**262,760**
97300-050	All Other	250,335
97300	**Housing assistance payments**	**250,335**
97350	**HAP Portability-in**	**31,804**
97400	Depreciation expense	4,380
90000	**Total Expenses**	**336,239**
10000	**Excess (Deficiency) of Revenue Over (Under) Expenses**	**$ (23,759)**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Financial Data Schedule
Year Ended June 30, 2018

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
11030	Beginning equity	$ 92,794
11170-001	Administrative Fee Equity- Beginning Balance	$ 86,739
11170-010	Administrative Fee Revenue	37,029
11170-040	Investment Income	413
11170-045	Fraud Recovery Revenue	890
11170-050	Other Revenue	32,475
11170-051	Comment for Other Revenue	Portability Move-In Collections
11170-060	Total Admin Fee Revenues	70,807
11170-080	Total Operating Expenses	49,720
11170-090	Depreciation	4,380
11170-095	Housing Assistance Portability In	31,804
11170-100	Other Expenses	
11170-101	Comment for Other Expense	
11170-110	Total Expenses	85,904
11170-002	Net Administrative Fee	(15,097)
11170-003	Administrative Fee Equity- Ending Balance	71,642
11170	**Administrative Fee Equity**	**$ 71,642**
11180-001	Housing Assistance Payments Equity - Beginning Balance	$ 6,055
11180-010	Housing Assistance Payment Revenues	240,771
11180-015	Fraud Recovery Revenue	890
11180-025	Investment Income	12
11180-030	Total HAP Revenues	241,673
11180-080	Housing Assistance Payments	250,335
11180-100	Total Housing Assistance Payments Expenses	250,335
11180-002	Net Housing Assistance Payments	(8,662)
11180-003	Housing Assistance Payments Equity-Ending Balance	(2,607)
11180	**Housing Assistance Payments Equity**	**$ (2,607)**
11190-210	Total ACC HCV Units	720
11190	**Unit Months Available**	**720**
11210	**Unit Months Leased**	**659**

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, 2018

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number/Grant Number	Passed through to Subrecipients	Federal Expenditures
US Department of Agriculture:				
Direct Program:				
Farm to School Grant Program	10.575	N/A	$ -	$ 43,441
Pass-through the Department of Education of the Commonwealth of Puerto Rico:				
Child and Adult Care Food Program	10.558	N/AV	-	113,827
Subtotal – US Department of Agriculture			-	**157,268**
US Department of Housing and Urban Development:				
Direct Programs:				
Section 8 Housing Choice Voucher	14.871	RQ-042	-	277,800
Continuum of Care Program	14.267	N/A	-	13,998
Pass-through the Office for Socioeconomic and Community Development of the Commonwealth of Puerto Rico:				
Community Development Block Grants – State's Program	14.228	N/AV	-	49,141
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:				
Shelter Plus Care Program	14.238	N/AV	-	42,860
Pass-through the Department of Public Housing of the Commonwealth of Puerto Rico:				
Public and Indian Housing	14.850	N/AV	-	145,045
Subtotal – US Department of Housing and Urban Development			**-**	**528,844**

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, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number/Grant Number	Passed through to Subrecipients	Federal Expenditures
US Department of Interior-National Park Service Office:				
Pass-through the Department of Recreation and Sports of the Commonwealth of Puerto Rico:				
Outdoor Recreation Acquisition, Development and Planning-Land and Water Conservation Fund	15.916	254-0870000-779-2016	-	70,628
Subtotal – US Department of Interior – National Park Service Office			**-**	**70,628**
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	-	4,908
Subtotal – US Department of Justice			**-**	**4,908**
US Department of Transportation:				
Pass-through the Department of Transportation and Public Works of the Commonwealth of Puerto Rico:				
Metropolitan Transportation Planning and State and Non- Metropolitan Planning and Research	20.505	N/AV	-	35,443
Subtotal – US Department of Transportation			**-**	**35,443**
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	-	1,167,008
Subtotal – US Department of Education			**-**	**1,167,008**

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, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number/Grant Number	Passed through to Subrecipients	Federal Expenditures
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	-	3,230
Special Program for Aging – Title III - Part B – Grant for Supportive Services and Senior Centers	93.044	N/AV	-	48,850
National Family Caregiver Support – Title III – Part E	93.052	N/AV	-	4,784
Pass-through the Department of the Family of the Commonwealth of Puerto Rico:				
Community Services Block Grant	93.569	N/AV	-	33,803
Child Care and Development Block Grant	93.575	N/AV	-	222,512
Family Violence Prevention and Services	93.591	N/AV	-	23,379
Subtotal – US Department of Health and Human Services			**-**	**336,558**
US Department of Homeland Security:				
Pass-through Central Recovery and Reconstruction Office:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-DR-4339-PR	-	1,917,626
Subtotal – US Department of Homeland Security			**-**	**1,917,626**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ -**	**$ 4,218,283**

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

NOTE A - GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net position of the Municipality.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period. Expenditures for Public assistance grants (FEMA) are recognized in the period when: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred.

1. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
2. Pass-through entity identifying numbers are presented where available.
3. The Municipality has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
4. 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 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

Description	Special Revenue Fund-Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	$ 3,940,483	$ 277,800	$ 4,218,283
Nonfederal programs expenditures and other adjustments	703	808,810	809,513
Total expenditures in the fund financial statements	$ 3,941,186	$ 1,086,610	$ 5,027,796

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, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Municipality's primary government and have issued our report thereon dated March 31, 2019. We issued an adverse opinion on the Municipality's governmental activities because we were unable to obtain sufficient and competent evidential matter of the capital assets, accumulated depreciation and net capital assets reported in the government-wide financial statements; we could not obtain audit evidence regarding the deferred outflows/inflows, total pension liability, pension expense, and related note disclosures with respect to the implementation of GASB Statement No. 73. Also, we were unable to obtain sufficient appropriate audit evidence about the amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, and related note disclosures necessary for the implementation of GASB Statement No. 75. We also issued an adverse opinion on the aggregate discretely presented component units because the financial statements do not include financial data for the Municipality's legally separate component units. Finally, we issued an adverse opinion on the General Fund, the Special Revenue Fund - Federal Grants, Capital Project Fund - State and Local Grants and the Aggregate Remaining Fund Information because: 1) the Municipality has not recognized a liability and its corresponding expenditure related to a debt balance in dispute with the Employees' Retirement System Administration; and 2) Management has not adopted a methodology for reviewing the collectability of the due from/to other funds, due from/to component units, and the amounts due from governmental entities.

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

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items **2018-001** through **2018-004** that we consider to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which as described in the accompanying schedule of findings and questioned costs as items **2018-001** through **2018-004**.

Municipality of Coamo's Response to Findings

The **Municipality of Coamo's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **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 31, 2019

Stamp No. 2758809 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

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 the **Municipality of Coamo**'s compliance with the types of compliance requirements described in the *OMB 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, 2018. The **Municipality of Coamo's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the **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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Coamo's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the **Municipality of Coamo's** compliance.

Opinion on Each Major Federal Program

In our opinion, the **Municipality of Coamo** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control over Compliance

The **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 the Uniform Guidance, 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

LOPEZ-VEGA, CPA, PSC
San Juan, Puerto Rico
March 31, 2019

Stamp No. 2758810 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Section I – Summary of Auditors' Results

Financial Statements

Opinion Units	Type of Opinions
Governmental Activities	Adverse
Aggregate discretely presented component unit	Adverse
General Fund	Adverse
Debt Service Fund	Unmodified
Special Revenue Fund - Federal Grants	Adverse
Capital Projects Fund - State and Local Grants	Adverse
Aggregate Remaining Fund Information	Adverse

Internal control over financial reporting:		
Material weakness(es) identified?	☒Yes	☐No
Significant deficiency(ies)?	☐Yes	☒None Reported
Noncompliance material to financial statements noted?	☒Yes	☐No

Federal awards

Internal Control over major programs:		
Material weakness(es) identified?	☐Yes	☒No
Significant deficiency(ies)?	☒Yes	☐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 2 CFR 200 section 200.516(a) of the Uniform Guidance?	☐Yes	☒No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs	$750,000	
Auditee qualified as low-risk auditee?	☐Yes	☒No

Section II – Financial Statements Findings

Finding Reference 2018-001

Requirement: **Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)**

Type of finding: **Material Weakness in Internal Control, Noncompliance**

This finding is similar to prior-year finding(s) ***2016-001*** *and* ***2017-001***.

Statement of Condition

The Municipality has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.

In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements.

Also, the Municipality did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 to comply with the requirements of GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

Criteria

GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68 comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its total pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the total pension liability and the reporting of historical pension data as Required Supplementary Information.

Section II – Financial Statements Findings

Finding Reference 2018-001 (Continued)

Also, GASB Statement No. 75 states standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net OPEB liability and the reporting of historical data as Required Supplementary Information.

Cause of Condition The Retirement System Administration (ERS) has not provided the financial and technical information necessary for the implementation of GASB Statement 73 and GASB Statement No. 75 as of June 30, 2018.

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 for the fiscal year ended June 30, 2018. Also, the required supplementary information has been omitted.

Recommendation We recommend the Municipality maintains a constant communication with the Retirement System Administration (ERS), in order to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75.

Questioned Costs None

Section II – Financial Statements Findings

Finding Reference **2018-002**

Requirement: **Capital Assets and Expenses – Subsidiary Ledger**
Type of Finding: **Material Weakness (MW), Instance of Noncompliance (NC)**

This finding is similar to prior year finding(s) **2015-002, 2016-002** and **2017-002**.

Statement of Condition The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter of the capital assets, accumulated depreciation and net capital assets, stated at $64,006,991, $17,662,175 and $46,344,816, respectively, in the Statement of Net Position as of June 30, 2018. As a result, we were unable to determine whether any adjustments to these amounts were necessary.

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 reported in the Statement of Net Position 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 nor the change in financial position for the fiscal year ended June 30, 2018.

Recommendation We recommend the Municipality continues the compilation of documents to support the value, completeness and ownership of its capital assets, which is necessary to comply with the requirements of the GASB Statement No. 34.

Questioned Costs None

Section II – Financial Statements Findings

Finding Reference **2018-003**

Requirement **Municipal license tax revenues**

Type of Finding: **Material Weakness (MW), Instance of Noncompliance (NC)**

Statement of Condition Municipal license tax revenues of the fiscal year 2017-2018, which were collected in advance from taxpayers between January 1 and June 30, 2018 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2018. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2018-2019, and could not be used to pay obligations of the prior year. These transactions were not authorized by Municipal Legislature, through an Ordinance or Resolution.

Criteria Article 8.004(b) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) states that the Municipality cannot use or obligate any amount in a given fiscal year that exceeds the appropriations and the resources authorized by ordinance or resolution for such fiscal year. In addition, the Municipality cannot be committed, in any form, to any contract or negotiation for the future payment of amounts that exceed the current fiscal year's budgeted resources.

Cause of Condition The foregoing condition is primarily due to the fact that the Municipality does not prepare cash flows forecasts and projections to anticipate any cash flows shortages. Management does not have timely and accurate information regarding its operations and cannot monitor the adherence to the established budget appropriations and cash flows.

Effect of Condition This situation will result in possible significant general fund limitations and eventual reduction or elimination of municipal services since future revenues were used to pay for accumulated liabilities.

Recommendation We recommend the Municipality prepares cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of current fiscal year.

Questioned Costs None

Section II – Financial Statements Findings

Finding Reference 2018-004

Requirement **Financial Reporting –Accounts Receivables Collectability and Debts Recognition**

Type of finding: **Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)**

Statement of Condition As of June 30, 2018, the Municipality has a debt balance in dispute with the Employees' Retirement System Administration (ERS) amounting to $453,703 related to the Additional Uniform Contribution (AUC) for the fiscal year 2016-17. As a result, the Municipality has not recognized this liability and its corresponding expenditure in the funds financial statements. Accounting principles generally accepted in the United States of America require that governmental funds accrue liabilities and expenditures, under the modified-accrual basis of accounting, in the period in which the government incurs the liability for those types of liabilities that are normally due and payable in full when incurred, such as statutory expenditures. Recognition of this type of debt would increase the liabilities, decrease the fund balance and change the expenditures of the General Fund.

Management has not adopted a methodology for reviewing the collectability of the due from/to other funds, and due from/to component units for expenditures incurred by the Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants, Aggregate Remaining Fund Information and covered by the General Fund and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables including due from/to other funds and component units, which would decrease assets and fund balance and change the expenditures of the General Fund, Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and of the Aggregate Remaining Fund Information. The amount by which this departure would affect the assets, fund balance, and expenditures of the General Fund, Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and the Aggregate Remaining Fund Information has not been determined.

Management has not adopted a methodology for reviewing the collectability of the due from governmental entities for expenditures incurred by the Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and the Aggregate Remaining Fund Information and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables which would decrease assets

Section II – Financial Statements Findings

Finding Reference 2018-004 (continued)

and fund balance and change the expenditures of the Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and of the Aggregate Remaining Fund Information. The amount by which this departure would affect the assets, fund balance, and expenditures of the Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and the Aggregate Remaining Fund Information has not been determined.

Finally, during our audit the Municipality did not provide financial documentation for the business-type activities of the governmental-wide financial statements and the enterprise funds financial statements.

Criteria

Sections (a) and (b) of Law 81, indicates that the accounting system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with Accounting Principles General Accepted in the United States of America and established by the Governmental Accounting Standards Board.

Paragraph 4.23 of the Government Auditing Standards (GAGAS) states the follows: 4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

Article 8.010 (C) (2) and (3) of State Act Number 81 of August 30, 1991, stated that Municipality should maintain accurate accounting records and fund controls. This includes assessing the collectability of the amounts reported as due from/to other funds.

Cause of Condition

Management has not adopted a methodology for reviewing the collectability of the due from/to other funds, due from/to component units and due from governmental entities. Accordingly, it has not considered the need to provide an allowance for uncollectible amounts. Also, Management has not recognized Employees' Retirement System Administration debt nor provides financial documentation for the business-type activities of the governmental-wide financial statements and the enterprise funds financial statements.

Section II – Financial Statements Findings

Finding Reference 2018-004 (continued)

Effect of Condition Amounts of due from/to other funds, due from/to component units and due from governmental entities with collectability issues are reported in the Fund Financial Statements without the corresponding recognition of an allowance for doubtful accounts. The Municipality's accounting system did not provide updated and complete financial information that presents the financial position, the result of operations and the change in fund balances (deficit). Such information is necessary to take management decisions.

Recommendation We recommend the Municipality implements effective internal control procedures in order to maintain an accounting system that contains trustworthy information pertaining to governmental debts, financial documentation for the business-type activities of the governmental-wide financial statements and the enterprise funds financial statements, due from/to other funds, due from/to component units and due from governmental entities transactions.

Questioned Costs None

Section III – Major Federal Award Program Findings and Questioned Costs

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to federal awards that are required to be reported in accordance with *OMB Uniform Guidance*.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Corrective Action Plan
Fiscal Year Ended June 30, 2018

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2017 – June 30, 2018 Fiscal Year: 2017-2018

Principal Executive: Hon. Juan C. García Padilla, Mayor
Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2018-001	We concur with the finding.	We concur with the auditors' recommendations. The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by these standards. Implementation Date: During the 2018-2019 fiscal year Responsible Persons: Mrs. Miraisa David Esparra Finance Department Director
2018-002	We concur with the finding.	The Municipality's Finance Department staff plans to continue its efforts in order to update the capital assets subsidiary ledger, principally the infrastructure assets. Implementation Date: During Fiscal Year 2018-2019 Responsible Person: Mrs. Miraisa David Esparra Finance Department Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31,2019
Date

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Corrective Action Plan
Fiscal Year Ended June 30, 2018

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2017 – June 30, 2018 Fiscal Year: 2017-2018

Principal Executive: Hon. Juan C. García Padilla, Mayor
Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2018-003	We concur with the finding.	At June 30, 2018 the accounting records of the Municipality include a special fund which includes the financial resources of the unearned municipal licenses collected through June 30, 2018. In addition, there is no legal requirement that prohibits the use of the cash resources arising from unearned municipal licenses. The limitations set forth by Article 8.004(b) of the Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) are only for budgetary purposes and not for cash flows purposes. Implementation Date: During the 2018-2019 fiscal year Responsible Persons: Mrs. Miraisa David Esparra Finance Department Director
2018-004	We concur with the finding.	The Municipality's management understands that all the due from/to other funds, due from/to component units and intergovernmental receivables at June 30, 2018 are fully collectible based upon past collection experience and current economic conditions and, that the potential effects of the Commonwealth's economic situation in the financial position and results of operations in the municipalities cannot be presently determined.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
Date

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Corrective Action Plan
Fiscal Year Ended June 30, 2018

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2017 – June 30, 2018 Fiscal Year: 2017-2018

Principal Executive: Hon. Juan C. García Padilla, Mayor
Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
		Related to the Retirement System Debt we do not agree to recognize this debt because all payments have been made up to date. In addition, the Municipality's Finance Department staff plans to continue its efforts in order to update the financial information related to the component units. Implementation Date: 2018-2019 Responsible Persons: Mrs. Miraisa David Esparra Finance Department Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31,2019
Date

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Schedule of Prior Years Audit Findings
Fiscal Year Ended June 30, 2018

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2017 – June 30, 2018 Fiscal Year: 2017-2018

Principal Executive: Hon. Juan C. García Padilla, Mayor

Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2017-001	Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans Material Weakness (MW), Instance of Noncompliance (NC)	The Municipality's employees are provided with defined benefit pensions through cost sharing multiple-employer pension plan administered by the Employees' Retirement System Administration (ERS) of the Government of the Commonwealth of Puerto Rico. The deferred outflows of resources, deferred inflows of resources and the net pension liability of $1,751,282, $604,102 and $28,843,675, respectively, reported in the government-wide Statement of Net Position as of June 30, 2017, and the pension expense of $1,451,579 for the current period change of that liability recognized in government-wide Statement of Activities, were derived from calculations made by the Municipality's consultant based on the unaudited data reported in the Actuarial Report issued by	We concur with the auditors' recommendations. The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard.	None	A similar situation took place during 2017-2018 with the implementation of GASB 73 and 75. See current year finding **2018-001**.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
Date

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Schedule of Prior Years Audit Findings
Fiscal Year Ended June 30, 2018

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2017 – June 30, 2018 Fiscal Year: 2017-2018

Principal Executive: Hon. Juan C. García Padilla, Mayor

Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		(ERS) for the fiscal year ended June 30, 2017.These amounts represent 100 percent, 51 percent, and 100 percent of the deferred outflows of resources, liabilities and deferred inflows of resources as of June 30, 2017, respectively, and 7 percent of the expenses for the fiscal year then ended. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability and pension expense of the governmental activities. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
Date

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Schedule of Prior Years Audit Findings
Fiscal Year Ended June 30, 2018

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2017 – June 30, 2018 Fiscal Year: 2017-2018

Principal Executive: Hon. Juan C. García Padilla, Mayor

Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2017-002	Capital Assets and Expenses – Subsidiary Ledger Material Weakness (MW), Instance of Noncompliance (NC	The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter of the capital assets, accumulated depreciation and net capital assets, stated at $62,946,454, $16,570,370 and $46,376,084, respectively, in the Statement of Net Position as of June 30, 2017. As a result, we were unable to determine whether any adjustments to these amounts were necessary.	The Municipality's Finance Department staff plans to continue its efforts in order to update the capital assets subsidiary ledger, principally the infrastructure assets.	None	Not resolved yet. See current finding **2018-002**.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
Date

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Schedule of Prior Years Audit Findings
Fiscal Year Ended June 30, 2018

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2017 – June 30, 2018 Fiscal Year: 2017-2018

Principal Executive: Hon. Juan C. García Padilla, Mayor

Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2017-003	Impairment loss on deposits with fiscal agent Weakness (MW), Instance of Noncompliance (NC)	On May 15, 2017, the Puerto Rico Fiscal Agency and Advisory Authority (FAFAA) and the Governmental Development Bank for Puerto Rico (GDB) announced a Restructuring Support Agreement ("RSA") with the Bank's creditors. As of June 30, 2017, the Municipality had a cash balance deposited in the Municipal Redemption Fund of GDB's sub-fund accounts pertaining to "Excess CAE" amounting to $804,901 which is included under the provisions of the RSA. Based on the aforementioned transaction, the Municipality's existing cash balance deposited on GDB's sub-fund accounts at that date is exposed to an impairment loss based on the terms stated in the RSA as they apply to the various types of municipal deposits maintained at the GDB As of	We do not agree with this finding since deposits at the GDB related to the Debt Service Fund are backed by specific laws that stipulate these funds are maintained by the GDB in a custodial capacity. Therefore, the availability of these monies must be guaranteed by the Commonwealth since they are tied to debt issuances with specific municipal repayment sources: property taxes and sales and use tax. In the event that the GDB	None	Full corrective action was taken.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
Date

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
Schedule of Prior Years Audit Findings
Fiscal Year Ended June 30, 2018

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2017 – June 30, 2018 Fiscal Year: 2017-2018

Principal Executive: Hon. Juan C. García Padilla, Mayor

Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		June 30, 2017, the impairment loss resulting from the RSA is $362,205. However, no provision for impairment loss has been recorded on the Municipality's government-wide Statement of Activities and in the funds Statement of Revenues, Expenditures and Changes in Fund Balances of the Debt Service Fund, as of June 30, 2017.			
2017-004	Municipal license tax revenues Material Weakness (MW), Instance of Noncompliance (NC)	Municipal license tax revenues of the fiscal year 2017-2018, which were collected in advance from taxpayers between January 1 and June 30, 2017 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30,	At June 30, 2017, the accounting records of the Municipality include a special fund which includes the financial resources of the unearned municipal licenses collected	None	Not resolved yet. See current finding **2018-003**.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
Date

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MUNICIPALITY OF COAMO
Schedule of Prior Years Audit Findings
Fiscal Year Ended June 30, 2018

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Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		(known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2017. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2017-2018, and could not be used to pay obligations of the prior year. These transactions were not authorized by Municipal Legislature, through an Ordinance or Resolution.	through June 30, 2017. In addition, there is no legal requirement that prohibits the use of the cash resources arising from unearned municipal licenses The limitations set forth by Article 8.004(b) of the Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) are only for budgetary		

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March 31, 2019
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MUNICIPALITY OF COAMO
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2017-005	Financial Reporting – Accounts Receivables Collectability and Deferred Inflows of Resources Recognition Material Weakness (MW), Instance of Noncompliance (NC)	Management has not adopted a methodology for reviewing the collectability of the due from/to other funds, advances from/to other funds and due from/to component units for expenditures incurred by the Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants, Aggregate Remaining Fund Information and covered by the General Fund and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables including due from/to other funds and component units, which would decrease assets and fund balance and change the expenditures of the General Fund, Special	The Municipality's management understands that all the due from/to other funds, advances from/to other funds, due from/to component units and intergovernmental receivables at June 30, 2017 are fully collectible based upon past collection experience and current economic conditions and, that the potential effects of the Commonwealth's economic situation in the financial position and results of operations in the municipalities cannot be presently determined.	None	Not resolved yet. See current finding **2018-004**.

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March 31, 2019
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
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Fiscal Year Ended June 30, 2018

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Principal Executive: Hon. Juan C. García Padilla, Mayor

Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and of the Aggregate Remaining Fund Information. The amount by which this departure would affect the assets, fund balance, and expenditures of the General Fund, Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and the Aggregate Remaining Fund Information has not been determined. Management has not adopted a methodology for reviewing the collectability of the due from governmental entities for expenditures incurred by the Special Revenue Fund – Federal Grants, Capital Project Fund – State and Local Grants and the Aggregate			

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Hon. Juan C. García Padilla, Mayor

March 31, 2019
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
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Principal Executive: Hon. Juan C. García Padilla, Mayor

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		Remaining Fund Information and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables including advances to other funds, which would decrease assets and fund balance and change the expenditures of the Special Revenue Fund –Federal Grants, Capital Project Fund – State and Local Grants and of the Aggregate Remaining Fund Information. The amount by which this departure would affect the assets, fund balance, and expenditures of the Special Revenue Fund – Federal Grants, Capital Project Fund – State and Local Grants and the Aggregate Remaining Fund Information has not been determined.			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
Date

COMMONWEALTH OF PUERTO RICO
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		Finally, management has not recorded deferred inflows of resources (DIRs) in the amounts of $2,149,615, $88,912 and $158,012 in the Special Revenue Fund – Federal Grants, Capital Projects Fund – State and Local Grants and the Aggregate Remaining Fund Information, respectively, for revenues amounts not collected within the availability period. Accounting principles generally accepted in United States of America requires that, under the modified-accrual basis of accounting, revenues be recognized when they are susceptible to accrual, i.e. when the both measurable and available. Revenues are considered to be available when they are collectible within the period or soon enough thereafter to pay liabilities of the current period.			

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Principal Executive: Hon. Juan C. García Padilla, Mayor

Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2016-001	Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans (MW) (NC)	The Municipality's employees are provided with defined benefit pensions through cost sharing multiple-employer pension plan administered by the Employees' Retirement System Administration (ERS) of the Government of the Commonwealth of Puerto Rico. The deferred outflows/inflows of resources and the net pension liability of $1,751,282, $604,102 and $28,843,675, respectively, reported in the government-wide Statement of Net Position as of June 30, 2016, and th4e pension expense of $1,451,579 for the current period change of that liability in government-wide Statement of Activities, were derived from calculations made by the Municipality's Consultant based	We concur with the auditors' recommendations. The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard.	None	A similar situation took place during 2017-2018 with the implementation of GASB 73 and 75. See current year finding **2018-001**.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
Date

COMMONWEALTH OF PUERTO RICO
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		on the unaudited data reported in the Actuarial Report issued by (ERS) for the year ended June 30, 2016. These amounts represent 100 percent, 50 percent, and 100 percent of the deferred outflows of resources, liabilities and deferred inflows of resources as of June 30, 2016, respectively, and 7 percent of the expenses for the fiscal year then ended. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability and pension expense of the governmental activities. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
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Principal Executive: Hon. Juan C. García Padilla, Mayor

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2016-002	Fixed\Capital Assets and Expenditures – Subsidiary Ledger (MW) (NC)	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.	The Municipality's Finance Department staff plan to continue its efforts in order to update the capital assets subsidiary ledger, principally the infrastructure assets.	None	Not resolved yet. See current finding **2018-002.**
2016-003	Impairment loss on deposits with fiscal agent (MW) (NC)	On October 18, 2016, the Puerto Rico Department of Treasury issued Circular Letter No. 1300-08-17 "Impairment Loss on Deposits with the Governmental Development Bank of Puerto Rico". This Circular Letter instructs the public	We do not agree with this finding since deposits at the GDB related to the Debt Service, Special Revenue Fund – Federal	None	Full corrective action was taken**.**

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

March 31, 2019
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COMMONWEALTH OF PUERTO RICO
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		corporations and municipalities of the Commonwealth to recognize an impairment loss on the deposits maintained with the Governmental Development Bank (GDB). The deposits with the GDB are not insured nor collateralized with investments; therefore, these deposits are exposed to a significant custodial credit risk: the risk that another party to a deposit or investment transaction (counterparty) will not fulfill its obligations; for example, the issuer of a debt instrument may not redeem the instrument at maturity. Due to the financial and fiscal crisis faced by the Commonwealth and certain public entities, they have been unable to repay their loans and lines of credit with the	Grants, and Capital Projects Fund- State & Local Grants are backed by specific laws that stipulate these funds are maintained by the GDB in a custodial capacity. Therefore, the availability of these monies must be guaranteed by the Commonwealth since they are tied to debt issuances with specific municipal repayment sources: property taxes		

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

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COMMONWEALTH OF PUERTO RICO
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		GDB, seriously affecting the bank's liquidity and ability to repay its own debts. As a result, the GDB was unavailable to pay on May 1, 2016 the principal due on its bonds and notes and the interest payments due thereafter. On April 2016, the Governor of Puerto Rico declared the GDB in a state of emergency and issued a moratorium on the payments of its debts. Also, the GDB has not issued its financial statements for the fiscal years ended on June 30, 2015 and 2016. As a result of these events, the management of the GDB believes that a substantial doubt exists as to the bank's ability to continue as a going concern.	and sales and use tax. In the event that the GDB becomes insolvent, legal remedies will be filed within the parameters of PROMESA to ensure the disbursement and availability of these funds.		

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		However, the management of the Municipality has not complied with the deposits with a significant custodial credit risk. Accounting principles generally accepted in the United States of America require that nonparticipating interest-earning investment contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, should be reported using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors. The amounts by which this departure would affect the assets and fund balance is not determinable.			

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Hon. Juan C. García Padilla, Mayor

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COMMONWEALTH OF PUERTO RICO
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Contact Person: Mrs. Miraisa David Esparra, Finance and Budget Director Phone: (787) 825-1150

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2015-001	Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans (MW) (NC)	Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined. In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through	We concur with the auditors' recommendations. The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard.	None	The audit finding dose not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Juan C. García Padilla, Mayor

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2015-004	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) – Capital Assets (SD) (MW)	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.	The Municipality's Finance Department staff plan to continue its efforts in order to update the capital assets subsidiary ledger, principally the infrastructure assets.	None	The audit finding dose not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status

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March 31, 2019
Date

FORM SF-SAC 06/02/2016 U.S. Dept. of Comm. - Econ and Stat Admin. - U.S. Census Bureau

OMB No. 0348-0057 Approval Expires 06/30/2019 ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on Audits of States, Local Governments, Indian Tribes, Institutions of Higher Education and Nonprofit

For Fiscal Periods Beginning on or after December 26, 2014

PART I: GENERAL INFORMATION

REPORTID: 799128 VERSION:1

1. Fiscal Period End Date	**2. Type of Uniform Guidance Audit**
6/30/2018	Single Audit
3. Audit Period Covered	If Audit Period Other, then number of months:
Annual	
4. Auditee Identification Numbers	
a. Auditee Employer Identification Number (EIN)	d. Auditee Data Universal Numbering System (DUNS) Number
66-0433561	13-161-7693
b. Are multiple EINS covered in this report?	e. Are multiple DUNS covered in this report?
No	No
5. Auditee Information	**6. Primary Auditor Information**
a. Auditee name	a. Audit Firm/Organization Name
MUNICIPALITY OF COAMO	LOPEZ-VEGA,CPA,PSC
b. Auditee address *(Number and street)*	b. Audit Firm/Organization EIN
APARTADO 516	66-0587053
	c. Audit Firm/Organization address *(Number and street)*
	CALLE PARANA #1686 EL CEREZAL
Auditee City	Audit Firm/Organization City
COAMO	SAN JUAN
Auditee State	Audit Firm/Organization State
PR	PR
Auditee ZIP Code	Audit Firm/Organization ZIP Code
00769	00926
c. Auditee Contact Name	d. Primary Auditor Contact Name
MIRAISA DAVIS ESPARRA	ANGEL ALFREDO LOPEZ
Auditee Contact Title	Primary Auditor Contact Title
FINANCE DIRECTOT	PRESIDENT
d. Auditee Contact Telephone	e. Primary Auditor Contact Telephone
(787)825-1952	(787)777-8044
e. Auditee Contact E-mail	f. Primary Auditor Contact E-mail
MIRAISA.DAVID@COAMO.PUERTORICO.PR	ALFREDOLOPEZ@LOPEZVEGACPA-PR.COM
	7. Was a secondary auditor used?
	No

FORM SF-SAC REPORTID: 799128 VERSION:1

Part II: FEDERAL AWARDS

1. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

Part III: INFORMATION

1. MAJOR PROGRAM INFORMATION AND AUDIT FINDINGS

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(a)	(b)	(c)
	CFDA Number								Loan/Loan Guarantee		Federal Award Source					MAJOR PROGRAM		
Row Number (Auto-Generated)	Federal Awarding Agency Prefix [2]	CFDA Three Digit Extension [3]	Additional Award Identification[3]	Name of Federal Award	Amount Expended ($)	Cluster Name	Federal Program Total [4]	Cluster Total [5]	Loan/Loan Guarantee (Y/N)	If column (i) is "Y", the End of the Audit Period Outstanding Loan Balance [6]	Direct Award (Y/N)	If column (k) is "N", list Name of Pass-through Entity	If column (k) is "N", list identifying number assigned by the Pass-through Entity, if assigned [7]	Federal Award Passed Through to Subrecipients (Y/N)	If column (n) is "Y", Provide Amount Passed Through	Major Program (Y/N)	If column (a) is "Y", type of audit report on Major Program [8]	Number of Audit Findings
1	10	575		FARM TO SCHOOL GRANT PROGRAM	$43,441	N/A	$43,441		N		Y			N		N		0
2	10	558		CHILD AND ADULT CARE FOOD PROGRAM	$113,827	N/A	$113,827		N		N	PR DEPARTMENT OF EDUCATION	N/AV	N		N		0
3	14	871		SECTION 8 HOUSING CHOICE VOUCHERS	$277,800	N/A	$277,800		N		Y			N		N		0
4	14	267		CONTINUUM OF CARE PROGRAM	$13,998	N/A	$13,998		N		Y			N		N		0
5	14	228		COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII	$49,141	N/A	$49,141		N		N	PR SOCIOECONOMI AND COMMUNITY DEVELOPMENT	N/AV	N		N		0
6	14	238		SHELTER PLUS CARE	$42,860	N/A	$42,860		N		N	PR DEPARTMENT OF FAMILY	N/AV	N		N		0
7	14	850		PUBLIC AND INDIAN HOUSING	$145,045	N/A	$145,045		N		N	PR DEPARTMENT OF PUBLIC HOUSING	N/AV	N		N		0

8	15	916		OUTDOOR RECREATION_ACQUISITION, DEVELOPMENT AND PLANNING	$70,628	N/A	$70,628		N		N	PR DEPARTMENT OF RECREATION AND SPORT	N/AV	N		N		0
9	16	738		EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	$4,908	N/A	$4,908		N		N	PR DEPARTMENT OF JUSTICE	N/AV	N		N		0
10	20	505		METROPOLITAN TRANSPORTATION PLANNING AND STATE AND NON-METROPOLITAN PLANNING AND RESEARCH	$35,443	N/A	$35,443		N		N	PR DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS	N/AV	N		N		0
11	84	287		TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	$1,167,008	N/A	$1,167,008		N		N	PR DEPARTMENT OF EDUCATION	N/AV	N		N		0
12	93	043		SPECIAL PROGRAMS FOR THE AGING_TITLE III, PART D_DISEASE	$3,230	N/A	$3,230		N		N	PR ELDERLY AFFAIRS	N/AV	N		N		0
13	93	044		SPECIAL PROGRAMS FOR THE AGING_TITLE III, PART B_GRANTS FOR	$48,850	N/A	$48,850		N		N	PR ELDERLY AFFAIRS	N/AV	N		N		0
14	93	052		NATIONAL FAMILY CAREGIVER SUPPORT, TITLE III, PART E	$4,784	N/A	$4,784		N		N	PR ELDERLY AFFAIRS	N/AV	N		N		0
15	93	569		COMMUNITY SERVICES BLOCK GRANT	$33,803	N/A	$33,803		N		N	PR DEPARTMENT OF FAMILY	N/AV	N		N		0
16	93	575		CHILD CARE AND DEVELOPMENT BLOCK GRANT	$222,512	N/A	$222,512		N		N	PR DEPARTMENT OF FAMILY	N/AV	N		N		0
17	93	591		FAMILY VIOLENCE PREVENTION AND SERVICES/STATE DOMESTIC VIOLENCE	$23,379	N/A	$23,379		N		N	PR DEPARTMENT OF FAMILY	N/AV	N		N		0
18	97	036		DISASTER GRANTS - PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)	$1,917,626	N/A	$1,917,626		N		N	PR CENTRAL RECOVERY AND RECONSTRUCTION	N/AV	N		Y	U	0

Total Federal Awards Expended: $4,218,283

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Part III: INFORMATION FROM THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

2. FINANCIAL STATEMENTS

a. Financial Statement Information

i. What were the results of the auditor's determination of whether the financial statements of the auditee were prepared in accordance with generally accepted accounting principles (GAAP):
Select any combination:

Unmodified Opinion, Adverse Opinion

ii. What was the special purpose framework? (Select only one)

N/A

iii. Was the special purpose framework used a basis of accounting required by state law?

N/A

iv. What was the auditor's opinion on the special purpose framework? (Select any combination)

N/A

b. Is a "going concern" emphasis-of-matter paragraph included in the auditor's report?

No

c. Is a significant deficiency in internal control disclosed? ☐ Yes ☐ No

No

d. Is a material weakness in internal control disclosed? ☐ Yes ☐ No

Yes

e. Is a material noncompliance disclosed? ☐ Yes ☐ No

Yes

3. FEDERAL PROGRAMS

a. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending $750,000 or more in Federal awards that have separate Uniform Guidance audits which are not included in this audit? (AICPA Audit Guide) ☐ Yes ☐ No

No

b. What is the dollar threshold used to distinguish Type A and Type B programs? (Uniform Guidance § 200.518(b)(1)) $ _____

$750,000

c. Did the auditee qualify as a low-risk auditee? (Uniform Guidance § 200.520) ☐ Yes ☐ No

No

d. Indicate which Federal Agency(ies) have prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. *Mark (X) all that apply or None*.

If an agency has been selected (see the full list of agencies in Appendix I of the instructions), it will appear in a list in this section. For example, if 39. General Services Administration, 99. Miscellaneous, 68. National Gallery of Art, and 07. Office of National Drug Control Policy are selected, the list will appear in this section as "39, 99, 68, 07".

00 - None

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Part III: INFORMATION FROM THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

4. FEDERAL AWARD AUDIT FINDINGS

Schedule of Findings and Questioned Costs

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
							Compliance Audit Findings[2]		Internal Control Audit Findings[2]					
Row Number from Part II, Item 1	Federal Awarding Agency Prefix	CFDA Three Digit Extension	Additional Award Identification (Optional)	Name of Federal program	Audit Finding Reference Number (YYYY-###)	Type(s) of Compliance Requirement(s)[1]	Modified Opinion (Y/N)	Other Matters (Y/N)	Material Weakness (Y/N)	Significant Deficiency (Y/N)	Other Audit Findings[2] (Y/N)	Questioned Costs (Y/N)	Repeat Audit Finding from Prior Year (Y/N)	If column (m) is "Y", provide Prior Year Audit Finding Reference Numbers

[1] Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses,), questioned costs, fraud, and other items reported under 2 CFR 200.516(a)) reported for each Federal program.

A. Activities allowed or unallowed
B. Allowable costs/cost principles
C. Cash management
D. Reserved
E. Eligibility
F. Equipment and real property management
G. Matching, level of effort, earmarking
H. Period of performance (or availability) of Federal
I. Procurement and suspension and debarment
J. Program income
K. Reserved
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
P. Other

[2] There are 9 valid combinations of "Compliance Audit Findings," "Internal Control Audit Findings," and "Other Audit Findings" for each Federal program with audit findings. (See chart in instructions - Item 4k)

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Part IV: CERTIFICATIONS

1. Auditee Certification Statement	2. Auditor Statement
This is to certify that, to the best of my knowledge and belief the following is true and correct. The auditee has:	The data elements and information included in this form are limited to those prescribed by the Uniform Guidance. The information in Part II of this form is the responsibility of the auditee and is based on information included in the reporting package required by the Uniform Guidance. The information included in Part III of this form, except for Part III Item 2(a)(iii), Item 3(d), and Items 4(a) – (d) (when there are audit findings), was transferred by the auditor from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s) or any additional auditing procedures in connection with the completion of this form. A copy of the reporting package required by the Uniform Guidance, which includes the complete auditor's report(s), is required to be made available by the FAC on the FAC web site. It is also available in its entirety from the auditee at the address identified in Part I of this form and on the FAC web site.
☑ ensured that the Form SF-SAC and reporting package does not include protected personally identifiable information (Protected PII) (2 CFR 200.79 and 2 CFR 200.82), or if it does, the Federal Audit Clearinghouse is authorized to publicly post all information contained in this Form SF-SAC and the audit report;	
☑ ensured that the Form SF-SAC and reporting package does not include business identifiable information (BII) as defined below*, or if it does, the Federal Audit Clearinghouse is authorized to publicly post all information contained in this Form SF-SAC and the audit report;	
☑ complied with the requirements of 2 CFR Part 200 Subpart F specific to the auditee;	
☑ prepared the data in this form in accordance with 2 CFR Part 200 and the accompanying instructions to this form;	
☑ included all information required to be reported in this form in its entirety and such information is accurate and complete;	
☑ engaged an auditor to perform an audit in accordance with 2 CFR Part 200.500 for the period described in Part I, Items 1 and 3;	
☑ ensured the auditor has completed such audit and issued the signed audit report required by 200.515 which states that the audit has conducted in accordance with the audit requirements of the Uniform Guidance; and	
☑ authorized the FAC to make the Form SF-SAC and reporting package publicly available on a Web site	

*BII consists of information defined in the Freedom of Information Act (FOIA) as "trade secrets and commercial or financial information obtained from a person [that is] privileged or confidential." (5 U.S.C.552(b)(4)). This information is exempt from automatic release under the (b)(4) FOIA exemption. "Commercial" is not confined to records that reveal "basic commercial operations" but includes any records or information in which the submitter has a commercial interest, and can include information submitted by a nonprofit entity.

Auditee Certification	Auditor Signature
3/31/2019	(*Date of Electronic Signature*)
Name of certifying official	
MIRAISA DAVID	ELECTRONICALLY CERTIFIED: 3/31/2019
Title of certifying official	
FINANCE DIRECTOR	

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PART I, Item 4c. AUDITEE EIN CONTINUATION SHEET	(FROM PART I, ITEM 4b)
List the multiple Employer Identification Numbers (EINs) covered in this report.	

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FORM SF-SAC	REPORT ID REPORTID: 799128 VERSION:1
PART I, Item 4f. AUDITEE DUNS CONTINUATION SHEET	(FROM PART I, ITEM 4e)
List the multiple DUNS covered in this report.	

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Part I, Item B, SECONDARY AUDITORS' CONTACT INFORMATION

Auditor Firm name (a)	Auditor EIN (b)	Auditor address (Number and street) (c)	City (d)	State (e)	ZIP (f)	Contact Name (g)	Title (h)	Auditor contact telephone (i)	Auditor contact FAX (j)	Auditor contact E-mail (k)

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López-Vega, C.P.A., PSC
Certified Public Accountants / Management Advisors

Cristina Toro <ctoro@lopezvegacpa-pr.com>

Fwd: Single Audit Submission Accepted - MUNICIPALITY OF COAMO (2018), Report ID: 799128

A. Alfredo Lopez <alfredolopez@lopezvegacpa-pr.com> Thu, Apr 4, 2019 at 4:08 PM
To: Osvaldo Rivera <orivera@lopezvegacpa-pr.com>, Cristina Toro <ctoro@lopezvegacpa-pr.com>

---------- Forwarded message ---------
From: ERD FAC <govs.fac.ides@census.gov>
Date: Thu, Apr 4, 2019, 4:05 PM
Subject: Single Audit Submission Accepted - MUNICIPALITY OF COAMO (2018), Report ID: 799128
To: <MIRAISA.DAVID@coamo.puertorico.pr>, <ALFREDOLOPEZ@lopezvegacpa-pr.com>

FAC ACCEPTED DATE: 3/31/2019

AUDITEE NAME: MUNICIPALITY OF COAMO
REPORT ID: 799128
FISCAL YEAR END DATE: 6/30/2018

The Single Audit submission for the above referenced organization has been accepted by the Federal Audit Clearinghouse (FAC). No further action is needed.

Your FAC Accepted Date is: 3/31/2019. Please retain this e-mail for your records.

Sincerely,
Federal Audit Clearinghouse
https://harvester.census.gov/facides
govs.fac.ides@census.gov