

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE YABUCOA

AUDITORIA 2006-2007

30 DE JUNIO DE 2007

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA**

**SINGLE AUDIT REPORT
Fiscal Year Ended
June 30, 2007**

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE**

With Independent Auditors' Report Thereon
June 30, 2007

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
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BENITEZ-JAIME, CPA-PSC

Certified Public Accountants and Business Consultants

Independent Auditors' Report on Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards

The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Yabucoa
Yabucoa, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Yabucoa of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Municipality did not have complete and accurate accounting records of capital assets at June 30, 2007. The Municipality did not perform a complete and accurate physical inventory and a valuation of its capital assets of governmental activities during the fiscal year ended June 30, 2007 and, accordingly, the capital assets of governmental activities recorded in the accompanying statement of net assets for \$37,256,797, net of accumulated depreciation of \$18,559,898 could be materially misstated for the following reasons:

- The Municipality did not keep accounting records of projects currently under construction. Accordingly, construction in progress assets were not determined nor included in the accompanying statement of net assets at June 30, 2007.
- The Municipality did not keep complete and accurate accounting records of furniture, fixtures, vehicles, machinery and equipment at June 30, 2007. These assets, as reported in the accompanying statement of net assets, had an aggregate cost basis and an accumulated depreciation of \$5,680,518 and \$5,548,696, respectively, for a net book value of \$131,822 at June 30, 2007.

Because of this departure from accounting principles generally accepted in the United States of America for capital assets, the assets and net assets reported in the accompanying statement of net assets could be misstated for significant amounts that could not be determined at June 30, 2007. In addition, the

expenses and the net result of operations reported in the accompanying statement of activities are also misstated for amounts that could not be determined for the fiscal year ended June 30, 2007.

As discussed in Note 9, the Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs*, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. According to these standard and regulations, the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has not performed an independent study of the activities that need to be implemented at the Municipality's solid waste landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations and, accordingly, the accompanying statement of net assets does not include the required liability for closure and post closure care costs of the solid waste landfill using current costs allocated based on the actual landfill capacity used at June 30, 2007. Because of this departure from accounting principles generally accepted in the United States of America, the liabilities and net assets reported in the accompanying statement of net assets are understated and overstated, respectively, for significant amounts that could not be determined at June 30, 2007. In addition, the expenses and the net result of operations reported in the accompanying statement of activities are also understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2007.

As discussed in Note 5, the general fund of the Municipality reported as part of its assets, the advances due from other governmental funds amounting to \$1,469,117 at June 30, 2007 of which \$280,857 represent inter-fund loans that have been outstanding between four and five fiscal years without being collected. The Municipality did not have a subsidiary record nor sufficient and competent evidential matter supporting the collectibility of those inter-fund loans amounting to \$280,857. These conditions raise substantial doubts about the valuation of a portion of the general fund's uncollected inter-fund advances amounting to \$280,857 at June 30, 2007. The ultimate outcome of the valuation and collectibility of the aforementioned inter-fund advances cannot presently be determined. If these balances would have been written-off and charged to inter-fund transfer expenditures during the current fiscal year, a total fund balance (Deficit) of the general fund of \$255,002 would have been resulted instead of a total fund balance amounting to \$25,855 as reflected in the accompanying balance sheet – governmental funds. In the other hand, the results of operations of the general fund would have increased the deficiency of revenues and other financing sources under expenditures and other financing uses of \$364,382 by \$280,857 for the fiscal year then ended. An inverse effect to that of the general fund is present in the other (nonmajor) governmental funds were the respective advances due to general fund amounting to \$280,857 were recorded in the accompanying balance sheet – governmental funds at June 30, 2007.

As discussed in Note 5, the other governmental (nonmajor) funds of the Municipality reported as part of its assets, intergovernmental receivables (from grants and contributions) amounting to \$1,304,199 at June 30, 2007 of which \$280,857 represent intergovernmental receivables that have been outstanding between four and five fiscal years without being collected. The Municipality did not have a subsidiary record nor sufficient and competent evidential matter supporting the collectibility of those intergovernmental receivables amounting to \$280,857 at June 30, 2007. These conditions raise substantial doubts about the existence and valuation of a portion of the other governmental (nonmajor) funds' intergovernmental receivables amounting to \$280,857 at June 30, 2007. The ultimate outcome of the existence, valuation and collectibility of the aforementioned receivables cannot presently be determined. If these balances would have been written-off and charged to expenditures during the current fiscal year, the total fund balances of the other governmental (nonmajor) funds would have been reduced by \$280,857 in the

accompanying balance sheet - governmental funds at June 30, 2007 and, the net decrease in fund balances of such nonmajor governmental funds would have been increased also by \$280,857 in the accompanying statement of revenues, expenditures and changes in fund balances (deficits).

In our opinion, except for the matters discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund and aggregate remaining fund information of the Municipality of Yabucoa, Commonwealth of Puerto Rico, as of June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2007, on our consideration of the Municipality of Yabucoa, Commonwealth of Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Yabucoa, Commonwealth of 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 Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements the Municipality of Yabucoa, Commonwealth of Puerto Rico's. These schedules and note have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 15, 2007
Toa Alta, Puerto Rico



CPA - PSC

Stamp No. 2235761
was affixed to the
original report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

As management of the Municipality of Yabucoa (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's assets amounted to \$48,600,767 at June 30, 2007, of which \$37,256,797 consist of capital assets (net of accumulated depreciation and amortization of \$18,559,898), \$7,739,375 consist of cash and cash equivalents (of which \$4,119,244 are restricted for specific purposes), and \$3,473,333 consist of accounts receivable (net of reserve for doubtful accounts of \$8,344,958).
- The Municipality's liabilities amounted to \$27,916,831 at June 30, 2007, of which \$14,027,681 consist of bonds and notes payable, \$2,386,190 consist of accounts payable and accrued liabilities, \$1,646,699 consist of accrued compensated absences, \$3,374,038 consist of estimated liability for municipal solid waste landfill closure and post-closure care costs, \$6,307,311 consist of unearned revenues, and \$115,789 consist of obligations under capital leases.
- The Municipality's assets exceeded its liabilities (net assets/surplus) by \$20,683,936 at June 30, 2007.
- The Municipality's revenues amounted to \$17,998,308 for the fiscal year ended June 30, 2007, of which \$10,839,734 arose from taxes, \$5,770,865 arose from intergovernmental grants and contributions, \$214,753 arose from interests on deposits, \$964,869 arose from miscellaneous revenue streams and \$208,088 arose from charges from services and miscellaneous revenues.
- The Municipality's expenses amounted to \$19,426,944 for the fiscal year ended June 30, 2007, of which \$14,964,214 were incurred in providing direct services and benefits to citizens in relation to urban and economic development, health and sanitation, public safety, public housing and welfare, culture, recreation and education. In addition, the Municipality incurred \$822,435 of its total expenses, in interests related to its long-term obligations, and \$3,640,295 in general government activities to support the Municipality's functions and programs. The Municipality's expenses include depreciation and amortization of capital assets and deferred charges in the amount of \$2,485,109 for the fiscal year ended June 30, 2007.
- The Municipality's net assets decreased by \$1,428,636 during the fiscal year ended June 30, 2007.

Governmental Funds' Highlights:

- The total fund balance of governmental funds amounted to \$2,860,978 at June 30, 2007, of which \$3,626,012 is reserved for capital projects, debt service, encumbrances, advances from other governmental funds, intergovernmental grants and contributions and other specific purposes, while \$765,034 represents an unrestricted deficit.

COMMONWEALTH OF PUERTO RICO
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Fiscal Year Ended June 30, 2007

- The total fund balances of governmental funds decreased by \$494,573 during the fiscal year ended June 30, 2007.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2007. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

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

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

a) Government-wide Financial Statements

The GWFS are composed of: (1) the statements of net assets (SNA) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations 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 June 30, 2007. The GWFS are prepared using methods that are similar to those used by most private businesses.

1. Statement of Net Assets

The purpose of SNA is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

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The difference between the Municipality's total assets and total liabilities reported in SNA is presented as *net assets*, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net assets, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

2. Statement of Activities

The SA presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2007, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although SA looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as *net change in net assets*, which is essentially the same concept.

The focus of SA is on the *net cost* of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

GWFS and GFFS present all of the Municipality's governmental activities, which are supported mostly by taxes and intergovernmental revenues (such as federal and state grants and contributions). All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

b) Governmental Fund Financial Statements

The Municipality's GFFS consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local

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Fiscal Year Ended June 30, 2007

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 funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

Governmental funds are used to account for all of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of GFFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, GFFS report the Municipality's operations in more detail than the GWFS.

GFFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

GFFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, GFFS focus on near-term inflows and outflows of expendable financial resources, consequently, generally measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

Because the focus of GFFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

The Municipality has four major governmental funds. Each major fund is presented in a separate column in the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances. The three major governmental funds are: (1) general fund, (2) debt service fund, and (3) capital improvements bonds fund.

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c) Notes to Basic Financial Statements

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

d) Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of: (1) budgetary comparison schedule – general fund and the Schedule of Expenditures of Federal Awards.

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Municipality's overall financial position and operations for the prior and the current fiscal year are summarized as follows, based on the information included in the accompanying GWFS:

**Condensed Statement of Net Assets
Governmental Activities
June 30, 2006 and 2007**

	2006	2007
<i>Assets:</i>		
Current assets	\$11,115,301	\$11,287,573
Noncurrent assets:		
Capital assets, net of accumulated depreciation	16,421,754	37,256,797
Other noncurrent assets	61,247	56,397
Total assets	\$27,598,302	\$ 48,600,767
<i>Liabilities:</i>		
Current liabilities, excluding long-term obligations	\$ 6,506,811	\$ 8,752,624
Long-term obligations due within one year	867,771	936,166
Long-term obligations due after one year	15,287,968	18,228,041
Total liabilities	\$22,662,550	\$ 27,916,831
<i>Net assets (deficit):</i>		
Invested in capital assets, net of related debt	\$ 8,531,910	\$ 29,121,415
Restricted	2,368,087	1,364,275
Unrestricted	(5,964,245)	(9,801,754)
Total net assets	\$4,935,752	\$ 20,683,936

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At June 30, 2007, the Municipality's current assets, amounting to \$11,287,573, are mainly composed of cash and cash equivalents (\$7,739,375), and accounts receivable (\$3,473,333), net of reserve for doubtful accounts.

The restricted cash represents resources legally designated for: (1) the payment of debt service, (2) the acquisition, construction and improvement of major capital assets, and (3) the operations of federally and state funded grant programs. Restricted cash also consists of unspent proceeds of bonds issued for acquisition, construction and improvement of major capital assets. Restricted property taxes receivable represent resources set aside to redeem the bonds of the Municipality in minimum annual or biannual principal and interest payments.

The Municipality's non-current assets, amounting to \$37,313,194 at June 30, 2007, are substantially composed of capital assets, with a cost basis of \$55,816,695, which are reported net of accumulated depreciation and amortization of \$18,559,898.

At June 30, 2007, the Municipality's current liabilities amounting to \$9,688,790 are mainly composed of unearned revenues (\$6,307,311), accounts payable and accrued liabilities (\$2,386,190), and the portions due within one year (\$936,166) of bonds and notes payable, obligation under capital leases and compensated absences. Unearned revenues principally consist of unearned revenues associated with municipal license taxes and intergovernmental grants and contributions related to state and federally funded grant programs.

The Municipality's non-current liabilities, amounting to \$27,916,831 at June 30, 2007, are mainly composed of portions due after one year of bonds and notes payable (\$13,331,380), obligation under capital leases (\$89,568), compensated absences (\$1,433,055) and the estimated liability for municipal solid waste landfill (\$3,374,038).

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. The assets of the Municipality exceeded liabilities by \$20,683,936 at June 30, 2007. The most significant portion of net assets (\$29,121,415) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, furniture, fixtures, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Another significant portion of net assets (\$1,298,012) at June 30, 2007, represents resources that are restricted for debt service payments.

The remaining component of total net assets consists of unrestricted net liabilities amounting to (\$9,801,754) at June 30, 2007. These unrestricted net liabilities are the consequence of previous budgets that did not provide sufficient funding for incurred long-term obligations, such as bonds and notes payable, compensated absences, claims and judgments, certain obligations under capital leases, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net assets of the Municipality decreased by \$1,428,636 for the fiscal year ended June 30, 2007.

COMMONWEALTH OF PUERTO RICO
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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

The following is a condensed presentation of the Municipality's results of operations as reported in the GWFS:

Condensed Statement of Activities
Governmental Activities
Fiscal Years Ended June 30, 2006 and 2007

	<u>2006</u>	<u>2007</u>
Program revenues:		
Program-specific operating grants and contributions	\$ 2,475,486	\$ 2,145,439
Program-specific capital grants and contributions	2,214,375	2,037,454
Charges for services	136,081	208,088
Total program revenues	<u>4,825,942</u>	<u>4,390,981</u>
General revenues:		
Property taxes	8,410,221	6,331,390
Municipal license taxes	3,888,389	3,479,895
Construction excise taxes	740,847	381,875
Sales and use tax	-	646,573
Unrestricted grants and contributions	1,640,934	1,587,972
Other general revenues (various sources)	407,265	1,179,622
Total general revenues	<u>15,087,656</u>	<u>13,607,327</u>
Total revenues	<u>19,913,598</u>	<u>17,998,308</u>
Program expenses:		
General government	1,805,497	3,640,295
Urban and economic development	3,064,163	3,485,874
Health and sanitation	3,297,784	3,885,134
Public safety	1,869,998	2,389,984
Public housing and welfare	2,690,827	2,372,062
Culture, recreation and education	1,879,996	2,831,160
Interest on long-term obligations	679,150	822,435
Total expenses	<u>15,287,415</u>	<u>19,426,944</u>
Net increase (decrease) in net assets	<u>4,626,181</u>	<u>(1,428,636)</u>
Net assets, at beginning of fiscal year	4,374,879	4,935,752
Prior-period adjustments	<u>(4,065,308)</u>	<u>17,176,820</u>
Net assets, at beginning of fiscal year, as restated	<u>309,568</u>	<u>22,112,572</u>
Net assets, at end of fiscal year	<u>\$ 4,935,752</u>	<u>\$ 20,683,936</u>

COMMONWEALTH OF PUERTO RICO
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Management's Discussion and Analysis
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As previously mentioned, the Municipality's net assets decreased by \$1,428,636 during the current fiscal year. Approximately 60% of the Municipality's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes (\$10,839,733). Grants, contributions and charges for services (program revenues), amounting to \$5,770,865, provided 32% of the total revenues for the current fiscal year. Interests on deposits and miscellaneous revenues provided the remaining 8% of total revenues.

The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2007 were related to: (1) general administrating and operating costs (\$3,640,295), which were classified as "general government", (2) public housing and welfare (\$2,372,062), (3) health and sanitation (\$3,885,134), (4) urban and economic development (\$3,485,874), (5) public safety (\$2,389,984), (6) culture, recreation and education (\$2,831,160), and (7) interest on long-term obligations (\$822,435). These expenses include depreciation and amortization of capital assets and deferred charges in the amounts of \$2,485,109 for the fiscal year ended June 30, 2007.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

At June 30, 2007, the total assets of governmental funds amounted to \$13,171,921, which consisted principally of: (1) cash and cash equivalents of \$7,739,375, (2) accounts receivable, \$3,340,624 net of reserve for doubtful accounts, and (3) interfund receivables of \$1,884,348. Such assets that are restricted for debt service, capital projects, encumbrances and other specific purposes.

At June 30, 2007, the total liabilities of governmental funds amounted to \$10,310,943, which consisted principally of: (1) deferred revenues of \$6,502,460, (2) accounts payable and accrued liabilities of \$1,142,129, (3) interfund payables (\$1,884,348) and (4) matured bonds and interests due and payable of \$782,006.

The fund balances of governmental funds decreased by \$494,573 during the fiscal year ended June 30, 2007.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

Condensed Balance Sheet - Governmental Funds
June 30, 2006 and 2007

	2006	2007
<i>Assets:</i>		
Total assets - major governmental funds	\$ 10,798,619	\$ 11,294,694
Total assets - other governmental funds	1,167,644	1,877,227
Combined total assets	11,966,263	13,171,921
 <i>Liabilities:</i>		
Total liabilities - major governmental funds	8,095,913	8,430,758
Total liabilities - other governmental funds	1,152,536	1,880,185
Combined total liabilities	9,248,449	10,310,943
 <i>Fund balances:</i>		
Reserved - major governmental funds	4,252,762	3,599,724
Reserved - other governmental funds	15,108	26,288
Unreserved - all governmental funds	(1,550,056)	(765,034)
Combined total fund balances	2,717,814	2,860,978
 <i>Total liabilities and fund balances</i>	 \$ 11,966,263	 \$ 13,171,921

Major Governmental Funds

General fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$7,560,495 at June 30, 2007. Such assets consist principally of: (1) cash and cash equivalents (\$3,993,388), (2) property, municipal license, construction excise tax, and sales and use tax receivables (\$1,861,643), and (3) short-term and long-term amounts due from other funds (\$1,469,117).

The GF's total liabilities amounted to \$7,534,640 at June 30, 2007. Such liabilities are composed mainly of: (1) deferred revenues (\$6,443,347), (2) short-term and long-term amounts due to other funds (\$408,799), and (3) accounts payable and accrued liabilities (\$682,494).

At the end of the current fiscal year, unreserved fund deficit of the GF amounted to \$735,788, while total fund balance amounted to \$25,855.

Debt service fund (DSF)- The DSF's total assets amounted to \$2,114,817 at June 30, 2007, which consist mainly of restricted cash in fiscal agent (\$1,672,042), amounts due from general fund (\$304,198) and restricted property taxes receivable, net of reserve for doubtful accounts (\$132,709). The DSF's total liabilities amounted to \$799,238 at June 30, 2007, which are mainly composed of: (1) matured bonds due

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

and payable (\$455,000), and (2) matured interest due and payable (\$327,006). At the end of the current fiscal year, DSF's total reserved fund balance reached \$1,315,579.

Capital improvements bond fund (CIBF) - The CIBF's total assets amounted to \$1,619,382 at June 30, 2007, which consist mainly of restricted cash in fiscal agent (\$1,609,029). The CIBF's total liabilities amounted to \$96,880 at June 30, 2007, which are composed of: (1) amounts due to other governmental funds (\$70,040), and (2) accounts payable and accrued liabilities (\$26,840). At the end of the current fiscal year, CIBF's total and reserved fund balance reached \$1,522,502.

Other governmental funds (OGF)- The OGF's total assets amounted to \$1,877,227 at June 30, 2007, which consist mainly of restricted cash and cash equivalents (\$461,995) and receivables from intergovernmental grants and contributions (\$1,304,199). The OGF's total liabilities amounted to \$1,880,185 at June 30, 2007, which are mainly composed of deferred revenues (\$59,113), accounts payable and accrued liabilities (\$432,795) and short-term and long-term amounts due to other funds (\$1,388,277). At the end of the current fiscal year, OGF's total reserved fund balance reached \$26,288.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

Analysis of Operating Results of Governmental Funds

**Condensed Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
Fiscal Years Ended June 30, 2006 and 2007**

	2006	2007
Revenues:		
Total revenues - major governmental funds	\$15,625,498	\$15,158,629
Total revenues - other governmental funds	2,806,177	4,185,559
Combined total revenues	18,431,675	19,344,188
Expenditures:		
Total expenditures - major governmental funds	14,484,874	15,817,164
Total expenditures - other governmental funds	2,934,891	4,302,107
Combined total expenditures	7,419,765	20,119,271
Excess deficiency of revenues over (under) expenditures	1,011,910	(775,083)
Other financing sources, net:		
Other financing sources, net - major governmental funds	2,722,546	476,329
Other financing sources (uses), net - other governmental funds	128,956	(195,819)
Combined other financing sources (uses), net	2,851,502	280,510
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	3,863,412	(494,573)
Fund balance, at beginning of fiscal year (restated)	(1,145,598)	3,355,551
Fund balance, at end of fiscal year	\$ 2,717,814	\$ 2,860,978

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

Major Governmental Funds

General fund – The total fund balance of the GF decreased by \$364,382 during current fiscal year.

Approximately 83% (\$11,103,649) of the GF's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes, while (\$1,579,726) resulted from intergovernmental grants and contributions.

The largest expenses of the GF for the fiscal year ended June 30, 2007 were related to: (1) general administrating and operating costs (\$3,276,209), which were classified as "general government", (2) public housing and welfare (\$1,201,010), (3) health and sanitation (\$3,165,060), (4) urban and economic development (\$1,755,396), (5) public safety (\$1,875,114), (6) culture, recreation and education (\$1,981,553), and (7) principal and interest on long-term obligations (\$229,720).

Debt service fund (DSF) – The total fund balance of the DSF increased by \$186,245 during current fiscal year. Approximately \$1,090,210 of DSF's total revenues for the current fiscal year came from restricted property taxes. DSF's total expenditures for the current fiscal year came from principal and interests on bonds payable (\$1,319,270).

Capital improvements bond fund (CIBF) - The total fund balance of the CIBF decreased by \$4,069 during current fiscal year. CIBF's total revenues for the current fiscal year came from interests on deposits and certain miscellaneous revenues amounting to \$655,751. CIBF's total expenditures for the current fiscal year came from capital outlays (\$641,319).

Other governmental funds (OGF) – The total fund balance of the OGF decreased by \$195,819 during current fiscal year. Substantially all of OGF's revenues for the current fiscal year came from intergovernmental grants and contributions of \$4,182,893. Total expenditures were mainly related to the operating costs of state and federal funded programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$55,816,695 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$18,559,898 at June 30, 2007. The net capital assets increased during the current fiscal year due to the current fiscal year's capital additions (\$3,845,976), which were partially offset by the depreciation and amortization expense. In addition, during the current year, the Municipality recorded a prior-period adjustment of \$19.5 millions to retroactively recognize the general infrastructure assets and certain sports and recreational facilities that were unrecorded for various fiscal years. The adjustment was made pursuant to an inventory and valuation of such assets that was performed by the Municipality.

b) Debt Administration

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

At June 30, 2007, the Municipality's total bonded debt amounted to \$12,227,001, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The following is a summary of the debt activity for the fiscal year ended June 30, 2007:

- Bonds payable decreased by (\$101,000) due to the total principal payments on made during the current fiscal year.
- The Municipality has also certain outstanding notes payable. Such notes payable also decreased during the current fiscal year mainly due to the principal payments made during the same period.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Municipality's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality of Yabucoa, Department of Finance.

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**Basic Financial Statements,
Notes to Basic Financial Statements and
Required Supplemental Schedule**

Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Statement of Net Assets
June 30, 2007

Assets	
	Governmental activities
Current assets:	
Cash in commercial banks, including cash equivalents of \$3,515,317	\$ 3,620,131
Accounts receivable, net of allowance for doubtful accounts of \$7,467,569	
Taxes:	
Property taxes	\$ 1,100,771
Municipal license taxes	631,921
Construction excise taxes	45,827
Sales and use tax	83,124
Intergovernmental grants and contributions	1,440,235
Accrued interest on deposits	22,500
Other receivables	16,246
Total accounts receivable	3,340,624
Restricted assets:	
Cash in commercial banks	\$ 386,310
Cash in fiscal agent	3,732,934
Property tax receivable, net of reserve for doubtful accounts of \$877,389	132,709
Total restricted assets	4,251,953
Other current assets	74,865
Total current assets	11,287,573
Non-current assets:	
Capital assets, at cost:	
Depreciable capital assets	\$ 47,794,992
Non-depreciable capital assets	8,021,703
Total capital assets, at cost	55,816,695
Less: accumulated depreciation and amortization	(18,559,898)
Total capital assets, net of accumulated depreciation and amortization	37,256,797
Deferred charges, net of accumulated amortization of \$39,405	56,397
Total non-current assets	37,313,194
Total assets	\$ 48,600,767

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Statement of Net Assets (concluded)
June 30, 2007

Liabilities and net assets	<u>Governmental activities</u>
Current liabilities (due within one year):	
Accounts payable and accrued liabilities:	
Trade payables and accrued liabilities	\$ 1,603,230
Intergovernmental payables	417,183
Accrued interests on bonds and notes payable	<u>365,777</u>
Total accounts payable and accrued liabilities	\$ 2,386,190
Uncarned revenues	6,366,424
Current portion of long-term obligations:	
Bonds payable	\$ 590,000
Notes payable	106,311
Compensated absences	213,644
Obligation under capital leases	<u>26,221</u>
Total current portion of long-term obligations	<u>936,176</u>
Total current liabilities	<u>9,688,790</u>
 Non-current liabilities, excluding current portion	
(due in more than one year) :	
Bonds payable	11,637,001
Notes payable	1,694,379
Obligation under capital leases	89,568
Compensated absences	1,433,055
Estimated liability for municipal solid waste landfill closure and post-closure care costs	<u>3,374,038</u>
Total non-current liabilities	<u>18,228,041</u>
Total liabilities	<u>27,916,831</u>
 Net assets (liabilities):	
Invested in capital assets, net of related debt	<u>29,121,415</u>
Restricted for:	
Debt service	\$ 1,298,012
Grants and contributions	<u>66,263</u>
Total restricted net assets	<u>1,364,275</u>
Unrestricted net liabilities	<u>(9,801,754)</u>
Total net assets	<u>\$ 20,683,936</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Statement of Activities
Fiscal Year Ended June 30, 2007

Functions/programs	Expenses, Including Depreciation and amortization \$2,489,959	Program revenues			Net (expenses) and changes in net assets
		Charges for services	Program – specific operating grants and contributions	Program – Specific Capital grants and contributions	
Governmental activities:					
General government	\$ 3,640,295	208,088			\$(3,432,207)
Urban and economic development	3,485,874		408,902	2,037,454	(1,039,518)
Health and sanitation	3,885,134		9,191		(3,875,943)
Public safety	2,389,984				(2,389,984)
Public housing and welfare	2,372,062		1,488,846		(883,216)
Culture, recreation and education	2,831,160		238,500		(2,592,660)
Interest on long-term obligations	822,435				(822,435)
Total governmental activities	\$ 19,426,944	208,088	2,145,439	2,037,454	(15,035,963)
General revenues:					
Taxes:					
Property taxes					\$ 6,331,390
Municipal license taxes					3,479,895
Construction excise taxes					381,875
Sales and use taxes					646,573
Total tax revenues					10,839,733
Intergovernmental grants and contributions, not restricted to specific programs					1,587,972
Interest on deposits					214,753
Miscellaneous					964,869
Total general revenues					13,607,327
Net decrease in net assets					(1,428,636)
Net assets at beginning of fiscal year Prior-period					4,935,752
adjustments					17,176,820
Net assets at the beginning of fiscal year, as restated					22,112,572
Net assets at end of fiscal year					\$ 20,683,936

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
 Balance Sheet – Governmental Funds
 June 30, 2007

Major governmental funds

	General fund	Debt service fund	Capital Improvements Bond fund	Other governmental funds	Total Governmental Funds
Assets					
Cash in commercial banks, including cash equivalents of \$3,515,317	\$ 3,620,131				\$ 3,620,131
Accounts receivable, net of reserve for doubtful accounts of \$7,467,569					
Taxes:					
Property taxes	1,100,771				1,100,771
Municipal license taxes	631,921				631,921
Construction excise taxes	45,827				45,827
Sales and use taxes	83,124				83,124
Accrued interest on deposits	9,200	5,868	7,432		22,500
Intergovernmental grants and Contributions	136,036			1,304,199	1,440,235
Due from other governmental funds	1,469,117	304,198		111,033	1,884,348
Other receivables	16,246				16,246
Other unrestricted assets	74,865				74,865
Restricted assets:					
Cash in commercial banks	72,375		2,921	311,014	386,310
Cash in fiscal agent	300,882	1,672,042	1,609,029	150,981	3,732,934
Property taxes receivable, net of reserve for doubtful accounts of \$877,389		132,709			132,709
Total assets	<u>\$ 7,560,495</u>	<u>2,114,817</u>	<u>1,619,382</u>	<u>1,877,227</u>	<u>\$ 13,171,921</u>
Liabilities					
Accounts payable and accrued liabilities:					
Trade payables	666,595		26,840	432,795	1,126,230
Intergovernmental payables	15,899				15,899
Due to other governmental funds	408,799	17,232	70,040	1,388,277	1,884,348
Deferred revenues:					
Unearned municipal license tax revenues	6,307,311				6,307,311
Earned but unavailable grant revenues	136,036			59,113	195,149
Matured bonds due and payable		455,000			455,000
Matured interest due and payable		327,006			327,006
Total liabilities	<u>7,534,640</u>	<u>799,238</u>	<u>96,880</u>	<u>1,880,185</u>	<u>10,310,943</u>
Fund balances					
Reserved for:					
Encumbrances	234,894				234,894
Debt service		1,315,579			1,315,579
Capital projects			1,522,502		1,522,502
Advances from other governmental funds	437,260				437,260
Intergovernmental grants and contributions				26,288	26,288
Other assets and purposes	89,489				89,489
Unreserved	(735,788)			(29,246)	(765,034)
Total fund balances (deficits)	<u>25,855</u>	<u>1,315,579</u>	<u>1,522,502</u>	<u>(2,958)</u>	<u>2,860,978</u>
Total liabilities and fund balances	<u>\$ 7,560,495</u>	<u>2,114,817</u>	<u>1,619,382</u>	<u>1,877,227</u>	<u>\$ 13,171,921</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Fiscal Year Ended June 30, 2007

	Major governmental funds				Total governmental funds
	General fund	Debt service fund	Capital Improvements bond fund	Other governmental funds	
Revenues:					
Taxes:					
Property taxes	\$ 6,494,931	1,090,210			\$ 7,585,141
Municipal license taxes	3,580,270				3,580,270
Construction excise taxes	381,875				381,875
Sales and use taxes	646,573				646,573
Total tax revenues	<u>11,103,649</u>	<u>1,090,210</u>			<u>12,193,859</u>
Intergovernmental grants and contributions	1,579,726			4,182,893	5,762,619
Interest on deposits	74,386	61,728	78,639		214,753
Charges for services	205,422			2,666	208,088
Miscellaneous	387,757		577,112		964,869
Total revenues	<u>13,350,940</u>	<u>1,151,938</u>	<u>655,751</u>	<u>4,185,559</u>	<u>19,344,188</u>
Expenditures:					
Current:					
General government	3,276,209				3,276,209
Urban and economic development	1,755,396			543,087	2,298,483
Health and sanitation	3,165,060			9,191	3,174,251
Public safety	1,875,114				1,875,114
Public housing and welfare	1,201,010			656,182	1,857,192
Culture, recreation and education	1,981,553			261,503	2,243,056
Debt service:					
Principal	161,559	583,000			744,559
Interest	68,161	736,270			804,431
Capital outlays	372,513		641,319	2,832,144	3,84,976
Total expenditures	<u>13,856,575</u>	<u>1,319,270</u>	<u>641,319</u>	<u>4,302,107</u>	<u>20,119,271</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(505,635)</u>	<u>(167,332)</u>	<u>14,432</u>	<u>(116,548)</u>	<u>(775,083)</u>
Other financing sources (uses):					
Transfers-in from other governmental funds	665,246	415,305	64,955	95,776	1,241,282
Transfers-out to other governmental funds	(523,993)	(61,728)	(83,456)	(572,105)	(1,241,282)
Proceeds from issuance of notes payable				280,510	280,510
Total other financing sources (uses), net	<u>141,253</u>	<u>353,577</u>	<u>(18,501)</u>	<u>(195,819)</u>	<u>280,510</u>
Net increase / (decrease) in fund balances	<u>(364,382)</u>	<u>186,245</u>	<u>(4,069)</u>	<u>(312,367)</u>	<u>(494,573)</u>
Fund balance at beginning of fiscal year	(1,044,589)	1,004,334	1,536,434	1,221,635	2,717,814
Prior-period adjustments	1,434,826	125,000	(9,863)	(912,226)	637,737
Fund balance at beginning of fiscal year, as restated	<u>390,237</u>	<u>1,129,334</u>	<u>1,526,571</u>	<u>309,409</u>	<u>3,355,551</u>
Fund balance (deficit) at end of fiscal year	<u>\$ 25,855</u>	<u>1,315,579</u>	<u>1,522,502</u>	<u>(2,958)</u>	<u>\$ 2,860,978</u>

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Reconciliation of the Balance Sheet – Governmental Funds to Statement of Net Assets
June 30, 2007

The amounts of governmental activities reported in the statement of net assets and the balance sheet – governmental funds, are different for the following reasons:

Total fund balances reported in the balance sheet – governmental funds	\$ 2,860,978
Add (Deduct):	
Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation and amortization of \$18,559,898 at June 30, 2007.	37,256,797
Certain deferred revenues in the governmental funds are recognized as revenues in the statement of activities. This is the amount of revenues that are measurable but not available at June 30, 2007 (municipal licenses, intergovernmental grants and contributions and charges for services).	136,036
Debt issued by the Municipality has associated costs (debt issuance costs) that are paid from current available financial resources in the governmental funds. However, these costs are deferred in the statement of net assets and reported net of accumulated amortization of \$39,405 at June 30, 2007.	56,397
The following liabilities are not due (mature) in the current fiscal year, therefore, are not reported in the governmental funds at June 30, 2007:	
Bonds payable	(11,772,001)
Notes payable	(1,800,690)
Obligation under capital leases	(115,789)
Compensated absences	(1,646,699)
Estimated liability for solid waste landfill closure and post-closure care costs	(3,374,038)
Accounts payable and accrued liabilities, including amounts due to other governments	(917,055)
Net assets – governmental activities, as reported in the statement of net assets	\$ 20,683,936

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

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF YABUCOA

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to Statement of Activities
Fiscal Year Ended June 30, 2007

The amounts of governmental activities reported in the statement of activities and the statement of revenues, expenditures and changes in fund balances - governmental funds, are different for the following reasons:

Total net decrease in fund balances reported in the statement of revenues, expenditures and changes in fund balances – governmental funds	\$ (494,573)
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Add (Deduct):

The following types of revenues recorded in the statement of activities do not necessarily provide current financial resources, therefore, sometimes are deferred in the governmental funds. This is the net change in deferred revenues of the following revenue items, which are measurable but not available at June 30, 2007:

Property taxes	(1,253,751)
Municipal license taxes	(100,375)
Intergovernmental grants and contributions	8,246

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. This is the amount by which capital outlay expenditures (\$3,845,976) exceeded depreciation and amortization expense (\$2,485,109) for the fiscal year ended June 30, 2007.	1,360,867
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Repayment of principal of long-term obligations is reported as expenditure in the governmental funds; however, the repayment reduces long-term liabilities in the statement of net assets.	744,559
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Certain interest expense reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds.	(18,004)
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Certain operating expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds.	(1,395,095)
--	-------------

Proceeds from issuance of notes payable provide current financial resources to governmental funds, but issuing such debt increases long-term liabilities in the statement of net assets.	(280,510)
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Net decrease in net assets, as reported in statement of activities	<u>\$ (1,428,636)</u>
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The accompanying notes to the basic financial statements are an integral part to this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Notes to Basic Financial Statements
June 30, 2007

1. Summary of Significant Accounting Policies

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

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

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

a) Financial Reporting Model

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2007, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. *RSI* is information presented along with, but separate from, the Municipality's basic financial statements.

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2007, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The *MD&A* also highlights certain key fiscal policies that control the Municipality's operations.

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Other supplementary information presented in this report for purposes of additional analysis consists of a budgetary comparison schedule – debt service fund.

b) *Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), as amended, has set forth criteria to be considered in determining financial accountability for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body and: (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

According to GASB No. 39, a legally separate, tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary

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government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2007.

c) Government-wide Financial Statements

The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity) and/or accumulated deficit. This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net assets are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net assets** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable

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requirement that those resources be used only for the specific purposes stipulated in the legislation.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designations of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

The Municipality has reported the following types of restricted net assets in the accompanying statement of net assets:

- (1) **Debt service** – Represent net resources available to cover future debt service payments of bonds and notes payable.
- (2) **Grants and contributions** – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.
- **Unrestricted net liabilities** – This category consists of the excess of liabilities over related assets (accumulated deficit) that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted net liabilities often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net assets or liabilities changed during the fiscal year ended June 30, 2007, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

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

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General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of planning and budget
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Department of public relations

Urban and economic development:

- Department of public works
- Department of territorial ordering
- Department of building conservation

Public safety:

- Department of emergency management – civil defense
- Department of municipal police

Health and sanitation:

- Department of health

Culture, recreation and education:

- Department of sports and recreation
- Department of tourism
- Department of education

Public housing and welfare:

- Department of public housing
- Department of federal programs
- Department of citizen affairs

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and (3) special items.

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

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly

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benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

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

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

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

The *general government* function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

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

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

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

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

d) *Governmental Fund Financial Statements*

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds.

These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- ***General fund*** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- ***Debt service fund*** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal

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year ended June 30, 2007, the financial activity accounted for in the debt service fund was specifically related to bonds and notes payable.

The outstanding balance of general long-term debts for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, accrued legal claims and judgments and the federal cost disallowances) are only accounted for in the accompanying statement of net assets. The debt service payments of such debts are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund.

- ***Special revenue funds*** – The special revenue funds are non-major governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.
- ***Capital projects funds*** – Capital projects funds are non-major governmental funds, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for also in the capital projects funds.

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

The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type. By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total

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expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the debt service fund, and (3) the capital improvements bond fund.

The capital improvement bond fund is a major capital projects fund used to account for the receipts and disbursements of the proceeds arising from the issuance of general obligation and permanent improvement serial bonds used in the acquisition, construction or improvement of major capital facilities and assets.

The legislative joint resolutions fund is a major capital projects fund used to account for financial resources that are received from the state legislature for use in the acquisition, construction or improvement of major capital facilities and assets.

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

e) Measurement Focus and Basis of Accounting

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

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

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

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derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

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

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred (unearned) revenues.

According to GASB No. 34, all general capital assets and the un-matured long-term liabilities are recorded only in the accompanying statement of net assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible

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within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2007, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred (unavailable) revenues at June 30, 2007.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred (unavailable) revenues.

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

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

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

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

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resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2007, which have been recorded as governmental fund liabilities at June 30, 2007, which is the date when resources are available in the debt service funds (generally, June 30).
- Notes payable, obligations under capital leases, and compensated absences are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.
- Executor purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities, but are not recorded in the accompanying GFFS.

f) Stewardship, Compliance and Accountability

Budgetary Control

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

The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 13.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without

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imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

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

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

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

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

Budgetary Accounting

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

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

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant

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aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required settling claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying budgetary comparison schedule – general fund and the budgetary comparison schedule – debt service fund provide information about the general and debt service funds' original budgets, its amendments, and the actual results of operations of such major governmental funds under the budgetary basis of accounting for the fiscal year ended June 30, 2007. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2007, which is prepared by the Municipality's Department of Finance. Copies of that report may be obtained by writing to the Municipality's Director of Finance.

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

g) *Unrestricted and Restricted Deposits*

The Municipality's deposits are composed of: (1) cash on hand, (2) demand deposits in commercial banks, (3) demand deposits in the Government Development Bank for Puerto Rico (fiscal agent) and (4) cash equivalents in commercial banks. Cash equivalents consist of certificates of deposit with original maturities of three months or less, which are recorded at cost, which approximates fair value.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). Agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name hold all securities pledged as collateral.

Cash in fiscal agent in the debt service fund consists of cash related to property tax collections amounting to \$1,672,042, which is restricted for the payment of the Municipality's debt service, as required by law. Cash in fiscal agent in the capital improvements bond fund, amounting to \$1,609,029, consists of unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of capital assets.

Restricted cash in commercial banks, amounting to \$386,310, represents mainly the balance of interest and non-interest bearing accounts restricted to finance the operations of certain federal and state funded programs.

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Cash equivalents consist of certificates of deposit with original maturities of three months or less, amounting to \$3,515,317 at June 30, 2007 are available to finance general operating expenses, including the acquisition, construction or improvement of major capital assets.

h) Unrestricted and Restricted Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2007. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

At June 30, 2007, the Municipality reported as part of its non-major governmental funds' assets, intergovernmental receivables from the Puerto Rico Corporation for Rural Development amounting to \$280,857. These receivables have been outstanding for more than four fiscal years without being collected. Consequently, the ultimate outcome of the valuation and collectibility of the aforementioned receivables cannot presently be determined. The accompanying basic financial statements do not include an allowance for doubtful accounts to cover any uncollectible amounts related to these receivables. The management of the Municipality is of the opinion that the Municipality will carry out all the necessary efforts to try to collect these balances, therefore, as a management decision, the Director of Finance and the Mayor decided to record these receivables in the accompanying basic financial statements at June 30, 2007.

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds."

i) Inventories and Other Current Assets

Inventories consist of construction materials and inventories of office supplies, food and medicines, which are held for consumption. Other current assets consist of prepaid expenses. Generally, inventories are capitalized (consumption method) and stated at cost using the first-in, first-out method (FIFO) in the GWFS and GFFS.

j) Deferred Charges

Deferred charges in the accompanying statement of net assets consist of bond issuance costs, net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

k) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and

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infrastructure. These assets are capitalized and reported in the accompanying statement of net assets. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures), while all assets with individual costs under \$500 are recorded as expenditures in the corresponding function/program identified with the asset.

In the statement of net assets, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Motor vehicles	5
Furniture, fixtures, machinery and equipment, excluding those held under capital leases	5 to 20
Equipment held under capital leases	3 to 5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

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l) *Deferred Revenues*

In the GFFS, deferred revenue arises when one of the following situations occur:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as “*earned but unavailable revenue*” in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2007 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net assets). No “*earned but unavailable revenue*” is accounted for in the accompanying statement of net assets.

m) *Compensated Absences*

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2007 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

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

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

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee

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terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously.

After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

n) Long-term Debt

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds payable; notes payable, obligations under capital leases, accrued compensated absences and accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due on July 1, 2007 have been recorded as governmental fund liabilities in the GFFS when resources were available in the debt service fund (June 30, 2007). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

In the GWFS debt issuance costs have been capitalized and reported as deferred charges, which are being amortized under the straight-line method over the life of the debt. In the GFFS, such costs are recorded as expenditures as incurred.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net assets, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

o) Leases

The Municipality classifies its lease agreements either as operating or capital leases obligations according to Statement No.13, *Accounting for Leases*, issued by Financial Accounting Standards Board (FASB No. 13). Capital lease agreements are generally non-cancelable and involve, substance over form, the transfer of substantially all benefits and risks inherent in the ownership of the leased property, while operating leases do not involve such transfer. Accordingly, a capital lease involves the recording of an asset and a related lease obligation at the inception of the lease. According to FASB No. 13, the Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

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- By the end of the lease term, ownership of the leased property is transferred to the Municipality.
- The lease agreement contains a bargain purchase option.
- The lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property.
- At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria, and have a fiscal funding or a cancellation clause, have been accounted for as capital leases in the accompanying

GWFS, since the likelihood of invoking the provision is considered remote. The Municipality's lease agreements do not include contingent rental payments or escalation clauses.

In the GWFS, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executor costs and profit thereon to be paid by the lesser. A portion of each minimum lease payment is allocated to interest expense and the balance is applied to reduce the lease obligation using the effective interest method.

In the GFFS, the net present value of the minimum lease payments at the inception of the capital lease, if applicable, is recorded simultaneously as: (1) expenditures and (2) other financing sources. Minimum lease payments are recorded as expenditures in the GFFS.

p) *Accounting for Pension Costs*

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

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The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

g) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2007 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

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

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2007. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

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r) Reservations of Fund Balances

Reservations of fund balances represent portions of fund balances in the GFFS that are legally segregated for specific future uses or are not appropriated for expenditure. The Municipality has recorded the following types of reservations of fund balances in the GFFS:

- **Encumbrances** – Represent reservations of fund balances for commitments related to unperformed (executor) contracts for goods or services (future expenditures under purchase orders, contracts and other commitments). These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future fiscal years as the goods or services are received.
- **Debt service** – Represent fund balances available and restricted to cover future debt service payments (principal and interest) on bonds payable, which are accounted for in the debt service fund.
- **Capital projects** – Represent the reservation of financial resources that are restricted for the acquisition, construction or improvement of major capital assets under contracts and other commitments. These amounts are accounted for in the capital projects funds.
- **Intergovernmental grants and contributions** – Represent financial resources set aside for use in federal and state grant programs.
- **Advances from other governmental funds** – Represent financial resources set aside for long-term interfund receivables that are not considered current available financial resources.
- **Other assets and purposes** – Represent financial resources set aside for use in federal and state grant programs.

s) Inter-fund Activities

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

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

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- **Inter-fund reimbursements** – Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

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

t) Use of Estimates

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

u) Future Adoption of Accounting Pronouncements

In June 2005, GASB issued its Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* (GASB No. 45). This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities/assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers. The requirements of this statement are effective for the Municipality's fiscal year commencing on July 1, 2007.

The Municipality's management has concluded that the future adoption of GASB Statement No. 45 will not have a significant impact on the Municipality's basic financial statements.

2. Deposits

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

On July 1, 2005, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, and (4) foreign exchange exposure.

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in

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marketable securities or any other types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits are considered low at June 30, 2007.

- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2007, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2007, the Municipality's investments in certificates of deposit are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2007, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2007. Therefore, the Municipality's management has concluded that at June 30, 2007, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.
- **Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2007.

3. Municipal License Taxes

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Yabucoa. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2007, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

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Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return filed every April 15, based on the actual volume of business (revenues) earned in the preceding calendar year. Taxpayers with a sales volume of \$1 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the GFFS. Total municipal license tax receivable amounted to \$631,921 at June 30, 2007. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$6,307,311 at June 30, 2007.

4. Property Taxes

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 estimated market prices).

CRIM is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds to the Municipality based on the initial estimated collection amounts for the fiscal year. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a preliminary basis not later than December 31 following the fiscal year end.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2007 was 7.03 percent (of which taxpayers pay 6.83 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2007 was 9.03 percent (of which 8.83 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00

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percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

According to Act No. 81, included within the total personal and real property tax rates of 6.83 percent and 8.83 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the Commonwealth's debt service fund, for the payment of the general long-term debt of the Commonwealth.

In addition, included within the total personal and real property tax rates of 6.83 percent and 8.83 percent, respectively, there is a portion of the tax rate in the amount of 2.00 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

Furthermore, included within the total personal and real property tax rates of 6.83 percent and 8.83 percent, respectively, there is a portion of the tax rates that is recorded in the Municipality's general fund, of which a portion is restricted for the payment of: (1) the insurance premiums acquired through the Department of Treasury, (2) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM operating expenses, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Department of Treasury as a subsidy is recorded in the Municipality's general fund.

The Additional Lottery System of the Commonwealth (the Additional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

At June 30, 2007, property taxes receivable recorded in the general and debt service fund amounted to \$1,100,771 and \$132,709, respectively, net of a reserve for doubtful accounts of \$7,467,569 and \$877,389, respectively.

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5. Inter-Fund Transactions

The composition of inter-fund balances at June 30, 2007 and for the fiscal year then ended is as follows:

<u>Due to:</u>	<u>Due from:</u>				
	<u>General fund</u>	<u>Debt service fund</u>	<u>Capital improvements bond fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Major governmental funds:					
General fund	\$ -	304,198	-	104,601	\$ 408,799
Debt service fund	17,232	-	-	-	17,232
Capital improvements bond fund	70,040	-	-	-	70,040
Other governmental funds	1,381,845	-	-	6,432	1,388,277
Total	\$ 1,469,117	304,198	-	111,033	\$ 1,884,348

<u>Transfers to:</u>	<u>Transfers from:</u>				
	<u>General fund</u>	<u>Debt service fund</u>	<u>Capital improvements bond fund</u>	<u>Other governmental funds</u>	<u>Total Governmental Funds</u>
Major governmental funds:					
General fund	\$ -	61,728	81,269	522,249	\$ 665,246
Debt service fund	415,305	-	-	-	415,305
Capital improvements bond fund	59,985	-	2,187	2,783	64,955
Other governmental funds	48,703	-	-	47,073	95,776
Total	\$ 523,993	61,728	83,456	572,105	\$ 1,241,282

At June 30, 2007, the Municipality reported as part of its general fund's assets, amounts due from other governmental funds amounting to \$1,469,117, of which \$280,857 are due from the Rural Development Fund, a non-major capital project fund. The interfund balance of \$280,857 is related to unsettled interfund loans that have remained uncollected by the general fund since fiscal years 2002 and 2003. Consequently, the ultimate outcome of the valuation and collectibility of the interfund amount of \$280,857 cannot presently be determined since its collectibility is strictly dependant on collections expected to be realized by the Rural Development Fund from the Puerto Rico Corporation of Rural Development, which if are collected in the future, will be immediately repaid to the general fund (see Note 1h). The accompanying basic financial statements do not include an allowance for doubtful accounts to cover any uncollectible amounts related to these receivables. The management of the Municipality is of the opinion that the Municipality will carry out all the necessary efforts to try to collect these balances, therefore, as a management decision, the Director of Finance and the Mayor decided to record these interfund receivables in the general fund at June 30, 2007. As a conservative approach, at June 30, 2007 the Municipality recorded a reservation of fund balance of \$280,857 in the general fund to indicate that these amounts do not represent current available financial resources. If these amounts would have been considered uncollectible by management

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at June 30, 2007, the general fund would have reported a net accumulated deficit of \$255,002 instead of a net positive fund balance of \$25,855, as reported in the accompanying balance sheet – governmental funds.

6. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2007:

	Balance at beginning of fiscal year, as restated	Additions	Balance at end of fiscal year
Governmental activities:			
Cost basis:			
Capital assets, not being depreciated/amortized:			
Land	\$ 7,758,240	263,463	\$ 8,021,703
Total capital assets, not being depreciated/amortized	7,758,240	263,463	8,021,703
Capital assets, being depreciated/amortized:			
Buildings, structures, and improvements	16,967,141	-	16,967,141
Infrastructure	22,378,801	2,768,532	25,147,333
Vehicles, machinery and equipment, and furniture and fixtures	4,725,035	813,981	5,539,016
Office equipment under capital leases	141,502	-	141,502
Total capital assets, being depreciated/amortized	44,212,479	3,582,513	47,794,992
Total cost basis of capital assets	\$ 51,970,719	3,845,976	\$ 55,816,695
	Accumulated depreciation/ Amortization at beginning of fiscal year, as restated	Depreciation and amortization expense	Accumulated depreciation/ Amortization At end of fiscal year
Accumulated depreciation and amortization:			
Buildings, structures, and improvements	\$ 3,659,280	565,572	\$ 4,224,852
Infrastructure	8,246,848	539,503	8,786,351
Vehicle, machinery and equipment, and furniture and fixtures	4,165,123	1,351,998	5,517,121
Office equipment under capital leases	3,538	28,036	31,574
Total accumulated depreciation and amortization	16,074,789	2,485,109	18,559,898
Net capital assets	\$ 35,895,930	1,360,867	\$ 37,256,797

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Depreciation and amortization expense for the fiscal year ended June 30, 2007 was charged to functions/programs in the accompanying statement of activities as follows:

Governmental activities:	
General government	\$ 324,268
Public safety	324,268
Economic and urban development	863,771
Health and sanitation	324,268
Public housing and welfare	324,268
Culture, recreation, and education	324,266
Total depreciation and amortization expense	<u>\$ 2,485,109</u>

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7. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2007 is as follows:

	Balance at beginning of fiscal year, as restated	Borrowings or additions	Payments or deductions	Balance at end of fiscal year	Balance due within one year
Bonds payable	\$ 12,328,001	-	(101,000)	12,227,001	\$ 590,000
Notes payable:					
Puerto Rico Health Services Administration	281,935	-	-	281,935	-
Municipal Revenue Collection Center:					
Public Act No. 42 of January 26, 2000	563,176	-	(9,129)	554,047	9,702
Public Act No. 146 of October 11, 2001	408,957	-	-	408,957	14,995
Puerto Rico Department of Treasury:					
Legal settlement	339,089	-	(73,515)	265,574	77,276
Excess of property tax advances over collections	13,775	-	(4,118)	9,657	4,328
U.S. Department of Rural Development	-	280,510	-	280,510	-
Obligation under capital leases	139,999	-	(24,210)	115,789	26,221
Compensated absences	730,007	1,646,699	(730,007)	1,646,699	213,644
Estimated liability for solid waste landfill closure and post closure care costs	3,178,025	196,013	-	3,374,038	-
Claims and judgments	195,000	-	(195,000)	-	-
Total	<u>\$ 18,177,964</u>	<u>2,123,222</u>	<u>(1,136,979)</u>	<u>19,164,207</u>	<u>\$ 936,166</u>

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, federal cost disallowances, obligations under capital leases and any other long-term liabilities other than bonds.

a) Debt Limitation

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

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b) Bonds Payable

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt is composed of bonds payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As described in Note 4, the Municipality levies an annual additional special tax of 2.00 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2007:

	<u>Outstanding Amount</u>
1997-1998 serial bonds (face amount of \$610,000) due in annual principal installments ranging from \$14,000 to \$43,000; plus interests due in semiannually installments at variable rates (5.00% at June 30, 2007) through January, 1, 2011	\$ 159,001
1990-1991 serial bonds (face amount of \$400,000) due in annual principal installments ranging from \$11,000 to \$31,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2007) through January, 1, 2011	112,000
1990-1991 serial bonds (face amount of \$225,000) due in annual principal installments ranging from \$4,000 to \$18,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2007) through January 1, 2014	102,000
1993-1994 serial bonds (face amount \$657,000) due in annual principal installments ranging from \$16,000 to \$47,000; plus interests due in semiannually installments at variable rates (5.00% at June 30, 2007) through January 1, 2016	348,000
1994-1995 serial bonds (face amount of \$238,000) due in annual principal installments ranging from \$6,000 to \$17,000; plus interests due in semiannually installments at variable rates (5.00% at June 30, 2007) through January 1, 2016	128,000

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	<u>Outstanding Amount</u>
1994-1995 serial bonds (face amount of \$2,080,000) due in annual principal installments ranging from \$45,000 to \$195,000; plus interests due in semiannually installments at variable rates (6.05% at June 30, 2007) through July 1, 2014	1,220,000
1995-1996 serial bonds (face amount of \$106,000) due in annual principal installments ranging from \$2,000 to \$8,000; plus interests due in semiannually installments at variable rates (4.50% at June 30, 2007) through July 1, 2019	69,000
1994-1995 serial bonds (face amount of \$36,000) due in annual principal installments ranging from \$1,000 to \$3,000; plus interests due in semiannually installments at variable rates (4.50% at June 30, 2007) through January 1, 2019	24,000
2001-2002 serial bonds (face amount of \$1,910,000) due in annual principal installments ranging from \$5,000 to \$295,000; plus interests due in semiannually installments at variable rates (6.35% at June 30, 2007) through July 1, 2027	1,890,000
2003-2004 serial bonds (face amount of \$680,000) due in annual principal installments ranging from \$10,000 to \$50,000; plus interests due in semiannually installments at variable rates (4.17% at June 30, 2007) through July 1, 2027	630,000
2003-2004 serial bonds (face amount of \$230,000) due in annual principal installments ranging from \$5,000 to \$20,000; plus interests due in semiannually installments at variable rates (4.17% at June 30, 2007) through July 1, 2027	210,000
2003-2004 serial bonds (face amount of \$300,000) due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannually installments at variable rates (4.17% at June 30, 2007) through July 1, 2027	280,000
2003-2004 serial bonds (face amount of \$255,000) due in annual principal installments ranging from \$30,000 to \$45,000; plus interests due in semiannually installments at variable rates (4.17% at June 30, 2007) through July 1, 2010	160,000
2003-2004 serial bonds (face amount of \$305,000) due in annual principal installments ranging from \$5,000 to \$25,000; plus interests due in semiannually installments at variable rates (4.17% at June 30, 2007) through July 1, 2028	290,000

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	<u>Outstanding Amount</u>
2005-2006 serial bonds (face amount of \$135,000) due in annual principal installments ranging from \$5,000 to \$10,000; plus interests due in semiannually installments at variable rates (4.23% at June 30, 2007) through July 1, 2030	130,000
2005-2006 serial bonds (face amount of \$540,000) due in annual principal installments ranging from \$10,000 to \$45,000; plus interests due in semiannually installments at variable rates (4.23% at June 30, 2007) through July 1, 2030	530,000
2005-2006 serial bonds (face amount of \$335,000) due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannually installments at variable rates (4.23% at June 30, 2007) through July 1, 2030	330,000
2005-2006 serial bonds (face amount of \$1,700,000) due in annual principal installments ranging from \$70,000 to \$170,000; plus interests due in semiannually installments at variable rates (6.50% at June 30, 2007) through July 1, 2020	1,630,000
1996-1997 serial bonds (face amount of \$120,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannually installments at variable rates (6.60% at June 30, 2007) through July 1, 2011	55,000
1997-1998 serial bonds (face amount of \$3,310,000) due in annual principal installments ranging from \$75,000 to \$305,000; plus interests due in semiannually installments at variable rates (6.35% at June 30, 2007) through July 1, 2017	2,380,000
2001-2002 serial bonds (face amount of \$600,000) due in annual principal installments ranging from \$5,000 to \$50,000; plus interests due in semiannually installments at variable rates (6.37% at June 30, 2007) through July 1, 2026	555,000
2002-2003 serial bonds (face amount of \$335,000) due in annual principal installments ranging from \$5,000 to \$25,000; plus interests due in semiannually installments at variable rates (6.60% at June 30, 2007) through July 1, 2027	315,000
2006-2007 serial bonds (face amount of \$517,000) due in annual principal installments ranging from \$12,000 to \$34,000; plus interests due in semiannually installments at variable rates (4.25% at June 30, 2007) through July 1, 2027	505,000

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	Outstanding Amount
2003-2004 serial bonds (face amount of \$190,000) due in annual principal installments ranging from \$5,000 to \$15,000; plus interests due in semiannually installments at variable rates (6.60% at June 30, 2007) through July 1, 2028	175,000
Total bonds payable	\$12,227,001

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

Annual debt service requirements of maturity for bonds payable are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2008	\$ 590,000	708,822	\$ 1,298,822
2009	643,000	668,349	1,311,349
2010	682,000	624,663	1,306,663
2011	738,001	578,713	1,316,714
2012	659,000	530,548	1,189,548
2013-2017	3,371,000	2,003,865	5,374,865
2018-2022	2,374,000	953,490	3,327,490
2023-2027	2,286,000	402,935	2,688,935
2028-2032	884,000	40,151	924,151
Totals	\$ 12,227,001	6,511,536	\$ 18,738,537

At June 30, 2007, accrued interest payable on bonds amounted to \$362,125.

c) Notes Payable to CRIM

The Municipality had the following notes payables to CRIM at June 30, 2007:

- **Public Act No. 146** – On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Public Act No. 146 of October 11, 2001, as amended (Act No. 146). The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse.

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The original face amount of the note allocated by CRIM to the Municipality was for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund.

The outstanding principal of the note payable to CRIM amounted to \$408,957, at June 30, 2007. The principal and interest maturities are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2008	14,995	22,830	\$ 37,825
2009	16,358	21,256	37,614
2010	16,358	20,356	36,714
2011	16,358	19,456	35,814
2012	16,358	18,556	34,914
2013-2017	81,790	79,284	161,074
2018-2022	81,790	56,793	138,583
2023-2027	81,790	34,300	116,090
2028-2032	83,160	11,813	94,973
Totals	<u>\$ 408,957</u>	<u>284,644</u>	<u>\$ 693,601</u>

- **Public Act No. 42** – The Commonwealth’s Pubic Act No. 42 of January 26, 2000 (Act No. 42) was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement authorized CRIM to finance a debt that the municipalities of Puerto Rico had with such entity, which arose from the difference between the yearly final settlements of property tax advances made by CRIM to the municipalities and the actual property tax collections received by CRIM from taxpayers through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth are assigned through Act No. 42 to repay such note. The increase in this subsidy was the result of Public Act No. 238 of August 15, 1999.

In addition, on December 16, 2002 the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining of excess of property tax advances from fiscal years 2000, 2001 and other previous fiscal years. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (6.30 percent at June 30, 2007) but not exceeding 8.00 percent. Principal and interest payments on this financing

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agreement are accounted for in the general fund. The principal and interest maturities are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2008	\$ 10,002	33,833	43,835
2009	10,630	33,205	43,835
2010	11,099	32,736	43,835
2011	12,009	31,826	43,835
2012	12,764	31,071	43,835
2013-2017	76,901	142,274	219,175
2018-2022	104,198	114,977	219,175
2023-2027	141,334	77,841	219,175
2028-2032	175,110	658	175,768
Totals	\$ 554,047	498,421	\$ 1,052,468

d) Notes Payable to Puerto Rico Health Services Administration

Notes payable to the Puerto Rico Health Services Administration is related to the contribution due by the Municipality to the public health insurance of the Commonwealth of Puerto Rico. The balance of \$281,935 covers the period from August 1, 1996 to June 30, 1997. This note will be paid from future increases in the Municipality's share of contributions to be received from the Additional Lottery System of the Commonwealth of Puerto Rico (the Additional Lottery), an operational unit reported as an enterprise fund in the Commonwealth of Puerto Rico's basic financial statements. The Additional Lottery is required every fiscal year to distribute to the municipalities a portion of its excess of revenues over expenses as follows:

- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

e) Notes Payable to Puerto Rico Treasury Department – Legal Settlement

The Municipality entered into a financing agreement with the Puerto Rico Department of Treasury through 2011. The financing agreement allows for the financing of a debt that the Municipality has from the final settlements of legal settlements. The note is payable in monthly installments of \$7,400, at no interest.

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This note has an imputed interest rate of 5.00 percent. The outstanding balance of this note, net of the unamortized discount, amounted to \$265,574 at June 30, 2007. The principal maturities and the scheduled amortization of discount are as follows:

Fiscal year ending June 30,	Principal	Discount accretion	Total
2008	\$ 77,276	11,524	\$ 88,800
2009	81,230	7,570	88,800
2010	85,386	3,414	88,800
2011	21,682	179	21,861
Totals	\$ 265,574	22,687	\$ 288,261

f) Lease Obligations

The Municipality is obligated under capital leases with third parties that expire through 2008 for the acquisition of machinery and equipment. At June 30, 2007, the capitalized costs and the related accumulated depreciation of the leased machinery and equipment amounted to \$141,502 and \$31,575, respectively, which are accounted for as capital assets in the accompanying statement of net assets. Amortization charges applicable to capital leases and included within depreciation expense amounted to \$28,036 for the fiscal year ended June 30, 2007. The present value of the future minimum capital lease payments reported in the accompanying statement of net assets is as follows:

	Fiscal year ending June 30,	Amount
	2008	\$ 26,221
	2009	28,396
	2010	30,753
	2011	30,419
Total future minimum lease payments		\$115,789

At June 30, 2007, accrued interest payable on obligations under capital leases amounted to \$771.

8. Employees' Retirement Systems

a) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as

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amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- ***Retirement Annuity***

ERS members are eligible for a retirement annuity upon reaching the following age:

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

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

- ***Merit Annuity***

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

- ***Deferred Retirement Annuity***

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

- ***Coordinated Plan***

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- (a) \$165 per month, if retired with 55 years of age and 30 years of credited service.
- (b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.
- (c) All other between \$82 and \$100 per month.
- (d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

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- ***Non-Coordinated Plan***

On the non-coordinated plan the participating employee does not have any change on the pension benefits upon receiving social security benefits.

- ***Reversionary Annuity***

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.

- ***Occupational Disability Annuity***

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

- ***Non-occupational Disability Annuity***

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

- ***Death Benefits***

Occupational:

(a) **Surviving spouse** – annuity equal to 50 percent of the participating employee's salary at the date of the death.

(b) **Children** – \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

Non-occupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Post-retirement:

Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2005) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$750.

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June 30, 2007

- ***Refunds***

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- ***Cost of Living Adjustment for Pension Benefits***

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2005 are being financed by the Municipality and the other participating employers.

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

- ***Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan***

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Notes to Basic Financial Statements
June 30, 2007

Historically, the Commonwealth has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

- ***Recent Amendments to Act No. 447***

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2005.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2005.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2005.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from \$3,000 to \$5,000.

- b) Funding Policy***

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	
Coordination plan:	5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600.
Supplementation plan:	8.28 percent of gross salary. This is the only choice available to policemen, firemen and majors

9. Solid Waste Landfill Closure and Post-Closure Care Costs

State and federal laws and regulations require the Municipality to carry out a certain closure work on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site in the following years.

In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs" (GASB No. 18), the Municipality has performed a study of the closing and post-closing costs in order to recognize a provision for those future estimated costs. Based on this study, the Municipality recognized \$3,374,038 as the Municipality's estimated current costs for landfill closure as of June 30, 2007. Actual costs may differ due to inflation, changes in

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Notes to Basic Financial Statements
June 30, 2007

technology, or changes in laws and regulations. The Municipality expects to finance this obligation with an assignment of the central government and federal funds. In addition, the Solid Waste Disposal Administration of Puerto Rico approved to the Municipality the amount of \$1,000,000 to be used on the disposition of municipal solid waste landfill closing costs.

10. Commitments and Contingencies

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

With respects to pending or threatened litigation, the Municipality has not reported liabilities for awarded or anticipated unfavorable judgments as of June 30, 2007. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant, if any.

The Municipality has reported, outstanding encumbrances amounting to \$234,894 in the general fund at June 30, 2007. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

11. Prior-period Adjustments

During current year, the Municipality performed a physical inventory of its general infrastructure assets and certain sports and recreational facilities transferred to the Municipality by the Puerto Rico Department of Sports and Recreation. These assets were unrecorded in previous years. As part of such physical performed an accounting valuation of such assets which resulted in a prior-period adjustment of approximately \$19,474,176 in the accompanying statement of net assets.

In addition, during the current year, the Municipality recorded a prior-period adjustment \$1,978,025 to increase is estimated liability for municipal solid waste landfill closure and post-closure care costs. The adjustment arose from a study performed by management to validate the actual costs of such matters at June 30, 2007.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
 Budgetary Comparison Schedule – General Fund
 Fiscal Year Ended June 30, 2007

	<u>Original budgeted amounts</u>	<u>Final budgeted amounts</u>	<u>Actual (budgetary basis)</u>	<u>Variance with final budget – over (under)</u>
Revenues:				
Taxes:				
Property taxes	\$ 6,229,636	6,229,636	6,432,433	\$ 202,797
Municipal license taxes	4,836,338	4,836,338	4,688,700	(147,638)
Sales and use tax	-	-	563,449	563,449
Construction excise taxes	1,000,000	1,000,000	477,170	(522,830)
Intergovernmental grants and contributions	1,500,240	1,500,240	1,579,726	79,486
Interest on deposits	50,000	50,000	75,824	25,824
Charges for services	92,000	92,000	160,791	68,791
Miscellaneous	1,028,966	1,028,966	387,757	(641,209)
Total revenues and transfers from other funds	<u>14,737,180</u>	<u>14,737,180</u>	<u>14,365,850</u>	<u>(371,330)</u>
Expenditures:				
Current:				
General government	9,417,636	9,417,636	4,281,748	5,135,888
Urban and economic development	2,706,091	2,706,091	1,734,418	971,673
Health and sanitation	618,782	618,782	3,165,060	(2,546,278)
Public safety	854,521	854,521	1,875,114	(1,020,593)
Public housing and welfare	175,181	175,181	1,201,010	(1,025,829)
Culture, recreation and education	964,969	964,969	1,975,918	(1,010,949)
Debt service:				
Principal	-	-	229,720	(229,720)
Capital outlays	-	-	355,613	(355,613)
Total expenditures and transfers to other funds	<u>\$ 14,737,180</u>	<u>14,737,180</u>	<u>14,818,601</u>	<u>\$ (81,421)</u>

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Schedule of Expenditures of Federal Awards
June 30, 2007

	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Section 8 Housing Choice Vouchers	14.871	*RQ-045-VO	\$ 621,410
Housing Opportunities for Persons with AIDS	14.241		36,389
Community Development Block Grant/Small Cities	14.219	* All program years	<u>806,476</u>
Total U.S. Department of Housing and Urban Development			<u>1,464,275</u>
U.S. Department of Agriculture			
Child and Adult Care Food Program	10.558	N/A	9,191
Water and Waste Disposal Systems for Rural Communities	10.760	*N/A	<u>916,898</u>
Total U.S. Department of Agriculture			<u>926,089</u>
U.S. Department of Health and Human Services			
Child Care and Development Block Grant	93.575	N/A	<u>259,935</u>
Total U.S. Department of Health and Human Services			<u>259,935</u>
Pass Through Office of the Governor/FEMA	N/A	N/A	<u>186,571</u>
Total Federal Financial Assistance			<u>\$ 2,836,870</u>

* Major programs

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Notes to Schedule of Expenditures of Federal Awards
June 30, 2007

1. General

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Yabucoa of the Commonwealth of Puerto Rico and is presented on the accrual basis of accounting. The Municipality of Yabucoa reporting entity is defined in Note 1 to the Municipality's general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non Profit Organizations, therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

2. Relationship to General Purpose Financial Statements

Expenditures of the federal awards as reported in the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds, are included within the Nonmajor Governmental Funds. The reconciliation between the expenditures in the basic financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Expenditures in the Basic Financial Statements

Nonmajor governmental funds	\$ 4,302,107
Less: Non-federal expenditures	<u>(1,465,237)</u>
 Total expenditures in the Schedule of Federal Awards	 <u>\$ 2,836,870</u>



BENITEZ-JAIME, CPA-PSC

Certified Public Accountants and Business Consultants

COMMONWEALTH OF PUERTO RICO MUNICIPALITY OF YABUCOA

Report on Compliance and on Internal Control over Financial Reporting Based on an
audit of Financial Statements performed in accordance with Government Auditing Standards
June 30, 2007

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

We have audited the financial statements of the Municipality of Yabucoa of the Commonwealth of Puerto Rico as of and for the year ended June 30, 2007, and have issued our report thereon dated October 15, 2007. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Yabucoa of the Commonwealth of Puerto Rico internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 07-01 thru 07-12.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-01, 07-02, 07-03, 07-04, 07-05, 07-06, 07-07, 07-08 and 07-09 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Yabucoa of the Commonwealth of Puerto Rico financial statements are free of 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 are described in the accompanying schedule of findings and questioned costs as items 07-13 thru 07-33.

The Municipality of Yabucoa of the Commonwealth of Puerto Rico response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Municipality's management, municipal legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Toa Alta, Puerto Rico
October 15, 2007

Stamp No. 2235762
was affixed to
the original report.



CPA - PSC



BENITEZ-JAIME, CPA-PSC

Certified Public Accountants and Business Consultants

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF YABUCOA

Report on compliance with requirements applicable to each major program and on
Internal Control over compliance in accordance with OMB Circular A-133

June 30, 2007

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

Compliance

We have audited the compliance of the Municipality of Yabucoa of the Commonwealth of Puerto Rico (the Municipality) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Municipality's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality's management. Our responsibility is to express an opinion on Municipality's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality'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. Our audit does not provide a legal determination of Municipality's compliance with those requirements.

As described in items 07-14, 07-15, 07-16, 07-17, 07-18, and 07-19 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with the procurement, suspension and debarment, equipment and real property management, cash management, eligibility, reporting, requirements that are applicable to its Section 8 Housing Choice Vouchers Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 07-14, 07-15, 07-20, 07-22, 07-23 and 07-24 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with the procurement, suspension and debarment, equipment and real property management, cash management, Davis-Bacon Act, Special tests and provisions, reporting requirements that are applicable to its Community Development Block Grant – State Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 07-14, 07-15, 07-26 and 07-28 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with the procurement, suspension and debarment, equipment and real property management, cash management, Davis-Bacon Act, requirements that are applicable to its Water and Waste Disposal System for Rural Development Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

In our opinion, the Municipality of Yabucoa, Commonwealth of Puerto Rico, except for the instances of noncompliance described in preceding paragraphs, the Section 8 Housing Choice Vouchers Program, the Community Development Block Grant – State Program, and the Water and Waste Disposal System for Rural Development Program of complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

The results of our auditing procedures also disclosed other instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 07-13, 07-21- 07-25, 07-27, 07-29, 07-30, 07-31, 07-32 and 07-33.

Internal Control Over Compliance

The management of Municipality of Yabucoa, Commonwealth of Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-01 thru 07-12 significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 07-01, 07-02, 07-03, 07-04, 07-05, 07-06, 07-07, 07-08 and 07-09 to be material weaknesses.

The Municipality of Yabucoa, Commonwealth of Puerto Rico response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Municipality's management, Municipal legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Toa Alta, Puerto Rico
October 15, 2007

Stamp No. 2235763
was affixed to the
original report.

 CPA-PSC

**MUNICIPALITY OF YABUCOA,
COMMONWEALTH OF PUERTO RICO
Schedule of Findings and Questioned Costs
Section I: Summary of Auditors' Results
Fiscal Year Ended June 30, 2007**

Financial Statements:

Type of auditors' report issued: Qualified opinion

Internal control over financial reporting:
 Material weakness (es) identified? X Yes No
 Control deficiency(ies) identified
 not considered to be material weakness? X Yes None reported

Noncompliance material to financial statements noted? X Yes No

Federal Awards:

Internal control over major programs:
 Material weakness (es) identified? X Yes No
 Control deficiency(ies) identified
 not considered to be material weaknesses? X Yes None reported

Type of auditor's report issued on compliance
 for major programs: Qualified opinion for each major
program

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Voucher
14.219	Community Development Block Grant/Small Cities
10.760	Water and Waste Disposal Systems for Rural Communities

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

Auditee qualified as low-risk auditee? Yes X No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Schedule of Findings and Questioned Costs
June 30, 2007

07-01 DEFICIENCIES IN THE UNIFORM ACCOUNTING SYSTEM AND OTHER ACCOUNTING RECORDS

STATEMENT OF CONDITION:

The Uniform Accounting System (UAS) and the accounting records currently used by the Municipality do not have the necessary capabilities, procedures, internal controls and records to ensure accurate financial reporting and to prepare the Municipality's basic financial statements and federal programs' reports in conformity with Accounting Principles Generally Accepted in the United States of America for State and Local Governments (GAAP). The UAS is a system promulgated by the Office of the Commissioner of Municipal Affairs of Puerto Rico (OCAM, by its Spanish acronym), a state governmental entity created by law to provide technical assistance to the municipalities of Puerto Rico in several administrative and fiscal matters.

The Municipality's UAS mostly provides for the recording of revenue collections, disbursements and other limited transactions. In addition, the accounting records are not fully integrated, and a double entry system is not generally followed. Accounting records are maintained on the cash and the budgetary bases of accounting (two accounting bases that differ significantly from GAAP) and, accordingly, do not comply with Statement No. 34 of the Governmental Accounting Standards Board (GASB 34), as amended, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*.

The following specific additional conditions were noted in relation to the UAS of the Municipality as part of our internal control and substantive tests:

- The UAS does not have the capabilities of: (1) distinguishing between expenditures (or expenses) incurred and encumbered, (2) recording and processing all types of capital asset transactions, principally the accounting and reporting of depreciation and amortization expense, (3) recording and processing all transactions related to revenues susceptible to accrual (accounts receivable) and, (4) recording and processing transactions related to long-term debt, including bonds and notes payable, obligations under capital leases, reserves for federal cost disallowances, legal claims and judgments, compensated absences, estimated liability for municipal solid waste landfill closure and post-closure maintenance costs, etc.
- No adequate year-end closing procedures are made to account for all transactions affecting all funds.
- No adequate segregation is made between items representing actual accounts payable and those representing outstanding encumbrances. Accordingly, material amounts of unrecorded liabilities are generally recorded at fiscal year-end manually, which causes inadequate interim financial reporting for managerial purposes and untimely financial reporting for external parties.
- The management of the federal financially assisted programs administered by the Municipality maintains separate accounting records for each federal financially assisted program, which are not reconciled with the UAS (the official accounting system of the Municipality).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Schedule of Findings and Questioned Costs
June 30, 2007

- No adequate and complete accounting records are kept for inter-fund balances and transactions. The Municipality's accounting records do not maintain adequate documentation to support the existence, completeness and valuation of inter-fund balances.
- No adequate and complete accounting records are kept for accounts receivable transactions. The Municipality's accounting records do not maintain adequate documentation to support the existence, completeness and valuation of accounts receivable balances and the efforts carried out by the management of the Municipality to collect those balances periodically. Generally, material amounts of unrecorded receivables are recorded at fiscal year-end manually, which causes inadequate interim financial reporting for managerial purposes and untimely financial reporting for external parties.
- The audit adjustments resulting from Single Audits are not posted in the UAS, consequently, the UAS do not reflect the real financial position and the results of operations of the Municipality and its governmental funds.

Currently, in order to achieve an accurate financial reporting for external parties, the basic financial statements of the Municipality are prepared using financial information obtained from various municipal departments and accounting records outside of the official UAS, and from information obtained from regulators, federal and state governmental agencies, and independent third parties. In addition, the Department of Finance of the Municipality does not maintain accounting records and working papers supporting the balances and disclosures reported in the basic financial statements, principally those related to government-wide financial reporting.

The Department of Finance of the Municipality does not maintain accounting records supporting the following procedures performed as part of the preparation of the basic financial statements of the Municipality:

- The conversion of accounting records from the cash basis of accounting used by the UAS to the modified accrual basis and the accrual basis of accounting used by governmental funds for financial reporting purposes, respectively;
- The conversion of governmental funds from the modified accrual basis to the accrual basis of accounting used by government-wide financial statements; and
- Working papers and analyses of significant balances reported in the basic financial statements, such as capital assets, accounts receivable (municipal licenses, grants and contributions, etc.), deferred revenues, accounts payable, and long-term obligations (for which the general practice is to rely upon the notifications received from the Government Development Bank for Puerto Rico, the Puerto Rico Treasury Department, the Federal Government and the Municipal Revenue Collection Center for the balance of its outstanding debt and the withholding for its debt service).

CRITERIA:

Article 8.010(b) of Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81), states that the Municipality must maintain its fund accounting in accordance

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Schedule of Findings and Questioned Costs
June 30, 2007

with Accounting Principles Generally Accepted in the United States of America (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), the National Committee on Governmental Accounting (NCGA) and the *Governmental Accounting, Auditing and Financial Reporting Book* (commonly known as Blue Book).

In addition, Article 8.010(c) of Law No. 81 states that uniform accounting system used by the Municipality must: (1) produce reliable reports and financial statements, (2) provide complete information about the results of operations of the Municipality, and (3) include the necessary internal controls to account for all funds, capital assets and other assets of the Municipality.

Furthermore, Section 5 of the *Revised Regulation on Basic Standards for the Municipalities of Puerto Rico*, which were created pursuant to Article 19.011 of Law No. 81 and approved by the Office of the Commissioner of Municipal Affairs, state that the accounting system of the Municipality should include:

- Final entry books that allow for the preparation of month-end summaries of transactions for posting in the original entry records and for the gathering of information needed for the preparation of basic financial statements and other reports;
- Fiscal procedures for the system's operations, establishing proper internal controls and the prevention of irregularities. These procedures should provide for the timely and accurate performance of operations. It should include the necessary records, files, reconciliations, adjustments, closing entries, reports, and all other necessary documentation to support the basic financial statements.

CAUSE AND EFFECT:

Due to the conditions referred to above, the preparation of the Municipality's basic financial statements as of and for the fiscal year ended June 30, 2007 was completed during November 2007. A significant amount of accounting and audit adjusting entries had to be made to the financial data and reports processed through the UAS in order to properly account for unrecorded transactions and to correct transactions recorded in the incorrect accounting period. Since the accounts and other accounting records of the UAS are not designed to provide all the information necessary to prepare the Municipality's basic financial statements, the Municipality had to obtain and process financial data from several sources outside the UAS. These conditions represent a material weakness in the Municipality's internal controls over financial reporting.

The continued failure to have an adequate accounting system does not allow the Municipality to have timely and accurate financial information for its decision making process. In addition, financial reports prepared may have errors or omissions that will affect future financial decisions. Another effect is the use of inaccurate financial information as a base for the preparation of annual budgets, which, therefore, may result in budgetary compliance problems.

As a partially mitigating factor, the Municipality established a *Financial Reporting Task Force* composed of the management team of the Department of Finance and outside consultants. Such team worked together after the year-end closing to prepare the Municipality's basic financial statements, including most of the accounting records and reports needed to support the balances and disclosures reported in the basic financial statements as of and for the fiscal year ended June 30, 2007.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Schedule of Findings and Questioned Costs
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RECOMMENDATION:

We recommend the Municipality to explore different alternatives for the implementation of a new accounting system in compliance with all applicable federal and local laws and regulations. This process should include only accounting systems that will enable the Municipality to prepare its basic financial statements in a timely manner and in conformity with GAAP. The systems to be evaluated must provide the necessary financial information that will serve as the basis for the effective control of revenues, disbursements, assets and liabilities, and the reporting of such items in the Municipality's financial statements, including:

- The implementation of a double entry accounting system, the integration of all subsidiary ledgers and the reconciliation with the records maintained for federal funds;
- The preparation of periodic financial reports to be submitted to the Director of Finance, the Mayor, the Municipal Legislature and the federal grantors; and
- Adequate training to all accounting personnel to improve the understanding of the system and to promote operational efficiency

The Department of Finance must establish and document new accounting policies and procedures addressed to correct the non-compliance situations referred to above. Accounting policies and procedures shall be promulgated by an appropriate level of management to emphasize their importance and authority. The documentation of such accounting policies and procedures shall be updated periodically according to a predetermined schedule.

The selection and implementation of a new accounting system must be made with the approval of the Office of the Commissioner of Municipal Affairs and in compliance with Law No. 81 and other applicable regulations.

07-02 MANUAL ACCOUNTING SYSTEM AND LACK OF RECONCILIATION WITH UNIFORM ACCOUNTING SYSTEM (UAS)

STATEMENT OF CONDITION:

During fiscal year ended June 30, 2007, the Municipality used a manual accounting system for the purpose of preparing various accounting cycles of the Municipality. Such system consists principally of electronic spreadsheets in which the Municipality accounts for all financial transactions of substantially all accounting cycles, including the disbursements and collections cycles.

However, the Uniform Accounting System (UAS), which is the official accounting system of the Municipality (required by law to be used for financial reporting purposes and the preparation of the basic financial statements), has been actually used by the management of the Municipality in a limited manner. Several significant transactions are not accounted for in the UAS in timely manner, and other transactions incurred during the fiscal year ended June 30, 2007 were not recorded in the UAS at such balance sheet date. The Municipality does not perform a reconciliation process of both systems, although both systems

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have significant timing and permanent differences at June 30, 2007, principally those arising for a significant number of checks issued manually from various bank accounts.

At June 30, 2007, the Municipality has not obtained the approval from the Office of the Commissioner of Municipal Affairs for the use of the manual system referred to above.

CRITERIA:

Article 8.010(c) of Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81), states that every municipality shall be obligated to use the UAS designed and approved by the Office of the Commissioner of Municipal Affairs for all municipalities of the Commonwealth of Puerto Rico, including its charts of accounts, the reporting requirements and its internal control regulations.

The Municipalities may adopt an accounting system different than the UAS, subject to previous evaluation and approval of the Office of the Commissioner of Municipal Affairs.

CAUSE AND EFFECT:

Due to the inherent limitations of the UAS, some of which have been reported in audit finding number 07-01, the management of the Municipality implemented and used the manual accounting system referred to above.

The lack of a reconciliation process between the UAS and the manual accounting system may increase the risk of fraudulent financial reporting and may increase the risks of misappropriation of assets and undetected errors and irregularities, including those related to federal financially assisted programs. This situation may lead to incorrect or fraudulent budgetary reporting since the budgetary system of the UAS may not have all disbursements incurred during a given fiscal year, which may cause that the Budgetary Liquidation Report prepared at the end of the fiscal year to be misleading. Accordingly, these conditions represent a material weakness in the Municipality's internal controls over financial reporting.

RECOMMENDATION:

We recommend the Municipality to ascertain that all accounting transactions of the Municipality are accounted for in the UAS and a reconciliation process between the UAS and the manual accounting system is made and documented on a monthly basis. Differences between both accounting systems must be identified and adjusted on a monthly basis also.

We also recommend the Municipality to limit the use of the manual system to accounting areas and transactions for which the UAS is not capable of handling, such as capital assets' depreciation expense, long-term debt, etc. In the other hand, the Municipality must maintain the UAS as its primary and official accounting system, which implies that it must account for all financial transactions, principally all disbursements.

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07-03 DEFICIENCIES IN BANK ACCOUNT RECONCILIATIONS

STATEMENT OF CONDITION:

- A. For each of the twelve months of the fiscal year ended June 30, 2007, the Municipality did not reconcile the cash balances reported in the monthly bank statements of several bank accounts against their respective balances reported in the general ledgers of the Municipality's Uniform Accounting System (UAS). The reconciliation process performed by the Municipality's Department of Finance has been limited to present, in a form of a "partial bank reconciliation report", the bank balances at the end of each month for each bank account, reduced by the effect of outstanding checks and increased by deposits in transit of each account, as applicable. However, such reconciliations did not compare the adjusted bank balances at the end of each month with the book cash balances carried over in the UAS.
- B. The Municipality does not have an effective internal control structure to ensure the prompt reconciliation of all bank accounts at the fiscal year-end. As part of our audit procedures, we noted that for the month ended June 30, 2007, the "partial bank reconciliation reports" were completed in September 2007. The "Model 4A Cash Transaction Report" was not prepared for the fiscal year 2006-2007 and also, various unreconciled differences presented in the "partial bank reconciliation reports" were not adjusted and in other situations remained unexplained.
- C. Also, for the following bank accounts the applicable bank reconciliations were not available for examination at June 30, 2007 :

Bank Account Name

1. Cuenta Corriente II
 2. Municipio de Yabucoa
 3. Reparación Daños Huracán
 4. S.S.S. Escrow
 5. UMTA
 6. Código de Orden Público
 7. Administrative Fees
- D. Additionally, the following bank accounts reconciliations for bank accounts kept at a financial institution acting as a fiscal agent, were not available at year end nor were prepared for the entire fiscal year 2006-2007:

BANK ACCOUNT NAME

1. Bond issuance \$ 2,080,000
2. Bond issuance \$ 775,000
3. Bond issuance \$ 1,500,000
4. Bond issuance \$ 270,000
5. Bond issuance \$ 600,000
6. Bond issuance \$ 505,000
7. Bond issuance \$ 230,000

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8. Bond issuance \$ 680,000
9. Bond issuance \$ 300,000
10. Bond issuance \$ 335,000
11. Bond issuance \$ 255,000
12. Bond issuance \$ 190,000
13. Bond issuance \$ 305,000
14. Bond issuance \$ 540,000
15. Bond issuance \$ 335,000
16. Bond issuance \$ 135,000
17. Bond issuance \$ 1,700,000
18. MFA 2005
19. Sobrante Reserva
20. LC57 MM-AE
21. Lluvias Noviembre 2003
22. Huracan Goerges
23. Tormenta Jeanne
24. Lluvias Octubre FEMA 1613
25. Bond issuance \$ 1,700,000
26. Bond issuance \$ 2,800,000

- E. Besides, as part of our audit procedures we noted that in 23 (83%) out of the 28 "partial bank reconciliations" prepared and available at June 30, 2007, were not signed and dated by the preparer nor signed and dated by the reviewer. The bank reconciliations are the following:

BANK ACCOUNT NAME

1. Cuenta corriente I
2. Cuenta emprstimo
3. Cuenta Vertedero
4. FEMA Lluvias Torrenciales
5. Fondos Especiales
6. Fondos Lluvias
7. HOPWA
8. INSEC
9. Ley 52
10. Tormenta Jeanne-Yabucoa
11. Nomina II
12. Plan Antiterrorismo y Armas
13. Reparacion Mini Vivienda
14. Resolucion Conjunta
15. Rural Development
16. Section 8 Housing Voucher
17. Servicios Sociales Ama de Llaves
18. Sistema Sanitario
19. Victimas del Crimen
20. Resolucion Conjunta 1166
21. Food Program

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22. Undesignated Funds
23. FEMA DR 1613

F. Also, the Municipality has not established sufficient controls in handling of bank accounts to prevent errors and irregularities from being timely detected. The following control deficiencies were noted during our examination:

1. Unexplained unreconciled differences in several bank accounts amounting to \$ 1,500,000 were noted. The bank accounts are the following:

BANK ACCOUNT NAME	AMOUNT
Cuenta corriente II	\$ 79,979
Cuenta Corriente I	212,692
Cuenta Empréstito	217,458
Fondos Especiales	959,191
Cuenta Nomina	<u>30,680</u>
	<u>\$ 1,500,000</u>

2. Reconciling items have been outstanding for more than one year without adequate explanation. The bank reconciliations are the following:

BANK ACCOUNT NAME	RECONCILING ITEMS OVER ONE YEAR	OUTSTANDING CHECKS OVER ONE YEAR
Cuenta Empréstito	-	\$ 776,910
Fondos Especiales	-	1,592
HOPWA	537	262
Cuenta Nomina	-	9,206
Resoluciones Conjuntas	-	26,168
SBGP	23	-
Sección 8 – Voucher	4,038	16
Cuenta Corriente	-	<u>3,318</u>
	<u>\$ 4,598</u>	<u>\$ 817,472</u>

3. No detail of the outstanding checks for the Rural Development – Sistema Sanitario Barrio Ingenio bank account was provided at June 30, 2007.

G. Finally, the Municipality does not have adequate control over its cash disbursements to avoid incurring interest costs and bank overdraft charges. The Municipality incurred in bank charges resulting from bank overdrafts during the year. These situations occur because the Municipality does not effectively monitor its cash balances before issuing payments, thus resulting in bank overdraft charges and additional costs. The bank accounts were the following:

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BANK ACCOUNT NAME	BANK OVERDRAFT	OVERDRAFT DATE	INTEREST/BANK CHARGES
HOPWA	\$ 216.97	January 2007	\$ 6.00
Resoluciones Conjuntas	9,921.45	April 2007	10.00
Resoluciones Conjuntas	<u>60.92</u>	June 2007	<u>127.92</u>
	<u>\$10,199.34</u>		<u>\$ 143.92</u>

07-04 DEFICIENCIES IN ACCOUNTING RECORDS OF CAPITAL ASSETS

STATEMENT OF CONDITION:

The Municipality does not have an effective system to accurately account for capital assets. There are no internal controls and procedures to ensure that all capitalizable expenditures and property dispositions are recorded in the capital assets subsidiary ledger. A significant portion of the real property and personal property acquired, constructed or improved with federal and local funds is not currently recorded in the capital assets subsidiary ledger. Accordingly, the Municipality has not maintained complete and adequate records over capital assets.

The Municipality has not performed periodical physical inventories of its capital assets (real property and personal property). As part of our internal control and substantive tests, we noted that the Municipality has not organized and performed a physical inventory during the fiscal year ended June 30, 2007. Accordingly, the capital assets recorded in the accompanying statement of net assets do not include several items of the real property, which should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34), as amended, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*.

The following additional conditions were noted in relation to capital assets:

- The Municipality’s capital asset subsidiary ledger is not reviewed or updated on a regular basis for the purposes of identifying and removing those items that have been impaired, taken out of service or provide no future benefit. As a result, the capital assets subsidiary ledger does not accurately provide sufficient and competent evidence of the existence, ownership and valuation of the capital assets owned by the Municipality.
- The Municipality does not have formal accounting and control procedures and policies to ensure compliance with the capital assets requirements established by GASB No. 34 and Statement No. 42 of the Governmental Accounting Standards Board, *Accounting and Reporting for Impairments of Capital Assets and Insurance Recoveries* (GASB No. 42).
- The subsidiary ledger of capital assets is not periodically reconciled with the property subsidiary ledgers maintained by the Municipality’s several individual federal financially assisted programs.

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CRITERIA:

Article 9.002 of Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81), states that all municipalities must prepare and maintain an updated subsidiary ledger (record) of all real properties.

In addition, Chapter VII, Section 22, of the *Revised Regulation on Basic Standards for the Municipalities of Puerto Rico*, requires that each Municipality must maintain an adequate control of capital assets through annual physical inventories. In addition, any differences between physical inventory amounts and subsidiary records must be investigated and adjusted. Considering that according to accounting records of the Municipality, the capital assets represent the most significant assets of the Municipality, there is a significant risk of unauthorized use or disposition of capital assets because there are no adequate internal controls in place to ensure accountability of capital assets by department or federal program.

Chapter VII, Sections 3, 4, 14, 15 and 21 of the *Revised Regulation on Basic Standards for the Municipalities of Puerto Rico* establish the following guidelines regarding property management:

- Section 3 establishes that the Finance Director is responsible for the accountability of the capital assets acquired by the Municipality through purchases or donations.
- Section 4 establishes that the Municipal Property Administrator shall be responsible to the Mayor and the Finance Director for the direct administration, use and maintenance of the entire real and personal property owned by the Municipality.
- Section 14(1) establishes that all municipal property shall be numbered and identified as to ownership by the Municipal Property Administrator.
- Section 15(1) establishes that the Municipal Property Administrator is responsible for accurately maintaining the central property records.
- Section 21(c) establishes that management shall write-off from the property records all property and equipment sold or disposed of when certified by the Internal Auditor of the Municipality upon determination that such disposal is adequate.

CAUSE AND EFFECT:

These instances of non-compliance occurred because the Property Division of the Municipality has not enforced the requirement to perform a capital assets inventory and to ensure the proper accountability of capital assets during the fiscal year ended June 30, 2007. Accordingly, the Municipality's internal controls in place over capital assets are not designed to effectively account for capital assets, since it do not allow for the reconciliation of detailed property records with the general ledger. These inadequate property internal controls may expose the Municipality to questioned or disallowed costs by the federal government for lost or stolen property. This condition represents a material weakness in the Municipality's internal controls over financial reporting.

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Furthermore, this situation represents a significant risk of loss of capital assets because there is a lack of accountability for acquired capital assets. Any federally funded capital assets lost would need to be repaid to the federal government with municipal funds.

RECOMMENDATION:

A physical inventory of the Municipality's capital assets should be taken as soon as possible and subsequently on annual basis. Physical inventory amounts should be reconciled with the capital assets recorded in the subsidiary ledgers. Furthermore, the Mayor may issue an executive order to require compliance with this requirement. For these purposes, the Property Division of the Municipality must require from each Municipal Department that acquires or manage capital assets to submit a report including a full description of the asset, location, use, source of funds used to acquire the asset, responsible personnel, cost and any other pertinent data required by state and local regulations. This information should be reconciled with the monthly disbursements (capital outlays) made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Municipal Property Administrator and the Finance Director, and should be carried out by persons other than the users and through public announcements or bids.

We also recommend that the Municipality implement a formal policy whereby all capital expenditures in excess of an established amount are capitalized with all other amounts charged to operations. This will lead to improved consistency and simplification of accounting records.

We also recommend that the subsidiary ledger of capital assets be updated on a monthly basis for the write-off of non-operational, fully depreciated, or impaired items. Having such a procedure in place will ensure that the Municipality has an accurate record of its capital assets and will ensure that gains and losses on disposals are recorded in the proper accounting period. We also recommend that the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal programs.

To provide greater control over the recording of capital asset additions and retirements, we also recommend the Municipality to consider purchasing a software package to automate the recording of capital assets along with automatically computing depreciation expense for financial reporting purposes. The use of such software package would improve the overall efficiency within the accounting function and allow for departmental reporting of depreciation expense, including federal programs.

07-05 UNAUTHORIZED INTER-FUND LOANS AND INADEQUATE ACCOUNTING RECORDS OF INTER-FUND BALANCES AND TRANSACTIONS

STATEMENT OF CONDITION:

The Municipality has made various inter-fund cash loans from restricted financial resources without the previous authorization from federal or state grantors. As part of our audit procedures, we noted the following unauthorized loans made during the fiscal year ended June 30, 2007:

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Lending Fund - Federal	Borrowing Fund	Loan Amount
Child Care Program	Food Program	\$7,590
SBGP Program	Voucher Program	\$17,111

Lending Fund - State	Borrowing Fund	Loan Amount
Edificios Federales Fund	SBGP Program	\$71,841
Edificios Federales Fund	Food Program	\$3,626
Edificios Federales Fund	Child Care Program	\$3,075
Department of Labor – Law 52/Law 82	Storm Jeanne	\$51,600
State Legislative Joint Resolutions Fund	General Fund	\$45,051

In addition to the above conditions, the Municipality does not have formal accounting policies for inter-fund transactions. During our audit we noted that financial resources transferred among different funds are accounted for as “expenditures” in the fund making the transfer and as “revenues” in the receiving fund. Also, there are no subsidiary records to accurately account for the inter-fund receivable and payable balances and the proper authorization of such transactions.

The Municipality determined the amounts presented in the basic financial statements after searching for transfer transactions in its accounting records, but this process does not reduce the risk that these transactions are correctly accounted for. No consideration is given to the nature of the transaction as a transfer or as an inter-fund loan. Accordingly, revenues, expenditures, and inter-fund receivables and payables reported in the Uniform Accounting System (UAS) were adjusted for financial reporting purposes to partially conform to the presentation in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). The above treatment of inter-fund transactions is not in accordance with GAAP.

In addition, the Municipality does not record in the UAS the audit adjustments of inter-fund transactions arising in the Single Audit, which creates permanent differences between the UAS and the audited financial statements.

Furthermore, the Municipality does not maintain adequate records showing the nature and collectibility of inter-fund balances, including the repayment terms and the repayment schedule. There are no subsidiary records documenting the efforts made by the Department of Finance to collect or pay inter-fund balances among funds.

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CRITERIA:

Article 8.010(b) of the Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81), states that the accounting system shall provide for the accounting procedures and records to be maintained in accordance with GAAP applicable to governmental entities.

In addition, the activities and the use of the financial resources of funds obtained through state or federal grants and contributions, are subject to the specific requirements found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. Accordingly, these revenue sources are set aside for a specific purposes based on restrictions requiring that they be spent only for specified purposes.

CAUSE AND EFFECT:

The continued occurrence of these situations may result in additional uses of one fund's moneys to finance the activities of another fund, and the funds not being reimbursed to the proper fund. Accordingly, there is a possibility that situations occur in which the Municipality may need to refund the federal agencies for amounts owed resulting from unauthorized inter-fund transactions, including the possibility of being assessed penalties and interest costs on such advances. This may represent an additional financial burden to the Municipality's general fund

The aforementioned conditions represent a material weakness in the Municipality's internal controls over financial reporting.

Questioned Cost: \$24,701

RECOMMENDATION:

The Municipality should establish and maintain a subsidiary ledger to accurately account for inter-fund transactions, including adequate information about the nature, terms and repayment schedule of such balances. Furthermore, the Municipality should immediately refund amounts owed to the federal funds, if any, to prevent the assessment of interest and penalties on such funds.

07-06 INACTIVE BANK ACCOUNTS ARE NOT CLOSED

STATEMENT OF CONDITION:

The Municipality is maintaining a number of bank accounts that have been inactive for a long period of time. During our audit, we noted that the Municipality's accounting records include eight (8) bank accounts that have been inactive or had insignificant transactions during the fiscal year ended June 30, 2007. The inactive bank accounts are the following:

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Account Name	Balance
Ama de Llaves Estatal	\$ 3,969
Plan Antiterrorismo y Armas	14,743
Victimas del Crimen	1,689
UDAG	4,301
Sistema Sanitario Ingenio	1,558
Lluvias Dean	9,864
Reparacion Daños Huracán	736
Lluvias Noviembre 2003	<u>9,477</u>
Total	<u>\$ 46,337</u>

CRITERIA:

Article 8.007(b) of the Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81), states that funds without specific fiscal years should be closed when the fund's objectives have been completed.

NCGA Statement No. 1, paragraph 4, states that "governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration".

In addition, the recommended practice on "*Improving the Effectiveness of Fund Accounting*" (2004), issued by the Government Finance Officers Association of the United States and Canada (GFOA), states that it is important in this regard to distinguish accounting from financial reporting. Whereas an accounting system must collect all of the data needed to ensure and demonstrate legal compliance, financial reporting is concerned with only those aspects of compliance that are of importance to users of basic financial statements.

CAUSE AND EFFECT:

This condition occurred because the Municipality has not analyzed and closed inactive funds and bank accounts when the fund's or bank accounts' objectives have been met or are no longer relevant. The continued maintenance of these funds and accounts exposes the Municipality to the unauthorized use of funds from inactive accounts for activities not intended to be financed with these funds. The aforementioned conditions represent a material weakness in the Municipality's internal controls over financial reporting.

RECOMMENDATION:

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The Municipality should determine whether the intended objectives of these funds were met. For all funds that have complied with the requirements, the Municipality should close them. Remaining balances in those funds should be disposed of in accordance with local and federal laws and regulations.

07-07 INADEQUATE RECORDS OF HUMAN RESOURCES AND COMPUTATION OF ACCRUED COMPENSATED ABSENCES

STATEMENT OF CONDITION:

The Municipality does not maintain accurate and updated records of compensated absences (accrued vacations, sick leave and compensatory time). At June 30, 2007, the time and attendance records of the employees of the Municipality were incomplete and were not updated to reflect the real accumulated vacation, sick leave and compensatory time of each employee of the Municipality, including those paid with the resources of federal and state financially assisted programs.

In addition, the Municipality does not have an effective system to ensure the completeness and accuracy of the employee files in the Human Resources Department.

CRITERIA:

The Municipality must maintain accurate records of compensated absences pursuant to the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by the Governmental Accounting Standards Board (GASB No. 16). This statement establishes standards for accounting and reporting for compensated absences for all state and local governments.

Article 11.016 of Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81), states that every municipality must prepare and manage a vacation plan designed to avoid that employees accumulate vacation licenses in *excess of the maximum* permitted by law per year.

CAUSE AND EFFECT:

Due to the fact that the time and attendance records of the Municipality were not updated at June 30, 2007, there were several differences between the number of days accrued in the cumulative records of several employees and the subsidiary ledger of compensated absences prepared by the Municipality at June 30, 2007.

This condition results from the failure to update the personnel cumulative records and other human resources files on a monthly basis. This could result in an over accumulation of time and payment of the cost at a higher rate than when earned by the employee. This condition represents a material weakness in the Municipality's internal control over financial reporting.

RECOMMENDATION:

The Municipality shall maintain and update on a monthly basis the personnel cumulative record with the monthly accrual, days taken, and the balance on a current basis; therefore, providing accurate information for the liquidation of accrued benefits at any moment and for the determination of the estimated liability

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for the financial statement presentation. In addition, the Human Resources Department must review all human resources files to ascertain that all human resources documents required by law are included in the employees' files.

07-08 MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS

STATEMENT OF CONDITION:

At June 30, 2007, the Municipality has not complied with the "Solid Waste Disposal Facility Criteria", issued on October 9, 1991 by the U.S. Environmental Protection Agency and the Statement No. 18 of the Governmental Accounting Standards Board, *Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs*, issued by GASB (GASB No. 18).

The Municipality has not performed a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. In addition, the Municipality has not recognized a liability in the accompanying statement of net assets using current costs allocated based on the actual landfill capacity.

CRITERIA:

Various state and federal regulations make the governments that operate municipal solid waste landfills financially responsible for properly closing the site at the end of its useful life and then monitoring and maintaining it afterwards, typically for thirty (30) years.

According to the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

In addition, GASB No. 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality must recognize a liability in its government-wide financial statements using current costs allocated based on the actual landfill capacity used at June 30, 2007.

Furthermore, the governments that operate municipal solid waste landfills may be required to provide financial assurance that they will meet their legal obligation to close, monitor, and maintain the landfill site properly once it is no longer in active use. Governments that operate municipal solid-waste landfills may place assets in trust for this purpose.

CAUSE AND EFFECT:

This condition occurred because the Municipality has not allocated the financial resources needed to perform the study required by EPA and GASB No. 18. The continued occurrence of this situation will result in unexpected significant financial burdens to the Municipality at the future date when it closes its

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municipal solid waste landfill, and will result in continued future audit qualifications or disclaimers of opinions from the independent auditors of the Municipality over its basic financial statements. The aforementioned conditions represent a material weakness in the Municipality's internal controls over financial reporting.

RECOMMENDATION:

The Municipality should perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. We also recommend that the Municipality commence a planning and budgeting process or to place assets in trust for these purposes.

07-09 RETENTION AND ACCESS REQUIREMENTS FOR RECORDS

STATEMENT OF CONDITION:

The Municipality has not designed, documented nor placed in operations specific internal controls and procedures designed to comply with the records retention requirement. During our audit we noted that the Municipality could not provide us 5 disbursement vouchers pertaining to our search for unrecorded liabilities at June 30, 2007. The Municipality was unable to locate the 5 disbursement vouchers from its files for transactions that were less than 90 days old. The disbursement vouchers were the following:

DESCRIPTION	DISBURSEMENT VOUCHERS	AMOUNT
State and Local Funds	3	\$ 140,842
Federal funds	2	<u>256,927</u>
		<u>\$ 397,771</u>

The aforementioned conditions represent a material weakness in the Municipality's internal controls over financial reporting.

CRITERIA:

According to the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico, the pre-auditing unit or person in charge of pre-auditing the documents shall keep a record of the authorized signatures of the Municipality. He shall check against such record to ascertain that the officers certifying the documents are so authorized. He shall check the documents correctness in all of its parts and that the transactions in order to pursuant the correct legislation, ordinances, resolutions, contracts and regulations. Once everything is found to be in order, the document shall be certified as preaudited and shall be sent for the approval of the Finance Director. In addition, of the aforementioned regulation, the vouchers, all canceled checks and any other document, that justifies a payment, shall be filed by the Finance Director to be audited by the Puerto Rico Comptroller's Office or any other agency as required by law.

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In addition, of the aforementioned regulation, the vouchers, all canceled checks and any other document, that justifies a payment, shall be filed by the Finance Director to be audited by the Puerto to an award shall be retained for a period of three years from the date of submission of the final expenditure report, or for awards that are renewed quarterly or annually, from the date of the submission of the quarterly report, as authorized Rico Comptroller's Office or any other agency as required by law.

Also, federal regulations requires that all financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly report or annual financial report, as authorized by the Federal awarding agency.

CAUSE AND EFFECT:

These conditions arose by the lack of effective controls and procedures in the Municipality to properly established a formal records retention and filing policy and the lack of proper planning of continued monitoring activity.

The aforementioned conditions have caused that costs or disbursements related to state and federal funds were questioned during the current audit. Also findings related to these transactions were included in the 2006-2007 Audit Report by the independent auditors.

Questioned Cost: \$256,927

RECOMMENDATION:

We also recommend the Municipality to adopt the necessary measures to ascertain that corrective actions are implemented in a reasonable period of time after the corrective action is determined. Proper follow up should be given to municipal department personnel in charge of the implementation procedures.

07-10 PERSONNEL FILES AND RELATED PAYROLL PROCEDURES

During our audit, we tested a sample of 60 employee files and noted that several files lacked certain documentation supporting the employee's eligibility. The following exceptions were noted during our examination:

Evidence of the inclusion in the eligibility register	59 files	98%
Personal history or application	2 files	3%
Health examination	9 files	15%
Birth certificate	15 files	25%
Work performance evaluation	7 files	12%
Job descriptions	56 files	93%
Copy of social security card	11 files	18%
Penal background certification	14 files	23%

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Eligibility verification for employment	9 files	15%
New employees report ASM-5	4 files	3%
Attendance sheet not approved by supervisor	3 files	5%

In addition, 9 payroll cancelled checks and 1 regular and sick leave record were not available for examination.

RECOMMENDATION:

The Personnel Department should review each employee file and ascertain their completeness. Management should design a standard checklist where the file reviewer could determine if documents are missing from each file. Signed exemptions certificates and authorizations for non -statutory withholdings should always support the amounts withheld from employees.

07-11 MUNICIPAL LICENSE TAX

During our municipal license tax test, we selected a sample of 60 municipal license taxpayers' files, amounting to approximately \$4,649,148, of current year's tax liabilities and the following exceptions were noted.

- In 5 (8%) out of the 60 files selected for examination amounting to \$47,011, the gross volume of business tax return was not properly oath.
- In 13 (22%) out of the 60 files selected for examination amounting to \$62,918, the required income tax return or audited financial statement were not present on file.
- In 1 (2%) out of the 60 files selected for examination amounting to \$161, the Volume of Business reported on municipal tax return does not agree with income tax return.
- In 60 (100%) out of 60 files selected for examination amounting to \$4,649,148, we noted that the Modelo #5 Registro de Patente de Industria y Comercio were not present on file.

RECOMMENDATION:

According to Sec. 651i (a) (F) (i) Law No. 113 of July 10, 1974 as amended, for a volume of business less than \$1,000,000 the taxpayer must include a copy of the income section of the income tax return submitted to Puerto Rico Treasury Department. This document must be accompanied by a certification indicating that it is an exact copy of the documents submitted to the Treasury Department of the income tax return. All tax declarations without this certification will be considered not filed by the taxpayer.

The Municipality should improve the existing procedures related to the municipal license taxpayer files, to ascertain it completeness and accuracy. Also, the Municipality should implement a checklist to be used for each taxpayer to assure completeness of the required documentation.

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07-12 DISBURSEMENT TEST

As part of our test of cash disbursements during the year (amounting to approximately \$13 million), we selected 60 disbursement vouchers amounting to \$2,545,930. The following deficiencies were noted during our audit:

- In 1 (3%) disbursement voucher amounting to \$46,475, the acquisition was performed without the required purchasing procedures.
- In 1 (3%) disbursement voucher amounting to \$375, did not include the invoice.
- The following reports were not prepared nor maintained during the fiscal year 2006-2007:
 1. Modelo 26 - Registro de Ordenes y Contrato
 2. Modelo 3 - Hoja Diaria
 3. Modelo 5 - Libro de Caja
 4. Modelo 28 - Informe Mensual
 5. Mayor General
 6. Modelo 4A - Informe del Director de Finanzas o Auditor Municipal

According to the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico, the pre-auditing unit or person in charge of pre-auditing the documents shall keep a record of the authorized signatures of the Municipality. He shall check against such record to ascertain that the officers certifying the documents are so authorized. He shall check the documents correctness in all of its parts and that the transactions in order to pursuant the correct legislation, ordinances, resolutions, contracts and regulations. Once everything is found to be in order, the document shall be certified as preaudited and shall be sent for the approval of the Finance Director. In addition, of the aforementioned regulation, the vouchers, all canceled checks and any other document, that justifies a payment, shall be filed by the Finance Director to be audited by the Puerto Rico Comptroller's Office or any other agency as required by law.

RECOMMENDATION:

The Municipality should enforce strict compliance with the procedures prescribed by the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico during the process of acquisition of materials and supplies, equipment, and construction and service contracts.

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Section III - Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
All Federal Programs	07-13 FEDERAL FINANCIAL REPORTS	

The accounting records maintained by the Federal Programs Office are not reconciled with the accounting records maintained by the Municipality's central accounting department records. The Municipality has not established procedures for the reconciliation of the transactions recorded in the Program's accounting records with those recorded in the Municipality's central accounting department records. As a result, this condition may lead to inaccurate reporting of programs supported activities.

NONE

CRITERIA:

OMB Circular A-102, 20 (b) (2) requires recipient of federal funds to have a financial management system that provides for the maintenance of accurate, current and complete records of the financial results of federally assisted activities in accordance with the financial reporting requirements of the Federal Program. The Municipality should prepare federal financial reports based on the Programs underlying accounting records.

All Federal Programs	07-14 PROCUREMENT, SUSPENSION AND DEBARMENT	
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STATEMENT OF CONDITION:

The Municipality has not established effective procurement procedures to verify in the acquisition of goods and services that the supplier was not suspended or debarred or otherwise excluded. The Municipality did not performed any step to ascertain that supplier is not included in the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), obtaining a certification from the entity or adding a written clause or condition to the covered transaction with that entity.

NONE

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
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CRITERIA:

2 CFR, Part 180 and 70 FR 51863 state that contractors receiving individual awards for \$25,000 or more and all sub recipients must certify that the organization and its principals are not suspended or debarred. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity or adding a clause or condition to the covered transaction with the entity.

RECOMMENDATION:

We recommend the Municipality to obtain the EPLS in printed or electronic format in order to use it as part of the procurement cycle. The printed version is published on a monthly basis. Copies can be obtained by purchasing a yearly subscription to the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be obtained on the Internet (<http://epls.arnet.gov>). The Municipality should enforce strict compliance with the prescribed federal requirement.

All Federal Programs	07-15 EQUIPMENT AND REAL PROPERTY MANAGEMENT	
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STATEMENT OF CONDITION:

The Municipality has not complied with the property management requirements. There were no physical inventories performed during the fiscal year ended June 30, 2007.

NONE

The Federal Programs has not prepared a subsidiary ledger of equipment acquired with federal funds. Such subsidiary ledger to comply with federal requirements should: (1) have information needed to calculate the federal share of the cost of the equipment, (2) have information about the identification number of the asset, such as the manufacturer's serial numbers, (3) identify the grant under which the program acquired the equipment, (4) have information about the location, use and condition of the equipment and the date the information was

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Program

Findings/Noncompliance Recommendations

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obtained, and (5) have all pertinent information on the ultimate transfer, replacement, or disposal of the equipment (6) have information about acquisition date and unit acquisition cost.

Furthermore, there is no evidence that the total amount of capital expenditures and the composition of capital assets incurred by Federal Programs have been reconciled with the general ledger or other control account to enhance the controls to prevent unauthorized disposition of assets.

CRITERIA:

29 CFR 97.32 (d) (2) established that the Municipality should take the physical inventory and reconcile the results with the property records. In addition, section (d) (3) establishes that a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.

Federal regulations also require that, every two years, at a minimum, a physical inventory shall be conducted and the results shall be reconciled with property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection with those shown in the accounting records shall be investigated to determine the causes of the differences. Property records shall be accurate. Property records shall include the following for each item:

- A description of the equipment including manufacturer's serial numbers.
- Identification number, as the manufacturer's serial numbers.
- Identification of the grant under which the recipient acquired the equipment.
- The information needed to calculate the federal share of the cost of the equipment.
- Acquisition date and unit acquisition cost.
- Location, use and condition of the equipment and the date the information was obtained.

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
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- All pertinent information on the ultimate transfer, replacement or disposal of the equipment.

RECOMMENDATION:

A physical inventory of the Federal Programs capital assets should be taken as soon as possible. Physical inventory amounts should be reconciled with the property recorded on the subsidiary ledgers. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Dispositions must also be made only upon approval of the Municipal Property Administrator and the Finance Director.

Section 8-Voucher
CFDA No. 14.871

07-16 CASH MANAGEMENT SYSTEM

STATEMENT OF CONDITION:

The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$67,623, during the fiscal year. There were months which reported balances as high as \$97,139 at the end of the month.

NONE

CRITERIA:

Federal Regulation requires that grantees shall conform to the standards applicable to advances from federal agencies. Amounts requested should be limited to the Program's immediate cash needs.

RECOMMENDATION:

In accordance with Federal Regulations, the Municipality should estimate drawdown of federal funds as closely as possible to the actual disbursements.

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
Section 8-Voucher CFDA No. 14.871	<p>07-17 REASONABLE RENT</p> <p>STATEMENT OF CONDITION:</p> <p>As part of our eligibility test for participants, we selected 40 participant's files. The following deficiency was noted during our examination.</p> <ul style="list-style-type: none">- In 5 (8%) participant files the reasonable rent determinations were not performed. <p>CRITERIA:</p> <p>The Public Housing Agency (PHA) administrative plan must establish the method used by the PHA to determine that the rent to owner is reasonable in comparison to rent for other comparable unassisted units.</p>	NONE
Section 8-Voucher CFDA No. 14.871	<p>07-18 ELIGIBILITY FOR INDIVIDUALS</p> <p>STATEMENT OF CONDITION:</p> <p>As part of our eligibility test for participants, we selected 40 participants' files. The following deficiencies were noted during our examination.</p> <ul style="list-style-type: none">- In 1 (2%) participants file the application forms were not present on file. <p>CRITERIA:</p> <p>Most PHAs devise their own application forms that are filled out by the PHA staff during an interview with the tenant. The head of the household signs: (a) one or more release forms to allow the PHA to obtain information from third parties; (b) a federally prescribed general release form for employment information; and (c) a privacy notice. (24 CFR sections 5.212 and 5.230)</p> <p>RECOMMENDATION:</p> <p>The Municipality should determine income eligibility and calculate the tenant's rent payment using the documentation from any validated third party in accordance with 24CFR Part 5 subpart F.</p>	NONE

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Program
 Section 8-Voucher
 CFDA No. 14.871

Findings/Noncompliance Recommendations
07-19 FINANCIAL REPORTING

Questioned Cost

STATEMENT OF CONDITION:

Our review of the quarterly financial reports submitted to HUD, disclosed that they were submitted after the required submission date, as detailed below.

<u>Quarter Ended</u>	<u>Due Date</u>	<u>Date Submitted</u>	<u>Past Due Days</u>	NONE
September 30, 2006	October 31, 2006	Feb. 9, 2007	101 days	
December 31, 2006	January 31, 2007	Feb. 9, 2007	9 days	

CRITERIA:

According to federal regulations quarterly reports must be submitted to HUD not later than 30 days subsequent to the close of the reported quarter.

RECOMMENDATION:

The Municipality should improve existing procedures to ensure the timely submission of the Quarterly Reports, in order to comply with Federal regulation. Also, the Municipality should consider implementing a reporting calendar to maintain all personnel aware of the reporting deadlines of each federal financial report. This will provide an additional tool to help the Municipality in complying with the federal regulation.

SBGP
 CFDA No. 14.219
 All program year

07-20 CASH MANAGEMENT SYSTEM

STATEMENT OF CONDITION:

The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$5,724, during the fiscal year. There were months which reported balances as high as \$15,347 at the end of the month.

NONE

CRITERIA:

Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
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RECOMMENDATION:

In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

SBGP
CFDA NO. 14.219

07-21 FEDERAL DISBURSEMENT TEST

As part of our test of federal cash disbursements during the year, we selected 60 disbursement vouchers amounting to \$626,702. The following deficiencies were noted during our examination:

- | | |
|---|----------|
| a) One (2%) disbursement voucher amounting to \$24,421 was not available for examination. | \$24,421 |
| b) Three (5%) disbursement vouchers amounting to \$162 all documents were not stamped as paid. | NONE |
| c) Nine (15%) disbursement vouchers amounting to \$214,881, were paid with adequate supporting documentation. | NONE |
| d) Four (6%) disbursement vouchers amounting to \$59,135, the invoice were not attached to disbursement vouchers. | \$59,135 |

CRITERIA:

According to the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico, the pre-auditing unit or person in charge of pre-auditing the documents shall keep a record of the authorized signatures of the Municipality. He shall check against such record to ascertain that the officers certifying the documents are so authorized. He shall check the documents correctness in all of its parts and that the transactions in order to pursuant the correct legislation, ordinances, resolutions, contracts and regulations. Once everything is found to be in order, the document shall be certified as preaudited and shall be sent for the approval of the Finance Director. In addition, of the aforementioned regulation, the vouchers, all canceled checks and any other document, that justifies a payment, shall be filed by the Finance Director to be

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
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audited by the Puerto Rico Comptroller's Office or any other agency as required by law.

RECOMMENDATION:

The Municipality should enforce strict compliance with the procedures prescribed by the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico during the process of acquisition of materials and supplies, equipment, and construction and service contracts.

SBGP
2004 and 2005
CFDA 14.219

07-22 DAVIS-BACON ACT

STATEMENT OF CONDITION:

As part of our audit tests we selected 1 weekly payroll from each of the following construction projects:

- Techado Cancha Parcelas Jaime C. Rodríguez
- Techado Cancha Parcelas Ingenio
- Construcción de Divisiones en Edificio Multifabril

Then following exceptions were noted during our examination:

NONE

- (a) The certified payrolls selected for examination did not include the required employees' information.
- (b) Employee interviews evidence were not present on file.
- (c) Preconstruction conference minutes were not present on file.

CRITERIA:

According to HUD Handbook:

Contractor weekly payrolls and other basic records should be reviewed during routine compliance enforcement activity on every construction project. Submitted payrolls

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
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shall be examined to assure compliance with the labor standards. Also, a preconstruction conference must be held to explain labor standards.

RECOMMENDATION:

The Municipality should establish procedures to ascertain that all documents submitted by the contractor are reviewed and approved on a timely basis to ensure compliance with labor standards.

SBGP
CFDA No. 14.219

07-23 INADEQUATE DOCUMENTATION OF PARTICIPANT FILES

STATEMENT OF CONDITION:

As part of our test to determine whether the grantee assure that the rehabilitation work is properly completed, we selected 8 participants for examination. The following documents were not available for examination:

NONE

- | | | |
|------------------------|---------|-----|
| a. Property title deed | 2 Files | 25% |
| b. Income evidence | 2 Files | 25% |

CRITERIA:

According to 24 CFR, 570.506 the grantee must assure that the work is properly completed. For each residential rehabilitation activity the following records are needed:

- a) Re-habilitation contract describing the deficiencies in each structure to be corrected.
- b) An inspection of the rehabilitation work upon completion to assure that it was carried out in accordance with contract specifications.

RECOMMENDATION:

The Municipality must inspect the rehabilitation work upon completion to assure that it is carried out in accordance with the contract specifications.

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
SBGP CFDA No. 14.219	07-24 FINANCIAL REPORTING	

STATEMENT OF CONDITION:

Our review of the quarterly financial reports submitted to Office of the Commissioner of Municipal Affairs (OCAM by its Spanish Acronym), disclosed that the information presented in the financial reports did not agree with the information recorded in the Program General Ledger. Several discrepancies were noted in the following accounts:

NONE

<u>Account number</u>	<u>Account Name</u>	<u>Per Federal Third Quarter</u>	<u>Per Program General Ledger</u>
First Quarter			
501	Construction costs	\$649,743	\$649,703
Second Quarter			
501	Construction costs	\$649,743	\$649,703
603	Office supplies	154,000	144,851
701	Administrative salaries	20,870	20,971
601	Auxiliar del Hogar	35,283	35,181
709	Building maintenance	397	422
Third Quarter			
91.01	Salaries	27,717	33,910
91.01	Salaries	6,193	-
Fourth Quarter			
610	Equipment rental	-	16,840

CRITERIA:

Federal regulations require that the financial management system must meet some requirements, including the financial reporting. It states that accurate, current and complete disclosure of the financial results of the financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.

RECOMMENDATION:

The Municipality should prepare financial reports based on the Program's underlying accounting records. Any

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
Child Care CFDA No. 93.575	<p>difference should be promptly investigated and reconciled, accordingly.</p> <p>07-25 CASH MANAGEMENT SYSTEM</p> <p>STATEMENT OF CONDITION:</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$23,202, during the fiscal year. There were months which reported balances as high as \$70,193 at the end of the month.</p> <p>CRITERIA:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>RECOMMENDATION:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.</p>	NONE
Water and Waste Disposal System for Rural Communities CFDA No. 10.760	<p>07-26 CASH MANAGEMENT SYSTEM</p> <p>STATEMENT OF CONDITION:</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$5,249, during the fiscal year. There were months which reported balances as high as \$14,999 at the end of the month.</p> <p>CRITERIA:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p>	NONE

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
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RECOMMENDATION:

In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

Water and Waste
Disposal System for
Rural Communities
CFDA No. 10.760

07-27 DISBURSEMENT TEST

STATEMENT OF CONDITION:

As part of our test of federal cash disbursements during the year, we selected 10 disbursement vouchers amounting to \$779,780. The following deficiencies were noted during our examination:

- a. One (10%) disbursement vouchers amounting to \$19,403, were not available for examination.

\$19,403

CRITERIA:

According to the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico, the pre-auditing unit or person in charge of pre-auditing the documents shall keep a record of the authorized signatures of the Municipality. He shall check against such record to ascertain that the officers certifying the documents are so authorized. He shall check the documents correctness in all of its parts and that the transactions in order to pursuant the correct legislation, ordinances, resolutions, contracts and regulations. Once everything is found to be in order, the document shall be certified as preaudited and shall be sent for the approval of the Finance Director. In addition, of the aforementioned regulation, the vouchers, all canceled checks and any other document, that justifies a payment, shall be filed by the Finance Director to be audited by the Puerto Rico Comptroller's Office or any other agency as required by law.

RECOMMENDATION:

The Municipality should enforce strict compliance with the procedures prescribed by the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico during the process of acquisition of materials and

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
Water and Waste Disposal System for Rural Communities CFDA No. 10.760	supplies, equipment, and construction and service contracts. 07-28 DAVIS-BACON ACT STATEMENT OF CONDITION: As part of our audit tests we selected 1 weekly payroll from the following construction project: <ul style="list-style-type: none">• Construcción Sistema Sanitario Comunidad Ingenio, Barrio Aguacate. Then following exceptions were noted during our examination: <ul style="list-style-type: none">(a) The certified payroll selected for examination did not include the required employees' information.(b) Evidence of employee interviews were not present on file.(c) The certified payroll selected for examination was not verified by Municipal Labor Officer.(d) Construction company employees were paid below the standard provisions applicable to contract. CRITERIA: According to HUD Handbook: Contractor weekly payrolls and other basic records should be reviewed during routine compliance enforcement activity on every construction project. Submitted payrolls shall be examined to assure compliance with the labor standards. Also, a preconstruction conference must be held to explain labor standards.	NONE
	RECOMMENDATION: The Municipality should establish procedures to ascertain that all documents submitted by the contractor are	

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
FEMA Dean	<p>reviewed and approved on a timely basis to ensure compliance with labor standards.</p> <p>07-29 CASH MANAGEMENT SYSTEM</p> <p>STATEMENT OF CONDITION:</p> <p>The Municipality has not established effective cash management procedures. The Program had a cash balance of \$9,864, during the entire fiscal year.</p> <p>CRITERIA:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>RECOMMENDATION:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.</p>	NONE
FEMA Jeanne	<p>07-30 CASH MANAGEMENT SYSTEM</p> <p>STATEMENT OF CONDITION:</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$10,137, during the fiscal year. There were months which reported balances as high as \$14,478 at the end of the month.</p> <p>CRITERIA:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p>	NONE

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
	<p>RECOMMENDATION:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.</p>	
FEMA 1613	<p>07-31 CASH MANAGEMENT SYSTEM</p> <p>STATEMENT OF CONDITION:</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$120,047, during the fiscal year. There were months which reported balances as high as \$217,110 at the end of the month.</p> <p>CRITERIA:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>RECOMMENDATION:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.</p>	NONE
FEMA George	<p>07-32 CASH MANAGEMENT SYSTEM</p> <p>STATEMENT OF CONDITION:</p> <p>The Municipality has not established effective cash management procedures. The Program had a cash balance of \$123,172, during the entire fiscal year.</p> <p>CRITERIA:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p>	NONE

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<u>Program</u>	<u>Findings/Noncompliance Recommendations</u>	<u>Questioned Cost</u>
	<p>RECOMMENDATION:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.</p>	
FEMA Lluvias Nov 2003	<p>07-33 CASH MANAGEMENT SYSTEM</p> <p>STATEMENT OF CONDITION:</p> <p>The Municipality has not established effective cash management procedures. The Program had a cash balance of \$9,477, during the entire fiscal year.</p> <p>CRITERIA:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>RECOMMENDATION:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.</p>	<p>NONE</p>
	Total questioned costs	<u>\$384,587</u>

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Summary schedule of prior years audit findings
Fiscal Year 2005-2006
June 30, 2007

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2006. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2006-2007).
- NR - Not resolved yet. Finding repeated in fiscal year 2006-2007.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
06-01	Accounting and reporting system	NR

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Summary schedule of prior years audit findings
Fiscal Year 2005-2006
June 30, 2007

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2005. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2005-06).
- NR - Not resolved yet. Finding repeated in fiscal year 2005-06.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
06-02	Eligibility and Special Test and Provisions	NR

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA
Summary schedule of prior years audit findings
Fiscal Year 2004-2005
June 30, 2007

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2005. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2006-2007).
- NR - Not resolved yet. Finding repeated in fiscal year 2006-2007.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
05-01	Accounting system	NR



ESTADO LIBRE ASOCIADO DE PUERTO RICO
 Administración Municipal de Yabucoa
 Apartado 97 Yabucoa, Puerto Rico 00767 • Tel. (787) 893-3000 • Fax. (787) 893-8140
 Tel. Directo Auditoría Interna (787) 266-2003



Hon. Angel S. García
 Alcalde

OFICINA DE AUDITORIA INTERNA

2 de abril de 2008

Hon. Angel S. García De Jesús
 Alcalde
 Municipio de Yabucoa

Estimado Sr. García:

Cumpliendo con los Art. 6.003(j) y el Art. 6.004(d) de la Ley de Municipios Autónomos y el Memorando Circular 98-14 de OCAM, la oficina de Auditoría Interna Municipal, le está sometiendo su Informe de Trabajo Trimestral para los meses de enero / febrero / marzo de 2008. Adjunto el detalle del mismo.

Sin otro asunto en particular.

Cordialmente,

Olga Ruiz Candelario
 Olga Ruiz Candelario
 Auditora Interna

FC: Lcdo. Angel M. Castillo Rodríguez – Comisionado OCAM
 Hon. José I. Medina Sánchez – Pres. Legislatura Municipal

RECIBIDO
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 UNIDAD DE CORREO
 OFICINA DEL COMISIONADO
 DE MUNICIPIOS MUNICIPALES

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OCAM
 DIVISION DE REGISTRO Y
 E INTERVENCION
 08 APR -7 PM 3: 54



Hon. Angel S. García
Alcalde



INFORME TRIMESTRAL

Enero – Febrero - Marzo de 2008

OFICINA DEL COMISIONADO
DE ADMINISTRACION MUNICIPAL
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RECIBIDO
UNIDAD DE CORREO

Enero:

- Se envió el Informe Trimestral anterior.
- Trabajos verificación de comprobantes.
- Trabajos PAC informes OCPR.
- Orientación a personal de Finanzas.
- Envío de memorandos.
- Envío de Single Audit a diferentes agencias y colocación aviso público.
- Envío certificaciones a OCPR.
- Decomizaciones.
- Trabajos PPA.
- Trabajos planificación auditoría vehículos.
- Trabajos Informe de RC y envío a OCAM.
- Asistencia a diferentes reuniones.

Febrero:

- Trabajos verificación de comprobantes y donativos.
- Trabajos auditoría de vehículos.
- Evaluación de los Criterios OCPR.
- Asistencia a Seminario.
- Trabajos actualización expedientes casos judiciales.
- Seguimiento Informe Ley 96.
- Trabajos para taller de documentos a empleados.
- Asistencia a diferentes reuniones.



Hon. Angel S. Garcia
Alcalde



Marzo:

- Trabajos verificación de comprobantes.
- Presentación taller a empleados sobre Manejo de documentos públicos.
- Trabajos auditoría vehículos.
- Envío documentos a la OCPR.
- Seguimiento ICP de OCPR y OCAM.
- Trabajos y envío Informe Deuda Patronal.
- Entrega de Registro de Horas empleados a Rec. Hum.
- Seguimiento correspondencia Etica.
- Asistencia a Seminarios Presupuestario de OCAM.
- Entrega documentos presupuestarios a diferentes dependencias.
- Entrega Informe Final Auditoría Vehículos.
- Trabajos inventario de documentos en transición finanzas.
- Asistencia a diferentes reuniones.