

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2017**

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TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor’s Report	1-4
Management’s Discussion and Analysis	5-20
Basic Financial Statements:	
Governmental-wide Financial Statements:	
Statement of Net Position	21
Statement of Activities	22-23
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	24
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	25
Statement of Revenues, Expenditures and Changes in Fund Balance	26
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	27
Property Funds:	
Statement of Financial Position	28
Statement of Activities	29
Statement of Cash Flows	31-31
Notes to the Financial Statements	32-57
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Budgetary Comparison	58-59
Notes to Schedule of Budgetary Comparison	60-61
Schedule of Proportionate Share of the Net Pension Liability	62
Schedule of Contributions to the Employee’s Retirement Systems	63
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	64-65
Notes to Schedule of Expenditure of Federal Awards	66
REPORTS REQUIRED UNDER UNIFORM GUIDANCE	
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	67-69
Independent Auditors’ report on Compliance for Each Major Program and on Internal Control over Compliance required by Uniform Guidance	70-73
SCHEDULE OF FINDINGS AND QUESTIONED COSTS:	
Section I. - Summary of Auditor’s Results	74-75
Section II. - Financial Statements Findings	76
Section III. - Federal Awards Findings and Questioned Costs	77

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**



CARLOS R. DIAZ, CPA, PSC

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INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Municipal Legislative Body
Municipality of Comerío
Comerío, 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 funds information of **Municipality of Comerío**, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the **Municipality of Comerío, Puerto Rico** basic financial statements as listed in the table of contents. We did not audit the financial statement of the Río Plata Project, which represents 90% of total assets and net position and 58% of total revenue of the business type activities.

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 includes 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 did not audit the financial statements of the business type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Río Plata Project, is based solely on the report of the other auditors. 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 from material misstatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation 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 to provide a basis for our audit opinions.

Summary of opinions:

Type of opinion:

Governmental activities	Qualified
Business type activities	Unmodified
Each mayor funds	Unmodified
Aggregate remaining funds	Unmodified
Business-type activities	Unmodified

Basis for qualified opinion on governmental activities

The net pension liability and deferred outflows/inflows of resources in governmental activities of the government-wide statement of net position, and pension expense for the current period charge in that liability in governmental activities of the government-wide statement of activities were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, cost-sharing multiple-employer pension plan. 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 expenses of the governmental activities and the information disclosed in the notes of the pension plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosures were necessary. The net pension liability and deferred outflows/inflows of resources represent 80 percent, 100 percent and 29 percent of the total liabilities and deferred outflows/inflows of resources, respectively, as of June 30, 2017, while pension expense represents 12 percent of total expenses for the fiscal year then ended.

Qualified opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Municipality of Comerío, Puerto Rico**, as of June 30, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Unmodified opinions

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Comerío, Puerto Rico** as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof 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, budgetary comparison information and employee's retirement system information on pages 5 to 20 and 59 to 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Comerío, Puerto Rico's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2018, on our consideration of the **Municipality of Comerío** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Comerío** internal control over financial reporting and compliance.



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2018

September 13, 2018
Aguas Buenas, Puerto Rico

The stamp No. **E345542** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

INTRODUCTION

The following discussion presents an overview of the financial position and financial activities of the Municipality Autonomous of Comerío (The Municipality) for the year ended June 30, 2017. This discussion was prepared by the Municipality management and should be read in conjunction with the financial statements and notes thereto, which follow.

FINANCIAL HIGHLIGHTS

The financial position on the Municipality remains strong at June 30, 2017, with total assets of \$60,633,869, total liabilities of \$33,645,344, and total net assets of \$27,470,290. Municipality net position increased by \$873,419 in comparison with June 30, 2016 balance of \$26,596,871. An overview of each statement is presented below along with a financial analysis of the transactions impacting the statement.

Condensed financial statements for the Municipality at June 30, 2016 and 2017.

Condensed Statement of Net Position

	2016	2017
Assets		
Capital Assets	\$ 53,788,738	\$ 53,243,775
Other Assets	<u>7,056,604</u>	<u>7,390,094</u>
	<u>60,845,342</u>	<u>60,633,869</u>
Liabilities, Deferred inflows of Resources and Net Position		
Deferred Outflows of resources	<u>1,124,441</u>	<u>1,124,441</u>
Long-Term Debt	33,535,552	32,162,010
Other Liabilities	<u>1,362,060</u>	<u>1,483,334</u>
	<u>34,897,612</u>	<u>33,645,344</u>
Deferred Inflows of Resources	<u>475,300</u>	<u>642,676</u>
Invested in Capital Assets	48,385,358	37,309,567
Restricted for Debt Services	1,459,667	1,706,298
Capital Projects	782,307	1,051,687
Replacements and Others	648,047	814,368
Unrestricted	<u>(24,678,508)</u>	<u>(13,411,630)</u>
Total Net Position	<u>\$ 26,596,871</u>	<u>\$ 27,470,290</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

	2016	2017
Condensed Statements of Activities:		
Revenues		
Program Revenues:		
Charges for Services	\$ 1,170,540	\$ 744,810
Operating Grants	1,970,377	3,597,111
Capital Grants	2,286,691	1,171,012
General Revenue:		
Taxes:		
Property Tax	1,127,674	1,451,075
Municipal Tax	503,245	340,748
Sale Tax	799,414	1,127,410
Construction Excise Taxes	84,565	25,724
Grants and Entitlements	8,607,107	7,945,876
(Others)	<u>348,595</u>	<u>1,356,291</u>
	<u>16,898,208</u>	<u>17,760,057</u>
Expenditures		
General Administration	7,796,335	5,959,302
Public Safety	1,067,541	859,632
Education, Culture and Recreational	1,926,719	2,564,323
Public Works and Sanitation	4,346,995	3,435,728
Health and Welfare	2,477,024	2,025,826
Communication, Press and other Media	395,465	302,696
Planning and General Services	807,384	507,565
Interest	210,590	243,608
Housing	<u>881,332</u>	<u>987,958</u>
	<u>19,909,385</u>	<u>16,886,638</u>
Changes in Net Position	(3,011,177)	873,419
Net Position at beginning, as restated	<u>29,608,048</u>	<u>26,596,871</u>
Net Position at end	<u>\$ 26,596,871</u>	<u>\$27,470,290</u>

USING THE FINANCIAL STATEMENTS

The Municipality's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, Financial Statements and Management's Discussions and Analysis for State and Local Governments. The financial statement presentation required by GASB statement no. 34 provides a comprehensive, entity-wide perspective of the Municipality's assets, liabilities, deferred inflows of resources, net assets, revenues, expenditures, changes in net position and cash flows.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

USING THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements report information of the Municipality's as a whole and include the financial results of Rio Plata Development, a business type division and Empresa Municipal Area Recreativa Media Luna, a blended component unit.

OVERVIEW OF BASICS FINANCIAL STATEMENTS

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedules) in addition to the basic financial statements themselves. These components are described below:

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most business. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2017 even if cash involved have not been received or paid. The government-wide fiscal statements include: (1) the statements of net assets and (2) the statements of activities.

Statement of Net Assets

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net position" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2017. All changes in net asset are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017

Statement of Activities (Continued)

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture, recreation and education, general government, health and sanitation, public safety, public housing and welfare , etc.

Fund Financial Statements

The Municipality's fund financial statements, which consist of: (1) the balance sheet - governmental funds and (2) the statements of revenues, expenditures, and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's government funds.

A fund is a grouping of related accounts that is used to maintain control over recourses that have been segregated for specific activities of objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures, Fund accounting segregates fund according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements 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. 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 assists in determining whether there will be adequate financial recourses available to meet the currents needs of the Municipality's, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental fund 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 Municipality's near-term financial decisions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Fund Financial Statements (Continued)

For financial reporting purposes the Municipality has three major funds: (1) the general fund (2) the debt service fund and (3) HUD Block Grant.

Empresa Municipal Área Recreativa Media Luna is a for Profit Organization created under Law 181 of August 11, 2011 which amended Law 81 of August 30, 1991, known as "Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico " for the purpose of define franchises and municipal enterprises and authorize municipalities to create, purchase, sell, operate and do the necessary commercial activity related to establish procedures and operating methods for them.

The Municipality of Comerío, Puerto Rico (The Owner) holds legal title of the Organization thru Municipal Law Number 17, Series 2012-2013, of May 15, 2013. The Major of the Municipality of Comerío appointed the Board of Directors of five (5) of its staff directors. This Board of Directors is responsible to establish administrative and operating procedures in accordance with laws that govern these entities. The organization is administered by a Manager designated by the Board of Directors.

The Organization entered into agreement with the Municipality of Comerío providing the use of the property located in the area. The accounting policies followed by the Organization conform to the industry practices and are based on accounting generally accepted in the United States of America (GAAP).

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Statements of Net Position

The statement of net assets presents the assets, liabilities and net assets of the Municipality as of the fiscal year ended June 30, 2017. The net assets are displayed in three parts, invested in capital assets restricted an unrestricted. Restricted net asset may either be expendable or nonexpendable and are those asset are restricted by law o by an external donor. Unrestricted net assets, while they are generally designated for specific purposes. The statement of net assets, along with the Municipality's basic financial statements, is prepared under the accrual basis of accounting, whereby revenues are recognized when realized and expenses are recorded when the service or good is received, regardless of when the cash is exchanged.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Statements of Net Position (Continued)

Cash and cash equivalents represents 6% of total assets while cash with fiscal agent represents 1.90% of it. Capital assets amount to 87.81% of total assets. The other 4.29% represents receivables, and restricted cash.

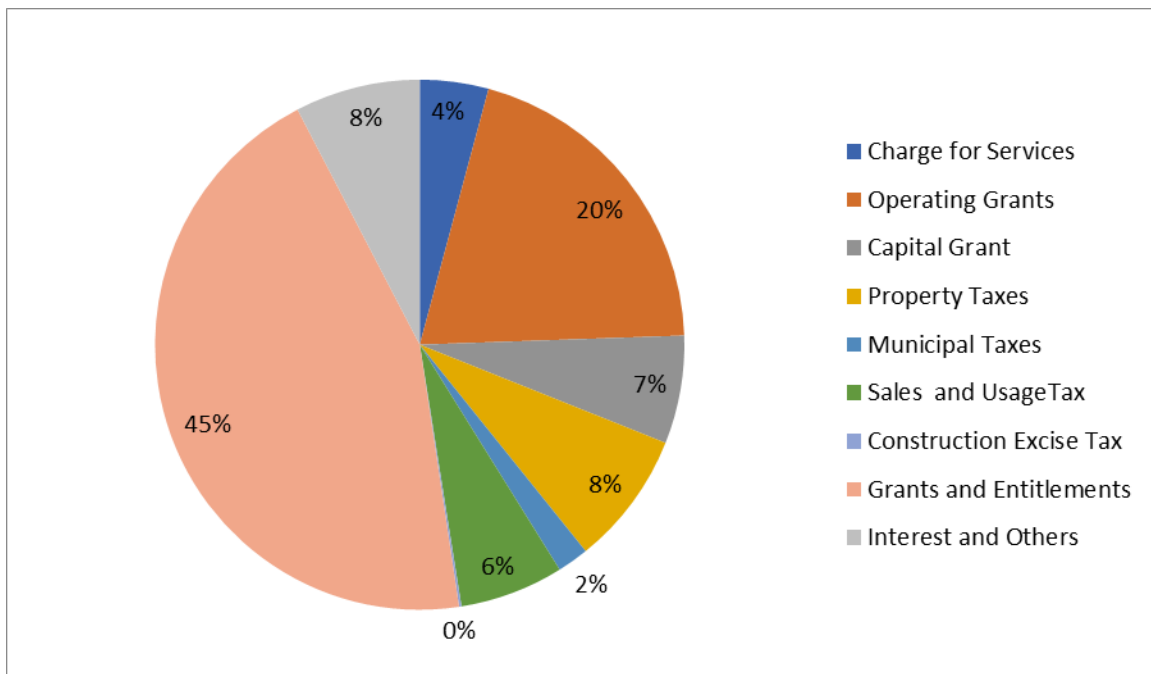
Municipality's cash and cash equivalents changed from \$3,195,680 at June 30, 2016 to \$3,649,336 at June 30, 2017. Capital Assets decreased from \$53,788,738 to \$53,243,775 for the same period.

Current liabilities consists primary of accounts payable and accrued expenses which represent 4.40% of total liabilities. Long term debt represents 95.60% of total liabilities.

Net assets represent the residual interest in the Municipality's assets after liabilities are deducted.

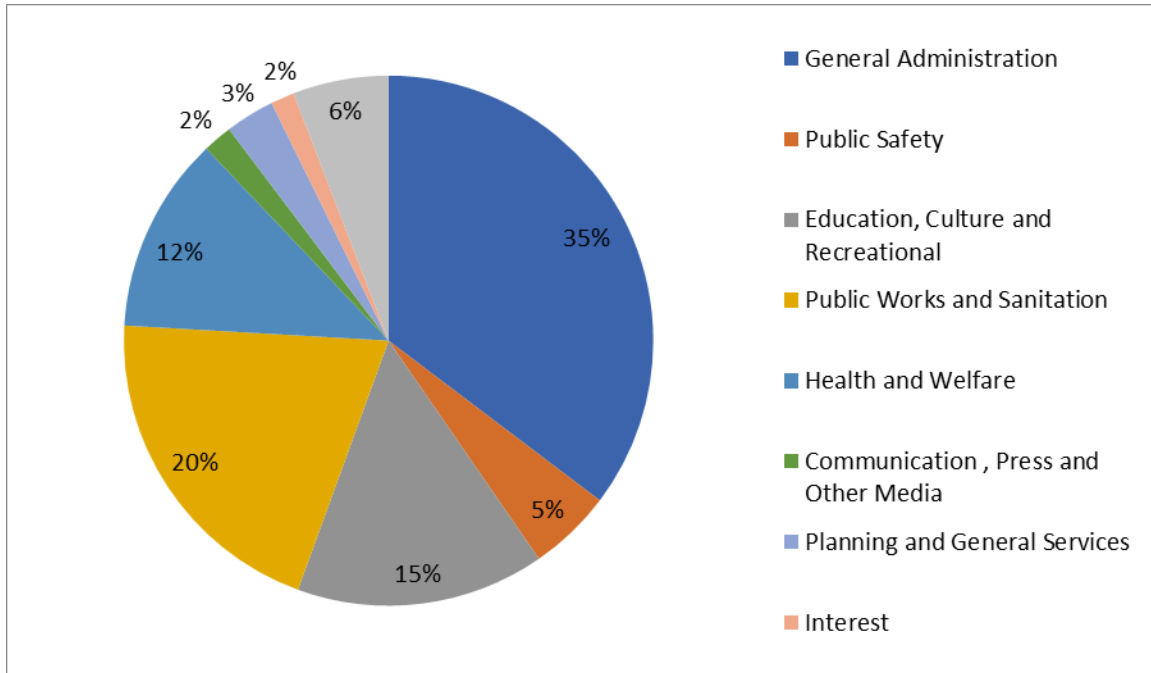
As of June 30, 2017 net assets amounted to \$27,470,290. Net position invested in capital assets amounted to \$37,309,567. Replacement and others net assets amounted to \$9,839,277.

The following illustrations demonstrate the Municipality's major sources of revenues and expenses.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Statements of Net Position (Continued)



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2017, amounts to \$83,921,533 with an accumulated depreciation of \$30,677,758 (including depreciation charges for the year totaled \$2,589,993), leaving a net book value of \$53,243,775. This investment in capital assets includes land, constructions in progress, buildings, improvements, equipment, infrastructure, machinery and equipment and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Debt Administration (Continued)

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". Act No.64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2017-2018.

Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 "The Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA)", "the Authority", in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017 (Continued)

The FAFAA will act as fiscal agent, financial advisor and reporting agent of all entities of the Government of Puerto Rico. It shall be the governmental entity responsible for the collaboration, communication and cooperation between the Government of Puerto Rico and the Fiscal Oversight Board created under PROMESA. To such effect, the FAFAA is empowered to collaborate in conjunction with the Governor of Puerto Rico and his representatives in the creation, execution, supervision and oversight of any Fiscal Plan and any Budget as defined by the terms of PROMESA. In addition, the Authority shall be the government entity charged with supervising, executing and administering the Fiscal Plan approved and certified in accordance with PROMESA and shall ensure that all the entities of the Government of Puerto Rico comply with the approved Fiscal Plan.

In addition, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended. It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico.

The Authority shall be governed by Board of Directors composed of five (5) members, including the Executive Director of the FAFAA, appointed by the Governor, one (1) representative of the Senate of the Puerto Rico, and one (1) representative of the House of Representatives of Puerto Rico, who shall be designated by the Presiding Officer of each Legislative House. The remaining two members shall be appointed by the Governor.

Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 “*Puerto Rico Financial Emergency and Fiscal Responsibility Act*” to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as “essential services”, in accordance with the Constitution of Puerto Rico.

This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the “Moratorium Act”) and of certain Executive Orders issued by then Governor of Puerto Rico Hon. Alejandro García Padilla that provided for emergency periods and a temporary stay of litigation, thus negating the timely payment of the Government’s obligations and the initiation of a voluntary negotiation process with the creditors of the Commonwealth and its instrumentalities. It also suspends or cancels, or both, all special appropriations not budgeted in the fiscal year 2016-17 that may have been multi-year authorizations from prior fiscal years. The Emergency Period will begin with the effective date of this Act and end in May 1, 2017, and may be extended by the Governor pursuant to an executive order for one additional period of three (3) months.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017

Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017 (Continued)

During the Emergency Period declared by this Act, the Governor has the power to designate services provided by the Commonwealth and its instrumentalities as essential services or services that are not essential services and utilize available resources to provide for the satisfaction of obligations of the Commonwealth and its instrumentalities, while also recognizing the need to provide for the services essential to the health, safety and welfare of the residents of Puerto Rico. The Governor shall pay debt service to the extent a) possible after all essential services of the Commonwealth have been provided for; or b) ordered to do so by the Oversight Board or any board created under federal law. In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the FAFAA to pay for essential services as he deems necessary to protect the health, safety and welfare of the residents of Puerto Rico; and he may take all actions deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services. To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year. Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c). Finally, the Governor may issue executive orders as he deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of such.

With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017 (Continued)

If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services. If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank for Puerto Rico

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico (“the Board”) provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor’s request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options. On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board’s members, economists, consultants, attorneys and Governor’s representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA’s requirements and recommended that certain revisions be made. On March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior plan and, during the review process; further changes were incorporated into the Government’s proposed plan.

On March 13, 2017, the Governor’s final proposed fiscal plan was presented to the Board and, after its review and discussion, the Board approved and certified this final plan with the following two (2) amendments:

- Implementation of a furlough program and the removal of all Christmas bonuses to achieve necessary liquidity and budgetary savings – The determination to implement these measures, in whole or in part, would be made on July 1 and September 1, 2017 based on the achievements by the Commonwealth of certain levels of savings and cash reserves through the right-sizing measures to be implemented in the proposed budget for the fiscal year 2017-18.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank for Puerto Rico (Continued)

- An overhaul of the public pension systems that would provide for progressively reduced total pension outlays by 10% by fiscal year 2020.

The fiscal measures detailed in the certified fiscal plan were implemented by the approval on April 29, 2017 of Act 29 “*Compliance with the Fiscal Plan Act*”. These measures are focused on four (4) major areas:

- Increase revenues by \$1,380 million through tax and fees increases and better tax fiscalization procedures.
- Reduce expenditures by \$1,623 million through 1) \$434 million in payroll expenditure savings through the implementation of the “Single Employer Program” (an employee mobility plan), “freezing” of job vacancies and the uniformity of fringe benefits throughout the agencies (these measures do not apply to the University of Puerto Rico nor the Municipalities); 2) \$439 million in efficiency savings through agencies consolidations, expenditure reductions and public-private alliances; 3) \$750 million in subsidies reductions to the University of Puerto Rico, Municipalities, and other entities.
- Adjustments of \$299 million in Health expenditures through the implementation of a new public healthcare model.
- An 80% reduction on debt service payments.

On March 13, 2017, the Government Development Bank for Puerto Rico submitted its proposed fiscal plan to the Financial Oversight and Management Board and it was certified on April 28, 2017. This plan contemplates an orderly winding-down of its operations within a three-to-four years’ period (by fiscal year 2021). To efficiently effectuate this process, the GDB’s management has created a Project Management Office (“PMO”) for the smooth transition of the Bank’s current operations. The main objectives of this fiscal plan are as follows:

- All fundamental new business banking and origination activities will have ceased.
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions.
- Coordinate and execute all possible collection efforts on loans held by the GDB and collateral supporting the loans, when applicable.
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value.
- Restructure the GDB’s workforce through the “Single Employer Program” and voluntary incentivized separation program.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank for Puerto Rico (Continued)

The Plan assumes that Municipality Loans, select Revenue/Public Corporation Loans and the sale of real estate owned assets are the only sources of revenue to the GDB after June 30, 2017. Those loan assets deemed by the Bank to be “nonperforming” (i.e. Commonwealth’s appropriation loans) will remain as such and, therefore, would not be a source of future inflows, although the GDB reserves the right to pursue collection efforts to maximize recovery values. In respect to municipal escrow deposit accounts (monies representing undisbursed loan proceeds that were trapped at GDB as a result of restricted disbursement procedures and Executive Order 2016-10), the Plan assumes that their balances will be off set against their applicable municipal loans.

Filing of Title III of PROMESA for the District of Puerto Rico

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017 another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation (“COFINA”), and on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority (“HTA”) and the Government of Puerto Rico Employees Retirement System (“ERS”).

Restructuring Support Agreement (“RSA”) under the provisions of Title VI of PROMESA – Government Development Bank of Puerto Rico

On May 15, 2017, FAFAA and the Government Development Bank for Puerto Rico announced a Restructuring Support Agreement (“RSA”) with a significant portion of GDB’s financial creditors, which became effective pursuant to its terms on May 17, 2017. The RSA contemplates dividing GDB’s assets into two separate entities: one for the benefit of its financial creditors consisting of bondholders, municipal depositors and non-government entity depositors (“New Issuer”), and a Public Entity Trust (“PET”) for the benefit of other depositors (government entity depositors). The RSA terms are to be consummated pursuant to a consensual restructuring of the GDB’s liabilities using a Title VI Qualifying Modification. Once approved by the requisite financial creditors of the GDB, the Financial Oversight and Management Board and the U.S. District Court (Puerto Rico), the RSA will provide GDB’s stakeholders a recovery based on the claim type.

Prior to the closing of the RSA transaction, the GDB seeks to 1) adjust loan balances based on undisbursed municipal loan proceeds against the corresponding loans; and 2) provide an accelerated setoff of public entity deposits to non-performing loans, where applicable. As of June 30, 2017, the Municipality bonds and notes escrow balances amounted to \$1,197,243, against an outstanding principal debt balances, related to GDB debt issuance, of \$5,295,160.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Restructuring Support Agreement ("RSA") under the provisions of Title VI of PROMESA – Government Development Bank of Puerto Rico (Continued)

On June 30, 2017, the GDB submitted a revised Fiscal Plan to the Financial Oversight and Management Board incorporating the RSA framework and was approved by the entity on July 12, 2017. On July 14, 2017, the Board authorized the GDB to pursue the restructuring of its debts under Title VI of PROMESA and conditionally certified GDB's Restructuring Support Agreement ("RSA") under the relevant provisions of Title VI. The RSA provides for the organized and consensual restructuring of a substantial portion of the GDB's liabilities, including GDB public bonds, deposit claims by Municipalities and certain non-public entities and claims under certain GDB-issued letters of credit and guarantees ("Participating Bond Claims"). In exchange for releasing the GDB from liability relating to these claims, the claim-holders will receive new bonds to be issued by a new entity (the "New Issuer").

In order to secure and service the new bonds, the GDB will transfer to the New Issuer its entire municipal loan portfolio, certain real estate assets available for sale, proceeds of certain public entity loans and a certain amount of cash. For each \$1,000 of Participating Bond Claims held by a Holder, such holder shall receive New Bonds having a face amount equal to \$550 (a 55% upfront exchange ratio). Payments of principal and interest to holders of the New Bonds shall be made solely from available cash of the issuer, with a coupon rate of 7.50% and a maturity period ending on July 1, 2040. The New Bonds will be secured by a statutory lien on the New Bond collateral.

In relation to GDB's municipal obligation, the principal amount of any bond, note and/or loan of any municipality of Puerto Rico held by the GDB as of the RSA's closing date shall be automatically reduced by operation of law, effective as of the closing date, without the need for any further action, 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 a GDB on the closing date pursuant to the Municipality Financing Act, Act 64-1996, as amended. 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.

If a Municipality that has Excess CAE, as defined in the GDB Restructuring Act as in effect on August 24, 2017, executes a settlement agreement with GDB providing a release of all claims and causes of action against GDB and the Issuer and agreeing not to challenge or otherwise take any action that is inconsistent with, or that would reasonably be expected to prevent, interfere with, delay or impede the consummation of, the Restructuring, then, promptly upon the effective date of such settlement agreement, if so provided pursuant to an amendment to the GDB Restructuring Act, GDB shall pay, in cash, to such municipality an amount equal to 55% of the undisbursed Excess CAE corresponding to such Municipality. In the case of municipalities that do not execute a settlement agreement with the GDB prior to the Closing Date, pursuant to Article 502 of the GDB Restructuring Act, as in effect on August 24, 2017, the GDB shall pay to such municipalities on the Closing Date, in cash, an amount equal to 55% of the undisbursed Excess CAE corresponding to such municipalities. The remaining portion of the municipalities' undisbursed Excess CAE (45%) shall be discharged and the municipalities shall have no further rights or claims thereto and the GDB shall have no further liability or obligation to the municipalities in respect of the Excess CAE.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017

Restructuring Support Agreement (“RSA”) under the provisions of Title VI of PROMESA – Government Development Bank of Puerto Rico (Continued)

Any remaining municipal deposits held at GDB as of the Closing Date shall be reduced, effective as of Closing Date, 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 applications shall be affected in ascending order of outstanding loans balance. In cases where deposits are not enough to pay a loan in full, the application shall be effected by reducing installments of principal in inverse order of maturity without affecting the repayment schedule of the bond, note or loan. The remaining balances of the municipal loans shall be those certified by FAFAA, and all future payments of interest on such bonds, notes and/or loans shall be computed based on such balances.

The RSA already has the support of 51% of the Participating Bond Claims. According to FAFAA, as of June 21, 2017, 394 individual parties, holding more than \$2.45 billion in claims against GDB, have signed the RSA, the vast majority of which constitute on-island creditors. More than 300 on-island bondholders and an additional 50 on-island credit unions have entered into the RSA. The RSA is also supported by the Ad Hoc Group of GDB bondholders, which holds more than \$1 billion of GDB public bonds. Under the RSA, Puerto Rico Municipality Depositors and on-island GDB bondholders are treated equally with off-island GDB bondholders, all as general unsecured creditors. Initially, the GDB will service the New Bond Collateral (“NBC”); after a transition period, a qualified and independent asset manager will service the NBC and an independent collateral monitor will monitor the assets. The Municipality of Comerío has not yet signed the RSA. As of June 30, 2017, the Municipality’s deposits maintained at GDB (including bonds and notes escrow accounts) amounted to \$1,197,243.

Hurricanes Irma (DR-4336) and María (DR-4339)

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands of Vieques and Culebra and several municipalities located in the metro, north, east and south areas of the Island: Adjuntas, Aguas Buenas, Barranquitas, Bayamón, Camuy, Canóvanas, Carolina, Cataño, Ciales, Comerío, Dorado, Guaynabo, Gurabo, Hatillo, Jayuya, Juncos, Las Piedras, Loíza, Luquillo, Naguabo, Orocovis, Patillas, Quebradillas, Salinas, San Juan, Utuado, Comerío, Vega Baja and Yauco. It was declared a major disaster area by the President of the United States on September 10, 2017 and almost \$10 million dollars in public assistance grants have been obligated. Under this disaster, the Municipality of Comerío has received public assistance grants in the amount of \$63,690.

Just two weeks after Hurricane Irma, on September 20, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017 and approximately \$508 million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Hurricanes Irma (DR-4336) and María (DR-4339) (Continued)

The City Halls of many municipalities suffered structural damages forcing them to relocate to their Centers for Emergency Operations (CEOs); and, as of today, there are still municipalities that have not been able to return to their administrative offices. The Municipality of Comerío returned to their City Hall on January 2018. Under this disaster, the Municipality has submitted damages in the amount of \$2,766,314.03 for Categories A and B. As of today, the Municipality has received public assistance grants for the amount of \$1,706,685.00. Currently the Municipality of Comerío is assessing the estimates of the damages for the Categories C thru G. Based on preliminary findings we estimate that the damages for Categories C thru G are in the amount of \$31,641,661.00. As of today, the Municipality has claimed the preliminary amount of \$6,000,000 to the insurance company for the damages suffered to our infrastructure and buildings, etc. This amount may vary as some of the estimates are in the progress. As of today, we have received the amount of \$4,226,840.99 from the insurance company.

The Commonwealth of Puerto Rico and the Financial Oversight and Management Board are working with the Federal Emergency Management Agency (FEMA), the U.S. Congress and the President for the assignment of federal assistance of approximately \$2.6 billion, mainly for the reconstruction of the electric infrastructure and housing assistance for the residents of Puerto Rico.

FINAL COMMENTS

The Municipality is a governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality's management is committed to a continued improvement in the confection of a budget that will respond to the needs of the public and private sectors in accordance with its permissible revenue levels. It further contemplates to maintain or improve its current levels of Net Position as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

FINANCIAL CONTACT

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, please contact the Municipality's Chief Financial Officer at the Municipality of Comerío Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
Cash in bank	\$ 3,491,169	\$ 158,167	\$ 3,649,336
Investment in certificates of deposit			-
Accounts receivable:			
Property tax	899,518		899,518
Sale and use tax	104,429		104,429
Governmental agencies	757,413		757,413
Other		47,593	47,593
Restricted cash		728,645	728,645
Other assets		5,917	5,917
Cash with fiscal agent	1,197,243		1,197,243
Capital assets, net	<u>52,429,407</u>	<u>814,368</u>	<u>53,243,775</u>
Total Assets	<u>58,879,179</u>	<u>1,754,690</u>	<u>60,633,869</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Contribution to employee's retirement plan	<u>1,124,441</u>		<u>1,124,441</u>
LIABILITIES:			
Accounts payable and accrued expenses	766,248	117,140	883,388
Advances from other governments	79,295		79,295
Deposits	76,448	13,483	89,931
Due to other governments	430,720		430,720
Long-term debt:			-
Due within one year	982,310	15,869	998,179
Due in more than one year	<u>31,163,831</u>		<u>31,163,831</u>
Total Liabilities	<u>33,498,852</u>	<u>146,492</u>	<u>33,645,344</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred municipal tax	455,858		455,858
Unamortized investment in employee's retired plan	<u>186,818</u>	-	<u>186,818</u>
	<u>642,676</u>	-	<u>642,676</u>
NET POSITION:			
Net invested in capital assets, net of related liabilities	37,309,567		37,309,567
Restricted for:			-
Debt service	1,706,298		1,706,298
Other provided by grantors	1,051,687		1,051,687
Replacements and other		814,368	814,368
Unrestricted	<u>(14,205,460)</u>	<u>793,830</u>	<u>(13,411,630)</u>
Total Net Position	<u>\$ 25,862,092</u>	<u>\$ 1,608,198</u>	<u>\$ 27,470,290</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUE</u>		<u>NET (EXPENSE) REVENUE</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:				
General administration	\$ (5,959,302)		\$ 147,619	\$ (5,811,683)
Public safety	(859,632)		250,588	(609,044)
Education, culture and recreational	(2,564,323)	\$ 9,198	2,078,250	(476,875)
Public works and sanitation	(3,435,728)			(2,264,716)
Health and welfare	(2,025,826)	32,715	1,120,654	(872,457)
Communications, press and other media	(302,696)			(302,696)
Planning and general services	(507,565)			(507,565)
Interest	(238,038)			(238,038)
<u>Total governmental activities</u>	<u>\$ (15,893,110)</u>	<u>\$ 41,913</u>	<u>\$ 3,597,111</u>	<u>\$ (11,083,074)</u>
Business type-activities:				
Housing	(502,368)	608,397		106,029
Interest	(5,570)			(5,570)
Hospitality	(485,590)	94,500		(391,090)
<u>Total business type-activities</u>	<u>(993,528)</u>	<u>702,897</u>		<u>(290,631)</u>
<u>Total</u>	<u>\$ (16,886,638)</u>	<u>\$ 744,810</u>	<u>\$ 3,597,111</u>	<u>\$ (11,373,705)</u>

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Net (expense)/revenue	\$ (11,083,074)	\$ (290,631)	\$ (11,373,705)
General revenues:			
Taxes:			
Property taxes	1,451,075		1,451,075
Municipal tax	340,748		340,748
Sale and usage tax	1,127,410		1,127,410
Construction excise tax	25,724		25,724
Grants and entitlements	7,945,876		7,945,876
Licenses and permits	5,965		5,965
Interest	27,768	824	28,592
Rent	343,751	405,692	749,443
Other	<u>570,537</u>	<u>1,754</u>	<u>572,291</u>
Total general revenues	<u>11,838,854</u>	<u>408,270</u>	<u>12,247,124</u>
Changes in net position	755,780	117,639	873,419
Net assets at beginning, as restated	<u>25,106,312</u>	<u>1,490,559</u>	<u>26,596,871</u>
Net assets at end	<u>\$ 25,862,092</u>	<u>\$ 1,608,198</u>	<u>\$ 27,470,290</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
BALANCE SHEET
GOVERNMENTAL FUNDS
As Of JUNE 30, 2017

	<u>GENERAL</u> <u>FUND</u>	<u>DEBT</u> <u>SERVICE</u>	<u>OTHER</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
ASSETS:				
Cash:				
Cash in bank	\$ 1,988,577	\$ 316,605	\$ 1,185,987	\$ 3,491,169
Cash with fiscal agent	202,222	904,261	90,760	1,197,243
Investment in saving certificates				
Receivables:				
Property taxes	745,852	153,666		899,518
Sale and use tax	104,429			104,429
Due from others governmental agencies	82,086	429,106	246,221	757,413
Due from other funds	<u>391,986</u>			<u>391,986</u>
Total assets	<u>\$ 3,515,152</u>	<u>\$ 1,803,638</u>	<u>\$ 1,522,968</u>	<u>\$ 6,841,758</u>
Liabilities:				
Accounts payable and accrued expenses	\$ 684,424			\$ 684,424
Advances from other governments			\$ 79,295	79,295
Unearned income	82,087	\$ 19,225		101,312
Refundable deposits	76,448			76,448
Due to other fund			391,986	391,986
Due to other governmental agencies	<u>430,720</u>			<u>430,720</u>
Total liabilities	<u>1,273,679</u>	<u>19,225</u>	<u>471,281</u>	<u>1,764,185</u>
Deferred inflows of resources:				
Deferred property tax	615,607	78,115		693,722
Deferred municipal tax	<u>455,858</u>			<u>455,858</u>
	<u>1,071,465</u>	<u>78,115</u>		<u>1,149,580</u>
Fund balances:				
Restricted for:				
Debt service		1,706,298		1,706,298
Other purpose			1,051,687	1,051,687
Unassigned	<u>1,170,008</u>			<u>1,170,008</u>
Total fund balances	<u>1,170,008</u>	<u>1,706,298</u>	<u>1,051,687</u>	<u>3,927,993</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 3,515,152</u>	<u>\$ 1,803,638</u>	<u>\$ 1,522,968</u>	<u>\$ 6,841,758</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

Fund balances in governmental funds	\$ 3,927,993
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	52,429,407
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Amount presented in the statement of net position but not in fund balance due to different basis of accounting:

Deferred outflows of resources related pension	1,124,441
Deferred inflows of resources related pension	(186,818)

Receivables deferred in governmental fund financial statements	101,312
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Receivable in property taxes	693,722
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Long-term liabilities and accrual expenses are not due and payable in the current period and therefore are not reported in the governmental funds:

Bonds and notes payable	(5,295,160)
Accrued interest	(81,824)
Compensated absences	(545,766)
Advances from CRIM	(548,077)
Net pension liability	<u>(25,757,138)</u>

Total net position in statement of net position	<u>\$ 25,862,092</u>
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The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>GENERAL</u> <u>FUND</u>	<u>DEBT SERVICE</u> <u>FUNDS</u>	<u>OTHER</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
Revenues:				
Taxes:				
Property taxes	\$ 898,619	\$ 329,366		\$ 1,227,985
Municipal taxes	340,748			340,748
Sale and use tax	717,528	409,882		1,127,410
Construction excise taxes	25,724			25,724
Grants and entitlements	7,945,876		\$ 4,768,124	12,714,000
Rental income	343,750		32,715	376,465
Licenses and permits	5,965			5,965
Interest	16,008	9,285	2,475	27,768
Other	<u>192,061</u>	<u> </u>	<u>387,674</u>	<u>579,735</u>
Total Revenues	<u>10,486,279</u>	<u>748,533</u>	<u>5,190,988</u>	<u>16,425,800</u>
Expenditures:				
General administration	6,444,823			6,444,823
Public safety	682,596		171,942	854,538
Education and recreational	332,837		1,926,957	2,259,794
Public works and sanitation	2,088,208		1,965,328	4,053,536
Health, welfare and social development	650,489		1,365,330	2,015,819
Communication, press and other media	302,696			302,696
Planning and general services	491,577			491,577
Debt service:				-
Principal	21,683	393,600		415,283
Interest	<u>69,325</u>	<u>160,850</u>	<u> </u>	<u>230,175</u>
Total expenditures	<u>11,084,234</u>	<u>554,450</u>	<u>5,429,557</u>	<u>17,068,241</u>
Excess (deficiency) of revenue over expenditures	<u>(597,955)</u>	<u>194,083</u>	<u>(238,569)</u>	<u>(642,441)</u>
Other financing sources (uses):				
Operating transfer from other funds	234,365	54,612	352,490	641,467
Operating transfer to other funds	(407,102)	(2,065)	(232,300)	(641,467)
Proceed from loans	<u> </u>	<u> </u>	<u>387,760</u>	<u>387,760</u>
Total other financing sources	<u>(172,737)</u>	<u>52,547</u>	<u>507,950</u>	<u>387,760</u>
Excess of revenues and other financing sources (under) expenditures and other financing sources	<u>(770,692)</u>	<u>246,630</u>	<u>269,381</u>	<u>(254,681)</u>
Fund balances at beginning of year	<u>1,940,699</u>	<u>1,459,667</u>	<u>782,307</u>	<u>4,182,673</u>
Fund balances at end of year	<u>\$ 1,170,007</u>	<u>\$ 1,706,297</u>	<u>\$ 1,051,688</u>	<u>\$ 3,927,992</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Net change in fund balances – total governmental funds \$ (254,680)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount of capital assets recorded in the current period. 2,032,499

Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (2,454,974)

Changes in accrued expenses and other deferred changes which do not require the use of current financial resources:

Unrealized income	21,644
Accrued Interest	(7,863)
Compensating absences	1,190,186
Deferred property tax	201,445
Advances for CRIM	21,683

Governmental funds report principal payments on long-term debts as expenditures, whereas the principal payments reduce the long-term debt in the statement of net position. 393,600

Governmental funds report proceed from long term debit as other financial resources, whereas the proceed increase the long - term debts in the statements of not position. (387,760)

Changes in Net Position of Governmental Activities \$ 755,780

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF FINANCIAL POSITION-PROPRIETARY FUND
JUNE 30, 2017

ASSETS

	Proprietary Fund		
	Río Plata		
	<u>Development</u>	<u>Media Luna</u>	<u>Total</u>
Current assets:			
Cash	\$ 60,051	\$ 98,116	\$ 158,167
Accounts receivable	17,007	30,586	47,593
Miscellaneous prepaid expenses	<u>5,917</u>	<u> </u>	<u>5,917</u>
Total current assets	82,975	128,702	211,677
			-
Property and equipment	760,492	53,876	814,368
			-
Restricted deposits	<u>728,645</u>	<u> </u>	<u>728,645</u>
Total assets	<u>\$ 1,572,112</u>	<u>\$ 182,578</u>	<u>\$ 1,754,690</u>

LIABILITIES AND NET POSITION

Liabilities:			
Current liabilities:			
Current maturities of mortgage note	\$ 15,869		\$ 15,869
Accounts payable and accrued expenses	<u>31,074</u>	<u>\$ 86,066</u>	<u>117,140</u>
	46,943	86,066	133,009
Long-term liabilities:			
Tenants deposits	<u>13,483</u>	<u> </u>	<u>13,483</u>
Total liabilities	60,426	86,066	146,492
Net position, temporally restricted	<u>1,511,686</u>	<u>96,512</u>	<u>1,608,198</u>
Total liabilities and net position	<u>\$ 1,572,112</u>	<u>\$ 182,578</u>	<u>\$ 1,754,690</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF ACTIVITIES - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	Proprietary Fund		
	Río Plata		
	<u>Development</u>	<u>Media Luna</u>	<u>Total</u>
Revenues:			
Rent	\$ 608,397	\$ 405,692	\$ 1,014,089
Financial	824		824
Operating revenue		94,500	94,500
Others	<u>1,754</u>	<u> </u>	<u>1,754</u>
Total revenues	<u>610,975</u>	<u>500,192</u>	<u>1,111,167</u>
Expenses:			
Administrative	164,057	346,504	510,561
Utilities	8,117	1,020	9,137
Operating maintenance	169,140	63,278	232,418
Taxes and insurance	38,213		38,213
Depreciation	122,841	12,178	135,019
Interest	5,570		5,570
Other	<u> </u>	<u>62,610</u>	<u>62,610</u>
Total Expenses	<u>507,938</u>	<u>485,590</u>	<u>993,528</u>
Change in net position	103,037	14,602	117,639
Net position, beginning of year, as restated	<u>1,408,649</u>	<u>81,910</u>	<u>1,490,559</u>
Net position, end year	<u>\$ 1,511,686</u>	<u>\$ 96,512</u>	<u>\$ 1,608,198</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Proprietary Fund Río Plata <u>Development</u>	<u>Media Luna</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 614,109	\$ 519,392	\$ 1,133,501
Cash paid to supplier and employees	<u>(388,965)</u>	<u>(461,927)</u>	<u>(850,892)</u>
Cash flows provided by operating activities	<u>225,144</u>	<u>57,465</u>	<u>282,609</u>
Cash flows from investing activities:			
Deposits to the reserve from replacement account	(28,277)		(28,277)
Net deposits of the residual receipts account	(38,838)		(38,838)
Net purchase of fixed assets	<u>(3,713)</u>	<u>(8,818)</u>	<u>(12,531)</u>
Net cash used in investing activities	<u>(70,828)</u>	<u>(8,818)</u>	<u>(79,646)</u>
Cash flows from operating activities:			
Principal payments- first mortgage	<u>(155,833)</u>	<u> </u>	<u>(155,833)</u>
Net cash used in financing activities	<u>(155,833)</u>	<u> </u>	<u>(155,833)</u>
Net increase in cash	(1,517)	48,647	47,130
Cash at beginning of year	<u>61,568</u>	<u>49,470</u>	<u>111,038</u>
Cash at end of year	<u>\$ 60,051</u>	<u>\$ 98,117</u>	<u>\$ 158,168</u>

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2017

	Proprietary Fund Río Plata <u>Development</u>	<u>Media Luna</u>	<u>Total</u>
Reconciliation of change in total net position from operation to net cash provided by operating activities:			
Change in total net position	\$ 103,037	\$ 14,602	\$ 103,037
Adjustment to reconcile change in total net position from operations to net cash provided by operating activities:			
Depreciation expense	122,841	12,178	135,019
(Increase) decrease in current assets and increase (decrease) in current liabilities in:			
Tenant accounts receivable	3,134	16,110	19,244
Cash restricted for tenant security deposits	543		543
Accounts payable	(3,868)	21,698	17,830
Accrued liabilities		(10,213)	(10,213)
Other liabilities		3,090	
Tenant security deposits held in trust	<u>(543)</u>	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>\$ 225,144</u>	<u>\$ 57,465</u>	<u>\$ 265,460</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

1. ORGANIZATION

The Municipality of Comerío (the Municipality) was established in 1826. The Municipality is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the government of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has fourteen members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units. The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Comerío, this includes various services including police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality Legislative Body through the budgetary process.

As required by US GAAP, these financial statements present the Municipality and its component unit.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Blended Component Unit

Empresa Municipal Area Recreativa Media Luna (ARML) meets the blending criteria establish by GASB Statement No. 80, accordingly, is reported as part of the primary government. ARML is a legally separate non for profit municipal corporation created to operate and manage a hotel, restaurant, activities salon, pools and recreational areas. Members of the Board are appointed by the Mayor and are executive employees of the Municipality. The Municipality provides financial support to ARML by providing the physical structures, land and utilities expenses without charge.

Government wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues 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 certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government wide and fund financial statements (Continued)

2) Debt Service Fund

This fund is used to account for the accumulation of resources from addition property tax and sales and use tax for and the payment of, general long-term debt principal, interest and related cost.

Measurement focus, basis of accounting and financial statement presentation

The government-wide Statement of Net Position and the Statement of Activities, both government and business type activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days (except property taxes that are 60 days) of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, cash equivalents, cash with fiscal agent and investment

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent are deposits with the GDB.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

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 amount in excess of federal depository insurance. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized and thus represent a custodial credit risk, because in the event that this financial institution fails, the Municipality may not be able to recover these deposits.

The GDB's liquidity was adversely affected by a significant increase in credit spreads for obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital market access, and a significant reduction of liquidity in the local Puerto Rico capital markets. Then, the credit rating downgrades could further adversely affect the GDB's liquidity. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2017. Deposits on GDB amounted to \$1,197,243 as of June 30, 2017.

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). Interfunds receivables and payables within the governmental activities are eliminated in the statement of net position.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality elected not to capitalize infrastructure acquired before the implementation date of GASB 34 (June 30, 2003).

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

Building	40 years
Equipment	5 years
Infrastructure	40 years
Building improvements	40 years
Furnishing	5 years
Computer	3 years
Vehicles	5 years

The Municipality decides when to capitalize an asset using a capitalization threshold of \$25.

Impairment of Capital Assets

The Municipality periodically evaluates long-term assets for impairment in accordance with GASB Statement No. 34, (*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*) and GASB No.42, (*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries Governments*) are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Capital Assets (Continued)

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

Fund balance

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as nonspendable, restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restrict 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 entity's highest level of decision making authority (governing body through resolutions) and can only be changed by similar resolutions, no later than the end of the fiscal year.
- ❖ **Assigned** – Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by an official or body to which the governing body delegates authority in conformity with the by-laws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balance (Continued)

- ❖ **Unassigned** – Represent the residual classification for the entity’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 purpose for which amounts had been restricted, committed, or assigned.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Cost of insurance policies for the year ended June 30, 2017 amounted to \$258,177. The current insurance policies have not been cancelled or terminated. In addition the Municipal Revenue Collection Center (the CRIM) deducted \$186,663 for workers compensation insurance covering all municipal employees.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed.

Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation. Employees’ maximum allowed vacations are accounted for in the Statement of Net Position.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Employees’ Retirement System (ERS) and additions to/deductions from ERS fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

The Municipality adopted the statement no. 68 of the *Governmental Accounting Standard Board Accounting and Financial Reporting for Pension (GASB 68)* for the year ended June 30, 2016 which requires that the pension expenses, as well as deferred outflows of resources and deferred inflows of resources related to pension be recognized for employer’s proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer’s proportionate share should be determined using the employer’s proportion of the employee contribution.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

- ❖ Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.
- ❖ *GASB Statement No. 81, Irrevocable Split-Interest Agreements* – The requirements of this Statement are effective for periods beginning after December 15, 2016. Earlier application is encouraged.
- ❖ *GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73* –The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.
- ❖ *GASB Statement No. 83, Certain Asset Retirement Obligation* – The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
- ❖ *GASB Statement No. 84, Fiduciary Activities* – The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.
- ❖ *GASB Statement No. 85, Omnibus 2017* - The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged.
- ❖ *GASB Statement No. 86, Certain Debt Extinguishment Issues* - The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.
- ❖ *GASB Statement No. 87, Leases*- The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- ❖ *GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement* – The requirements of Statement 88 are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
- ❖ *GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period* -: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ❖ *GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*) - The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

The Municipality management has not determined the impact in the Municipality financial statements the future adoption of these GASB Statements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through September 13, 2018, the date the financial statements were evaluated to be issued.

3. PROPERTY TAX

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on esteemed values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

3. PROPERTY TAX (CONTINUED)

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual rate for fiscal year 2017 is 8.78% for real property and 6.78% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is paid by the taxpayer.

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15 1999. As of June 30, 2017 the amount due to CRIM amounting to \$548,077 is presented as other long-term debt (see Note 10).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

3. PROPERTY TAX (CONTINUED)

The composition of property taxes receivable and the related deferred revenue is as follows as June 30, 2017.

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$7,081,290	\$1,882,368	\$8,963,658
Less allowance for uncollectible accounts	<u>6,335,438</u>	<u>1,728,702</u>	<u>8,064,140</u>
Net property taxes receivable	<u>745,852</u>	<u>153,666</u>	<u>899,518</u>
Deferred (unavailable property) tax revenues in GFFS	<u>\$ 615,607</u>	<u>\$ 78,115</u>	<u>\$ 699,722</u>

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2017, \$455,857 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying combined balance sheets and statement of net position.

5. SALE AND USAGE TAX

Pursuant to an amendment to Puerto Rico Internal Revenue Code, Act 117 of July 4, 2006, the Municipal Legislature approved a city tax contribution (SUT), effective October 3, 2006 to 1.5% over all transactions of sales of goods and services made on Comerío boundaries. The retailers are required to file monthly sales tax returns by 10th days following the month in which the tax are collected.

Pursuant to the provision at the Act 72-2017 and effective July 1, 2017, the citizenship contribution was uniformly established in 1.5%, for all the Municipality of Puerto Rico, of which 1% is collected by the Municipality and the remaining 0.5% is to be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of the amount collected by the Treasury Department is submitted to Municipal Finance Corporation (COFIM, by its Spanish acronym), a redemption fund for financing capital projects to the municipalities.

COFIM is a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank. COFIM is authorized to issue and use other financing mechanisms to pay or refinance, directly or indirectly, in whole or in part, the debts of the municipalities of the Commonwealth payable or backed by the municipal sales and use tax. COFIM receives, from the first revenues of the municipal sales and use tax collected, the greater of: (i) an amount computed by applying a 0.3% fixed tax rate to the total revenues collected, or (ii) a fixed amount that increases annually, known as the Annual Fixed Income. These revenues, which are deposited in COFIM's Redemption Fund, are used to pay and secure the debt issued by COFIM. As an independent corporation, COFIM has the same powers, rights and faculties as the GDB under its Charter.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

6. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Other Governmental Funds.

7. COMMITMENTS AND CONTINGENCIES

At June 30, 2017, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

8. RESTRICTED DEPOSIT

Restricted cash in the business type activities included restricted deposits as follows:

Replacement reserve	\$639,737
Security deposits	75,425
Residual receipts	<u>13,483</u>
	<u>\$728,645</u>

A. Replacement Reserve

The project is required under the Project Rental Assistance Contract (PRAC) and federal regulations, to set aside amounts to aid in funding extraordinary maintenance and repair and replacement of capital items in accordance with applicable regulations. Funds may be drawn from the reserve and used only in accordance with HUD guidelines and with approval of, or as directed by, HUD.

B. Security Deposits

The project is required, under federal regulations, to set aside, at the time of the initial execution of the lease, the tenant's security deposit and its accumulated interest. The project must refund to the tenant, the full amount of the tenant's security deposit, provided the tenant does not owe any amount under the lease. The Project may use the tenant's security deposit balance as a reimbursement for any unpaid amounts the tenant owes under the lease.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

8. RESTRICTED DEPOSIT (CONTINUED)

C. Residual Receipts

The Project is required, under federal regulations and PRAC, to set aside the surplus project funds in an interest-bearing residual receipts account when the project funds are more than needed for the operation of the project, to pay operating expenses, and to make the required deposits to the replacement reserve. Withdrawals from this account will be made only with the approval of HUD and for project purposes, including the reduction of project rental assistance payments.

9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

Primary Government	Balance 30-Jun-16	Increases	Decreases	Balance 30-Jun-17
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,825,693	\$ 96,052	\$ -	\$ 7,921,745
Construction progress	<u>2,756,137</u>	<u>1,171,465</u>	<u>(400,694)</u>	<u>3,526,908</u>
Total capital assets not being depreciated	<u>10,581,830</u>	<u>1,267,517</u>	<u>(400,694)</u>	<u>11,448,653</u>
Capital assets being depreciated:				
Buildings	27,943,579	336,687		28,280,266
Equipment	2,313,515	111,743		2,425,258
Infrastructure	4,448,341	204,079		4,652,420
Infrastructure equipment	12,223,475	433,069		12,656,544
Buildings improvements	14,556,557	24,435		14,580,992
Furnishing	456,084	3,025		459,109
Work of art	4,250	-		4,250
Computer	380,612	13,425		394,037
Vehicles	<u>4,181,879</u>	<u>39,213</u>	<u>(68,100)</u>	<u>4,152,992</u>
Total capital assets being depreciated	<u>66,508,292</u>	<u>1,165,676</u>	<u>(68,100)</u>	<u>67,605,868</u>
Less accumulated depreciation for:				
Buildings	(8,282,804)	(699,144)		(8,981,948)
Equipment	(1,970,881)	(141,075)		(2,111,956)
Infrastructure	(844,798)	(113,608)		(958,406)
Infrastructure equipment	(6,053,361)	(839,771)		(6,893,132)
Buildings improvements	(2,932,730)	(364,088)		(3,296,818)
Furnishing	(446,350)	(3,387)		(449,737)
Work of art	(2,243)	(280)		(2,523)
Computer	(347,306)	(23,284)		(370,590)
Vehicles	<u>(3,357,767)</u>	<u>(270,337)</u>	<u>68,100</u>	<u>(3,560,004)</u>
	<u>(24,238,240)</u>	<u>(2,454,974)</u>	<u>68,100</u>	<u>(26,625,114)</u>
Total depreciable capital assets, net	<u>42,270,052</u>	<u>(1,289,298)</u>	<u>-</u>	<u>40,980,754</u>
Governmental activities capital assets net	<u>\$ 52,851,882</u>	<u>\$ (21,781)</u>	<u>\$ (400,694)</u>	<u>\$ 52,429,407</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

9. CAPITAL ASSETS (CONTINUED)

<u>Primary Government</u>	<u>Balance</u> <u>30-Jun-16</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>30-Jun-17</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 134,360	_____	_____	\$ 134,360
Capital assets being depreciated:				-
Building and improvements	4,436,687	\$ 10,031		4,446,718
Office furniture and equipment	283,434	2,500	_____	285,934
	4,720,121	12,531	-	4,732,652
Less accumulated depreciation:				
Building and improvements	(3,684,157)	(123,885)		(3,808,042)
Office furniture and equipment	(233,468)	(11,134)	_____	(244,602)
	(3,917,625)	(135,019)	-	(4,052,644)
Total depreciable capital, assets net	802,496	(122,488)	-	680,008
Business activities capital assets, net	<u>\$ 936,856</u>	<u>\$ (122,488)</u>	<u>\$ -</u>	<u>\$ 814,368</u>

Depreciation expense was charged to functions/programs of the Municipality as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
General administration	\$ 704,665	\$ -
Public safety	5,094	
Education, culture and recreation	304,529	
Public works	1,414,691	
Health and welfare	10,007	
Planning and general services	15,988	
Housing	-	122,841
Hospitality	_____	12,178
Total depreciation expense	<u>\$ 2,454,974</u>	<u>\$ 135,019</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2017 was as follows:

Primary government:	Beginning			Ending	Due within
Governmental Activities:	Balance	Additions	Reductions	Balance	one year
Bonds and notes payable	\$ 5,301,000	\$ 387,760	\$ (393,600)	\$ 5,295,160	\$ 413,500
Advance from CRIM	569,760		(21,683)	548,077	23,044
Compensated absences	1,735,952		(1,190,186)	545,766	545,766
Net pension liability	25,757,138			25,757,138	
	<u>33,363,850</u>	<u>387,760</u>	<u>(1,605,469)</u>	<u>32,146,141</u>	<u>982,310</u>
Business-type activities:					
Mortgage payable	<u>176,045</u>		<u>(160,176)</u>	<u>15,869</u>	<u>15,869</u>
Total	<u>\$ 33,539,895</u>	<u>\$ 387,760</u>	<u>\$ (1,765,645)</u>	<u>\$ 32,162,010</u>	<u>\$ 998,179</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. LONG-TERM DEBT (CONTINUED)

Governmental activities:

Bonds and notes payable:

\$505,000 municipal general obligation bonds of 2003 payable in annual principal installments ranging from \$20,000 to \$40,000 through July 1, 2027, plus interest at 5% to 6.5% (4.53% as of June 30, 2017).	\$ 315,000
\$1,010,000 notes of 2005 payable in annual principal installments ranging from \$40,000 to \$70,000 through July 1, 2028, plus Interest at 1.25% over LIBOR rate (1.88% at June 30, 2017).	635,000
\$3,817,000 municipal special obligation note serial of 2008 payable in principal annual installments regarding from \$148,000 to \$342,000 through July 1, 2028 plus interest at 1.25% over LIBOR rate (1.88% at June 30, 2017).	2,879,000
\$252,000 municipal special obligation note serial of 2016 payable in annual principal installments ranging from \$36,000 and \$44,000 through July 1, 2019, plus interest at ranging from 6% to 7.5% (6% at June 30, 2017).	123,000
\$665,000 municipal general of obligation of 2012 payable in annual principal installments ranging from \$15,000 to \$65,000 through July 1, 2035 plus interest at ranging from 6% to 75% (6% at June 30, 2017).	625,000
\$70,000 municipal general obligation note of 2016 payable in annual principal installments of \$10,000 through July 1, 2019 plus interest at ranging from 6% to 75% (6% at June 30, 2017).	30,000
\$387,760 Rural Development Loan payable in annual principal installments ranging from \$51,500 to \$61,400 through July 1, 2013 plus interest at 2.375%.	338,160
\$555,000 municipal general obligation note of 2017 payable in annual principal installments ranging from \$80,000 to \$95,000 through July 1, 2020 plus interest at ranging from 6% to 75% (6% at June 30, 2017).	<u>350,000</u>
	5,295,160
Business-type activities:	
Mortgage note payable in a monthly installment of \$15,869 plus interest at 9% including subsidy interest of 9% through 2017. The note is secured by a residential building.	<u>15,869</u>
	<u>\$5,311,029</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. LONG-TERM DEBT (CONTINUED)

Advances from CRIM

These amounts represent the balance owed to CRIM at June 30, 2017 as described in Note 3 and is payable in semiannual installments of \$28,302 through June 2032 including interest at 6.1%.

The annual debt service requirements to maturity long-term debt as of June 30, 2017 are as follows:

Governmental-Type Activities

Bonds and Notes Payable			Aggregated
<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>payments</u>
2018	\$ 413,500	\$ 168,364	\$ 581,864
2019	439,300	151,134	590,436
2020	471,300	134,049	605,349
2021	438,300	117,618	555,918
2022	369,300	104,912	474,212
2023-2027	1,932,460	363,292	2,295,752
2028-2032	1,016,000	112,460	1,128,446
2033-2036	<u>215,000</u>	<u>27,750</u>	<u>242,750</u>
	<u>\$ 5,295,160</u>	<u>\$ 1,179,579</u>	<u>\$ 6,474,727</u>

Due to CRIM:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregated</u>
			<u>payments</u>
2018	\$ 23,044	\$ 33,560	\$ 56,604
2019	24,492	32,112	56,604
2020	26,031	30,573	56,604
2021	27,666	28,938	56,604
2022	29,404	27,200	56,604
2023-2027	177,168	105,852	283,020
2028-2032	<u>240,273</u>	<u>42,748</u>	<u>283,021</u>
	<u>\$ 548,078</u>	<u>\$ 300,983</u>	<u>\$ 849,061</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

10. LONG-TERM DEBT (CONTINUED)

Business-type activities
Mortgage note payable:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregated payments</u>
2018	<u>\$15,869</u>	<u>\$159</u>	<u>\$16,028</u>

11. INTERFUND BALANCES AND ACTIVITIES

BALANCE DUE TO / FROM OTHER FUNDS:

Balance due to / from other funds at June 30, 2017, consist of the following:

<u>Due from</u>	<u>Due to</u>	
	<u>Other governmental fund</u>	<u>Total</u>
General fund	\$391,986	\$391,986
Total	\$391,986	\$391,986

TRANSFER TO / FROM OTHER FUNDS:

Transfer to / from other funds transfer in at June 30, 2017 consist of the following:

<u>Transfer out</u>	<u>Transfer in</u>			
	<u>General fund</u>	<u>Debt service</u>	<u>Other governmental fund</u>	<u>Total</u>
General fund		\$54,612	\$352,490	\$407,102
Debt service fund	\$ 2,065			2,065
Other governmental fund	<u>232,300</u>	_____	_____	<u>232,300</u>
Total	<u>\$234,365</u>	<u>\$54,612</u>	<u>\$352,490</u>	<u>\$641,467</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

12. EMPLOYEE'S RETIREMENT PLAN

A. *Plan Description* – The ERS is a cost-sharing, multi-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration). It is a trust created by Act no. 447 on May 15, 1951 (Act no. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth.

The ERS consists of different benefit structures pursuant to ACT No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a defined contribution hybrid program. The pension plan is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico.

Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the ERS) are covered by the ERS. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Benefit provisions vary depending on date of membership.

On April 4, 2013, the Legislature enacted Act No. 3 which amended Act No. 447, Act no. 1 of February 16, 1990 ("Act No. 1") and Act. No. 305 of September 24, 1999 ("Act No. 305 or System 200") to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the ERS. Act No.3 of 2013, in conjunction with other recent funding and design changes, provided for a comprehensive pension design of the ERS. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the system 2000 Program, and were rehired on or after July 1, 2013, became members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2012 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants. Ceasing future defined benefit accruals under Act 447 and Act 1 And converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

1. Members of Act No. 447 are generally those members hired on or after April 1, 1990 (Defined Benefit Program).
2. Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Program).
3. Members of Act. No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Defined Contribution Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the defined contribution hybrid program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Defined Contribution Hybrid Program. Each member has a no forfeitable right to the value of his/her contributions to the Defined Contribution Hybrid account.

The assets of the defined benefit program, the defined contribution program and the defined contribution hybrid program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by the ERS to reduce the unfunded status of the Defined Benefit Program.

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

B. Effective for fiscal year ended June 30, 2016, the Municipality implemented de provision of the GASB 68, which accounting and Financial Reporting for Pension as recommended which required that the Municipalities' governmental-wide financial Statements present the proportional net pension liability of the ERS. In addition, the GASB 68 required among other the following disclosures:

1. Employer's proportionate share amount of collective net pension liability.
2. Employer's proportionate percentage of collective net pension liability (including the basis on which it was determined) and change on its proportion since prior measurement debts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

3. Significant assumption used to measure total pension liability, including inflation, salary changes, discounts rate and mortality.
4. Measurement date of collective net pension liability and date of actuarial valuation on which the total liability is base.
5. Information about plan fiduciary net position.

Other information about the net pension liabilities should be disclosed as require supplemental information.

C. On April 4, 2015, the Governor of Puerto Rico signed into law Act No. 3 of 2015, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1 2015 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2015 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
2. Increased the minimum pension for current retirees from \$400 to \$500 per month.
3. Increase the retirement age in a range within 58 to 63 years of age depending the act under which the employee is eligible for retirement.
4. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
5. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
6. The employee contribution rate was increased from 8.275% to 10%.
7. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

- 9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- 10. Survivor benefits were modified.

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Municipality reported a liability of \$25,757,138 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Municipality proportion of the net pension liability was based on a projection of the Municipality long-term share of contributions to the pension plan relative to the total projected contributions of the State and all participating school districts, actuarially determined. At June 30, 2015, the Municipality proportion was .07758 percent.

As a result of its requirement to contribute to ERS, the Municipality recognized expense of \$2,399,472 for the year ended June 30, 2017. At June 30, 2017, the Municipality reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement to contribute to ERS:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 327,606	
Differences between actual and expected experience		
Changes in assumptions		
Change in employer's proportion and differences Between the employer's contributions and the employer's proportionate share of contributions		
Net differences between projected and actual earnings on plan investments	<u>796,835</u>	<u>\$186,518</u>
Total	<u>\$1,124,441</u>	<u>\$186,818</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

The total pension liability in the June 30, 2015 actuarial valuations was determined using the following actuarial assumptions:

Valuation date	June 30, 2015
Amortization method	18 years closed (beginning July 1, 2015), level dollar
Actuarial cost method	Entry-age normal
Remaining amortization period	17 years
Actuarial assumptions:	
Cost of living adjustment	N/A
Inflation	N/A
Payroll growth	N/A
Projected salary increase	N/A
Investment rate of return	3.10%
Pre – retirement mortality	For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates from the blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active services are assumed to be occupational for members covered under Act No. 127.
Post-retirement healthy mortality	Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
Post-retirement disabled mortality	Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

The net pension liability (information provided by Actuaries Valuation Report) as of June 30, 2015 is as follows:

	June 30, 2015	
Net Pension liability	Total	Proportional Share (.07758%)
Total pension liability	\$32,669,120,000	\$25,308,235
Fiduciary net position	(578,633,000)	448,903
Net pension liability	33,247,795,000	25,757,138
Fiduciary net position as a % of total pension liability	-1.77%	-1.77
Covered payroll	3,319,280,000	3,714,695
Net pension liability as a % covered payroll	1001.66%	681.30%

The following presents the Municipality proportionate share of the net pension liability using the discount rate of 3.80%, as well as what the Municipality a proportionate share of the net pension liabilities would be if it was calculate using a discount rate that is 1% lower (2.80%) or 1% higher (4.80%) than the current rate:

	1% Decrease 2.80%	Current Discount Rate 3.80%	1% Increase 4.80%
Total Pension Liability	\$28,966,055	\$25,308,235	\$22,378,134
Fiduciary Net Position (deficit)	<u>(448,303)</u>	<u>(448,903)</u>	<u>(448,903)</u>
Net Pension Liability	<u>\$29,414,358</u>	<u>\$25,757,138</u>	<u>\$22,827,037</u>

The discount rates used to measure total pension liability were as follow:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Discount rate	4.29%	3.80%
Long-term expected rate of return net of investment expense	6.75%	6.55%
Municipal bond rate*	4.29%	3.80%

*Bond Buyer General Obligation 20-Bond Municipal Bond Index

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

Change in Net Pension Liabilities (information provided by Actuaries Valuation Report) for the Year ended June 30, 2015 was a follows:

Changes in net pension liability	Total Pension liability	Plan Fiduciary net position	Net pension liability	Proportional Share .07758%
Balance as of June 30, 2015	\$ 30,219,517,000	\$ 80,666,000	\$30,138,851,000	\$23,345,219
Changes for the year:				
Service Cost	425,564,000		425,564,000	330,153
Interest on total pension liability	1,279,556,000		1,279,556,000	992,679
Effect of plan changes				
Effect of economic/demographic (gains) of losses	(463,898,000)		(463,898,000)	(359,892)
Effect of assumptions changes or inputs	2,781,098,000		2,781,098,000	2,157,576
Benefit payments	(1,572,675,000)	(1,572,675,000)		
Administrative Expenses		(25,744,000)	25,744,000	19,972
Other Expenses		(13,242,000)	13,242,000	10,273
Cost of Bonds		(194,400,000)	194,400,000	150,816
Member Contributions		339,650,000	(339,650,000)	(263,500)
Net Investment Income		70,143,000	(70,143,000)	(54,417)
Employer Contributions	_____	736,969,000	(736,969,000)	(571,741)
Balance as of June 30, 2016	<u>\$ (32,669,169,000)</u>	<u>\$ (578,633,000)</u>	<u>\$ 33,247,795</u>	<u>\$25,757,138</u>

The employer contribution to the above mentioned plans during the three year ended June 30, 2017, 2016 and 2015 was as follow. This amounts represented the required contribution for the corresponding year.

YEAR	AMOUNT
2017	\$339,750
2016	327,607
2015	315,160

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2015. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

13. CONTINGENCIES

As of June 30, 2017, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

14. PRIOR PERIOD ADJUSTMENT

Net Assets of Rio Plata Development (a business type activity fund) as of July 1, 2016, has been adjusted by \$19,741 to adjust loan balance as of June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2017

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AT BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes:				
Property taxes	\$ 801,150	\$ 801,150	\$ 870,395	\$ 69,245
Municipal tax	520,208	520,208	340,748	(179,460)
Sales and usage tax	690,000	690,000	639,249	(50,751)
Construction excise taxes	115,776	115,776	20,329	(95,447)
Grants and entitlements	7,945,152	7,945,152	6,779,443	(1,165,709)
Rental income	294,970	294,970	343,750	48,780
Permits & Licenses	10,500	10,500	5,965	(4,535)
Interest	25,000	25,000	17,823	(7,177)
Other	<u>157,307</u>	<u>157,307</u>	<u>132,533</u>	<u>(24,774)</u>
 Total revenues	 <u>\$ 10,560,063</u>	 <u>\$ 10,560,063</u>	 <u>\$ 9,150,235</u>	 <u>\$ (1,409,828)</u>
 Expenditures:				
General administration	5,599,528	5,888,866	5,605,311	283,555
Public safety	755,016	688,494	682,596	5,897
Culture and Recreation	361,294	335,894	332,837	3,057
Public works and sanitation	2,231,263	2,113,287	2,095,851	17,436
Planning and general services	533,071	499,784	491,576	8,208
Public relations	318,488	314,326	302,696	11,630
Health and Social Development	<u>761,403</u>	<u>719,412</u>	<u>650,489</u>	<u>68,923</u>
 Total expenditures	 <u>\$ 10,560,063</u>	 <u>\$ 10,560,063</u>	 <u>\$ 10,161,356</u>	 <u>\$ 398,707</u>
 Excess of revenue over expenditure	 <u>\$ _____</u>	 <u>\$ _____</u>	 <u>\$ (1,011,121)</u>	 <u>\$ (1,011,121)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2017

1. BUDGETS AND BUDGETARY ACCOUNTING

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON (CONTINUED)
JUNE 30, 2017

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

Adjustments necessary to reconcile the revenues and expenditures of the general fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenses</u>
Revenue and expenses for generally accepted accounting principles (GAAP) basis	\$10,486,279	\$11,124,782
Transfer in/out included as expenditures in budgetary basis	234,364	366,552
Other adjust end to adjust revenues and expenses from budgetary basic to modified accrual basis	<u>(1,570,408)</u>	<u>(1,329,978)</u>
Revenue and expenses per budgetary basis	<u>\$ 9,150,235</u>	<u>\$10,161,356</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017**

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	.077581%	.077581%	.07758%
Proportionate share of the net pension liability	\$25,757,138	\$25,757,138	\$23,345,219
Covered – employee payroll	3,654,049	3,654,049	3,714,695
Proportionate share of the net pension liability as percentage of covered-employee payroll	704.89%	704.89%	328.46%
Plan’s fiduciary net position (deficit)	\$ (448,903)	\$ (448,903)	\$ 62,581
Plan’s fiduciary net position as a percentage of the pension liability	-1.77%	-1.77%	.27%

Notes to Schedule:

*Fiscal year 2017 was the first year of implementation.

Data Reference: Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico; Actuarial Valuation Report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 339,750	\$ 327,607	\$ 315,160
Contribution in relation to the actuarially required contributions	339,750	327,607	315,160
Contribution deficiency	=====	=====	=====
Covered – employee payroll	\$3,666,814	\$3,654,049	\$3,714,695
Contributions as a percentage of covered – employee payroll	<u>9.27%</u>	<u>8.96%</u>	<u>8.49%</u>

Note to schedule:

Fiscal year 2017 was the first year of implementation, therefore one year is presented.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

	<u>CFDA</u>	<u>EXPENDITURES</u>
	<u>NUMBER</u>	
<u>US Department of Housing and Urban</u>		
<u>Development</u>		
Passed through programs:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$ 573,141
Housing Opportunities for Persons with AIDS	14.241	11,690
Puerto Rico Public Housing Administration:		
Public and Indian Housing	14.850	429,796
Puerto Rico Department of the Family		
Emergency Solution Grant Program	14.231	2,989
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	<u>664,668</u>
Total Department of Housing and Urban Development		<u>1,682,284</u>
<u>US Department of Justice</u>		
Passed through programs:		
PR Department of Justice:		
Crime Victim Assistance	16.575	<u>38,887</u>
<u>US Department of Agriculture</u>		
Passed through programs:		
PR Department of Education:		
Child and Adult Food Program	10.558	<u>20,178</u>
<u>US Department of Health and Human Services</u>		
Passed through programs:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	<u>309,615</u>
<u>US Department of Homeland Security</u>		
Passed through programs:		
PR Emergency Management and Disaster Administration		
Agency (GAR):		
Disaster Assistance Grant	97.036	28,105
Oficina para el Asunto de Seguridad Publica		
Homeland Security Grant Program	97.067	<u>184,198</u>
		<u>\$2,263,267</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Comerío and is presented on the modify basis of accounting. The information in this Schedule is presented in accordance with the requirements of Uniform Guidance.

**REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**



CARLOS R. DIAZ, CPA, PSC

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

To Honorable Mayor and
Municipality Legislative Body
Municipality of Comerío
Comerío, Puerto Rico

We have audited, in accordance with the 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 **Municipality of Comerío, Puerto Rico**, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise **Municipality of Comerío, Puerto Rico's** basic financial statements, and have issued our report thereon dated March 6, 2017. Our report includes a reference to other auditors who audited the financial statements of Río Plata Project, as described in our report on Municipality of Comerío, Puerto Rico's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Municipality of Comerío, Puerto Rico'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 **Municipality of Comerío, Puerto Rico's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Comerío, Puerto Rico's** internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Comerío, Puerto Rico'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 is described in the accompanying schedule of findings and questioned cost as item 2017-1.

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.



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2018

September 13, 2018
Aguas Buenas, Puerto Rico

The stamp No. **E345543** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
UNIFORM GUIDANCE**



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

To Honorable Mayor and
Municipality Legislative Body
Municipality of Comerío
Comerío, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Comerío, Puerto Rico's** compliance with the types of compliance requirements described in the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements that could have a direct and material effect on each of **Municipality of Comerío, Puerto Rico's** major federal programs for the year ended June 30, 2017. **Municipalities of Comerío, Puerto Rico's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Municipality of Comerío, Puerto Rico's basic financial statements include the operations of the Río Plata Project, which federal awards are not included in the schedule during the year ended June 30, 2017. Our audit, described below, did not include the operations of Río Plata Project because Municipality of Comerío, Puerto Rico engaged other auditors to perform an audit in accordance with Uniform Guidance.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality of Comerío, Puerto Rico'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 Uniform Guidance. Those standards and 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 **Municipality of Comerío, Puerto Rico's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, **Municipality of Comerío, Puerto Rico** 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, 2017.

Report on Internal Control over Compliance

Management of **Municipality of Comerío, Puerto Rico** 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 **Municipality of Comerío, Puerto Rico'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 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 Comerío, Puerto Rico's** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2018

September 13, 2018
Aguas Buenas, Puerto Rico

The stamp No. **E345544** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF COMERÍO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Qualified

Internal control over financial reporting:

- Material weakness (es) identified? ___yes _X_no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? ___yes _X_no
- Noncompliance material to financial statement noted? ___yes _X_no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ___yes _X_no
- Significant deficiency (ies) identified that are not considered to be material weakness(es) ___yes _X_no

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 section 510(a) of under §200.516 audit finding paragraph

___yes _X_no

Identification of major programs:

CFA Number(s)

Name of Federal Program Cluster

14.228

Community Development Block Grants / States Program and non-entitlement Grants in Hawaii.

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Audit qualified as low-risk audited?

_X_yes ___no

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II - FINANCIAL STATEMENTS FINDINGS

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERÍO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

NONE