

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE YAUCO**

**AUDITORIA 2001-02**

**30 DE JUNIO DE 2002**

**MUNICIPALITY OF YAUCO**

***SINGLE AUDIT REPORT***

**YEAR ENDED JUNE 30, 2002**

**MUNICIPALITY OF YAUCO**  
***SINGLE AUDIT REPORT***  
**YEAR ENDED JUNE 30, 2002**

**CONTENTS**

<b>FINANCIAL SECTION:</b>	<b><u>PAGE</u></b>
Independent auditors' report on general purpose financial statements	1-2
General purpose financial statements:	
Combined balance sheets – All fund types and account groups	3
Combined statements of revenues, expenditures and changes in fund equity – All fund types	4
Combined statements of revenues, expenditures, and changes in fund equity – All fund types	5-6
Notes to the general purpose financial statements	7-24
<b>SINGLE AUDIT SECTION:</b>	
Schedule of expenditures of federal awards	27-28
Notes to the schedule of expenditures of federal awards	29
Independent auditors' report on compliance and on internal control over financial reporting based on an audit of financial statement performed in accordance with government auditing standards	31-32
Independent auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133	34-35
Schedule of findings and questioned costs	37-44
Summary schedule of prior audit findings	45
Corrective action plan	Exhibit 1

**MUNICIPALITY OF YAUCO**

**YEAR ENDED JUNE 30, 2002**

***FINANCIAL SECTION***



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**INDEPENDENT AUDITORS' REPORT ON  
GENERAL PURPOSE FINANCIAL STATEMENTS**

Honorable Mayor and Members  
of the Municipal Assembly  
Municipality of Yauco  
Yauco, Puerto Rico

We have audited the accompanying general purpose financial statements of the **Municipality of Yauco, Puerto Rico** (the Municipality), as of and for the year ended June 30, 2002 as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and Puerto Rico, and the standards applicable to financial audits contained Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of the Municipality's accounting records we were unable to form an opinion regarding the amount at which the fixed assets (stated at \$16,541,099) are presented in the accompanying general purpose financial statements.

**INDEPENDENT AUDITORS' REPORT ON  
GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

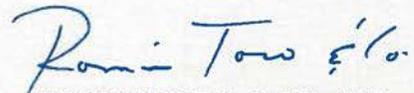
In our opinion, except for the effects for the adjustments, if any, as might have been determined to be necessary had we been able to obtain a sufficient evidential matter to form an opinion regarding the amount at which the fixed assets are presented in the accompanying general purpose financial statements as discussed in the third paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Yauco as of June 30, 2002, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our report dated December 17, 2002, on our consideration of Municipality of Yauco's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulation, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. 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 not a required part of the general purpose financial statements of Municipality of Yauco. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

As discussed in Note 12 to financial statements, the Municipality of Yauco has expended certain grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of these matters, which have been reported to appropriate federal officials, is uncertain at this time. Accordingly, no provision for any liability has been made in the general purpose financial statements for possible federal claims for refunds of those grant monies.

This report is intended for the information of the Municipality's management and the Office of the Commissioner of Municipal Affairs. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Municipality, is a matter of public record.

  
ROMAN TORO & CO., CSP

December 17, 2002  
Yauco, Puerto Rico

License No. 35  
Expires December 1, 2005

Stamp # 1851166 was affixed  
to the original of this report

**MUNICIPALITY OF YAUCO  
COMBINED BALANCE SHEETS  
ALL FUND TYPES AND ALL ACCOUNT GROUPS  
JUNE 30, 2002**

**ASSETS**

	GOVERNMENTAL FUND TYPES			ACCOUNT GROUPS		Total Memorandum Only
	General	Special Revenue	Debt Service	General Fixed Assets	General Long-Term Debt	
<b>Cash:</b>						
Cash including \$1,309,682 in certificates of deposits	\$ 875,801	\$3,179,132	2,498,352			\$ 6,553,285
<b>Receivables:</b>						
Municipal tax	7,828					7,828
Amount due from:						
State agencies	639,271					639,271
Federal grants		823,277				823,277
Other funds	348,911	806,271				1,155,182
Property, plant and equipment				16,541,093		16,541,093
<b>Other Assets:</b>						
Amount to be provided for payment of:						
Compensated absences					1,515,057	1,515,057
Long-term debt					6,332,168	6,332,168
Estimated liability for landfill closure and postclosure costs					25,429	25,429
Amount available in debt service fund	0	0	0	0	2,494,832	2,494,832
<b>Total Assets</b>	<u>\$1,871,811</u>	<u>\$4,808,680</u>	<u>\$2,498,352</u>	<u>\$16,541,093</u>	<u>\$10,367,486</u>	<u>\$36,087,422</u>
<b>Liabilities and Other Credits</b>						
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$1,040,026	\$1,160,115				\$ 2,200,141
Deferred revenues	1,815,280	823,277				2,638,557
Notes and bonds payable					8,827,000	8,827,000
Compensating absences payable					1,515,057	1,515,057
Estimated liability for landfill closure and postclosure cost					25,429	25,429
Due to other fund	806,270	343,403	3,520	0	0	1,153,193
	<u>3,661,576</u>	<u>2,326,795</u>	<u>3,520</u>	<u>0</u>	<u>10,367,486</u>	<u>16,359,377</u>
<b>Fund Equity:</b>						
Investment in general fixed assets				16,541,093		16,541,093
Reserve for:						
Debt service			2,494,832			2,494,832
By state statutes		2,481,885				2,481,885
Undesignated (Deficit)	(1,789,765)	0	0	0	0	(1,789,765)
	<u>(1,789,765)</u>	<u>2,481,885</u>	<u>2,494,832</u>	<u>16,541,093</u>	<u>0</u>	<u>19,728,045</u>
<b>Total liabilities, other credits and fund equity</b>	<u>\$1,871,811</u>	<u>\$4,808,680</u>	<u>\$2,498,352</u>	<u>\$16,541,093</u>	<u>\$10,367,486</u>	<u>\$36,087,422</u>

The accompanying notes are an integral part of these financial statements

**MUNICIPALITY OF YAUCO**  
**COMBINED STATEMENTS OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND EQUITY-ALL FUND TYPES**  
**YEAR ENDED JUNE 30, 2002**

	<u>GOVERNMENTAL FUND TYPES</u>			<i>Total Memorandum Only</i>
	<u>General</u>	<u>Special Revenues</u>	<u>Debt Service</u>	
<b>Revenues:</b>				
Taxes				
Property taxes	\$ 3,697,945	\$ 0	\$ 2,434,789	\$ 6,132,734
Municipal tax; volume of business	1,967,188			1,967,188
Grants and entitlements:				
State government and public corporations	1,697,887	873,184		2,571,071
Federal grants	0	3,558,224		3,558,224
Rental income	217,929			217,929
Licenses and permits	871,821			871,821
Fines, forfeits and penalties	4,420			4,420
Solid waste disposal	592,671			592,671
Interests	242,573		52,253	294,826
Others	2,673,543			2,673,543
	<u>11,965,977</u>	<u>4,431,408</u>	<u>2,487,042</u>	<u>18,884,427</u>
<b>Expenditures:</b>				
General administration	5,424,989	75,124		5,500,113
Public safety	1,700,667	246,906		1,947,573
Education, culture and recreational	1,023,251	809		1,024,060
Public works and sanitation	4,722,319	12,712		4,735,031
Health and welfare	986,681	282,090		1,268,771
Capital outlays		7,191,269		7,191,269
Debt Service:				
Principal	138,000		446,000	584,000
Interest	40,060		305,432	345,492
	<u>14,035,967</u>	<u>7,808,910</u>	<u>751,432</u>	<u>22,596,309</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,069,990)</u>	<u>(3,377,502)</u>	<u>1,735,610</u>	<u>(3,711,882)</u>
Other financing sources (uses):				
Operating transfer in	1,037,900	1,446,000		2,483,900
Operating transfer out			(2,483,900)	(2,483,900)
Loan proceed	0	2,082,644	0	2,082,644
	<u>1,037,900</u>	<u>3,528,644</u>	<u>(2,483,900)</u>	<u>2,082,644</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing	<u>( 1,032,090)</u>	<u>151,142</u>	<u>(748,290)</u>	<u>(1,629,238)</u>
Fund balance at beginning of year	<u>( 757,675)</u>	<u>2,330,743</u>	<u>3,243,122</u>	<u>4,816,190</u>
Fund balance at year end	<u>(\$1,789,765)</u>	<u>\$2,481,885</u>	<u>\$2,494,832</u>	<u>\$3,186,952</u>

The accompanying notes are an integral part of these financial statements

**MUNICIPALITY OF YAUCO  
COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND EQUITY-ALL FUND TYPES  
YEAR ENDED JUNE 30, 2002**

	<b>GENERAL FUND</b>			<b>DEBT SERVICE FUND</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>						
Taxes						
Property taxes	\$3,213,938	\$3,697,945	\$484,007	\$757,655	\$2,434,789	\$1,677,134
Municipal tax, volume of business	1,964,798	1,967,188	2,390			
Grants and entitlements:						
State governmental and public corporations	2,911,536	1,697,887	(1,213,649)			
Rental income	173,434	217,929	44,495		52,253	52,253
Licenses and permits	804,773	871,821	67,048			
Fines, forfeits and penalties	4,280	4,420	140			
Interests	268,763	242,573	( 26,190)			
Others	<u>2,048,215</u>	<u>3,266,214</u>	<u>1,217,999</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total revenues	<u>11,389,737</u>	<u>11,965,977</u>	<u>576,240</u>	<u>757,655</u>	<u>2,487,042</u>	<u>1,729,387</u>
<b>Expenditures:</b>						
General administration	4,063,009	5,424,989	(1,361,980)			
Public safety	1,652,795	1,700,667	( 47,872)			
Education, culture, and recreational	951,672	1,023,251	( 71,579)			
Public works and sanitation	3,441,081	4,722,319	(1,281,238)			
Health and welfare	986,944	986,681	263			
Debt service:						
Principal	15,100	138,000	(122,900)	264,000	446,000	( 182,000)
Interest	<u>187</u>	<u>40,060</u>	<u>(39,873)</u>	<u>261,000</u>	<u>305,432</u>	<u>( 44,432)</u>
Total Expenditures	<u>11,110,788</u>	<u>14,035,967</u>	<u>(2,925,179)</u>	<u>525,000</u>	<u>751,432</u>	<u>(226,432)</u>
Excess (deficiency) of revenues over (under) expenditures	278,949	(2,069,990)	(2,348,939)	232,655	1,735,610	1,502,955

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**MUNICIPALITY OF YAUCO  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND EQUITY-ALL FUND TYPES  
 (CONTINUED)  
 YEAR ENDED JUNE 30, 2002**

	GENERAL FUND			DEBT SERVICE FUND		
	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Other financing Sources (Uses)						
Operating transfer-in	-	1,037,900	1,037,900	-	-	-
Operating transfer-out	-	-	-	-	(2,483,900)	(2,483,900)
Total other financing sources (uses)	-	1,037,900	1,037,900	-	(2,483,900)	(2,483,900)
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing	<u>\$ 278,949</u>	(1,032,090)	(1,311,039)	<u>\$232,655</u>	( 748,290)	<u>\$( 980,945)</u>
Fund balance at beginning of year		<u>( 757,675)</u>			<u>3,243,122</u>	
Fund balance at year end		<u>\$(1,789,765)</u>			<u>\$2,494,832</u>	

The accompanying notes are an integral part of these financial statements

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# MUNICIPALITY OF YAUCO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Yauco (the Municipality) was founded on February 29, 1756. The Municipality is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the governmental of the Commonwealth of Puerto Rico.

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

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

The Municipality keeps its accounting records on a cash basis to conform with the budgetary requirements of the Commonwealth of Puerto Rico. The general purpose financial statements included herein were prepared on the modified accrual basis as required by generally accepted accounting principles applicable to governmental units, except for the use of the encumbrance method of recognizing expenditures and accounts payable in the general fund. The following is a summary of the most significant accounting policies followed in the preparation of the Municipality's general purpose financial statements (the financial statements):

#### A. REPORTING ENTITY

The Municipality's general purpose financial statements include all of the funds and account groups relevant to the operations of the Municipality of Yauco. The Municipality receives funding from local, state and federal government sources and must comply with the requirements of these entities. However, the Municipality is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, since the Mayor and the Members of the Municipal assembly are elected by the citizens of the Municipality and have decision making authority.

# MUNICIPALITY OF YAUCO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### B. FUND ACCOUNTING

The accounts of the Municipality are presented on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate, set of self-balancing accounts which are comprised of each fund assets, liabilities, fund equity, revenues and expenditures.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, in the following governmental funds types:

**General fund** – The general fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special revenue funds** – The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Debt service fund** – The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

**Account groups** – The account groups are used to account for fixed assets and long-term liabilities which are not accounted for in the respective governmental funds.

# MUNICIPALITY OF YAUCO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Long-term liabilities expected to be financed from governmental fund types resources are accounted for in the General long-term debt account group, not in the governmental fund. This account group is not a "fund". It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General long-term debt account group.

#### D. FIXED ASSETS

Fixed assets used in the Municipality's operations are accounted for in the General fixed assets account group rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the government. No depreciation is provided on general fixed assets.

# MUNICIPALITY OF YAUCO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. FIXED ASSETS (CONTINUED)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

#### E. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Except for the use of the encumbrance method of accounting in the general fund, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

1. Property taxes – Property taxes are considered “measurable” when in the hands of the CRIM and are recognized as revenue at that time. Anticipated property tax funds are recorded as a liability.
2. Grants and entitlements – Are recognized following the contractual and legal requirements of the diverse individual programs. Essentially, there are two types of these revenues. In the first, the resources must be expended for the purpose for which they were granted prior than revenues can become available and recognized. In the other type, the resources are virtually unrestricted in terms of the purpose of the expenditures and are usually refundable only if the specific and prescribed requirements are not met in advance. These resources are recognized as revenues if they are measurable and available, if not, they are recorded when received.
3. Licenses and permits, service charges, fines and forfeits, interest, and miscellaneous resources are recorded as revenue when received if they are not susceptible to accrual.

## MUNICIPALITY OF YAUCO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### E. BASIS OF ACCOUNTING (CONTINUED)

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued (see note 1H); and (2) principal and interest on general long-term debt which are recognized when due.

##### F. BUDGETS AND BUDGETARY ACCOUNTING

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

1. Formal budgetary integration is employed as a management control device during the year for the General and Debt service funds. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
2. On or before May 31, the Mayor submits to the Municipal Assembly a proposed operating budget for the fiscal year commencing the following July 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them.
3. Public hearings are conducted at the Municipal Assembly Room to obtain citizens comments.
4. Prior to June 13, the budget is legally enacted through passage of an ordinance.
5. The Municipal Assembly approves, by ordinance, budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Assembly.
6. Unused appropriations for all of the above annually budgeted funds lapse at the end of year.

## MUNICIPALITY OF YAUCO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### F. BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

7. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

##### G. ENCUMBRANCES

Encumbrance accounting is used for the government funds. Under the encumbrance system purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. It is employed as an extension of formal budgetary integration in the General and Debt service funds. Encumbrances outstanding at year end are recognized as expenditures and accounts payable although they do not constitute expenditures or liabilities in the general fund.

##### H. COMPENSATED ABSENCES

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General long-term debt account group. No expenditure is reported for these amounts. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement.

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed.

# MUNICIPALITY OF YAUCO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### H. COMPENSATED ABSENCES (CONTINUED)

Employees' maximum allowed vacations and vested sick benefits are accounted for in the General long-term debt account group.

#### I. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection for catastrophic losses. Also, the Municipality's principal officials are covered with fidelity bonds. The Secretary of the Department of the Treasury of Puerto Rico is the agent authorized to place all of the Municipality's insurance coverages. Corresponding premiums payable by the Municipality are withheld by the Department of the Treasury of Puerto Rico from the advances of intergovernmental revenues and property taxes made by the CRIM.

#### J. INVENTORIES

The purchase of inventory of construction materials, supplies, spare parts, and medicines and drugs are recorded as expenditure in the accompanying general purpose financial statements. No inventory of these items is recorded in the accompanying combined balance sheets because the absence of related accounting records and related procedures.

#### K. FUND EQUITY

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

#### L. TOTAL COLUMNS ON COMBINED STATEMENT-OVERVIEW

Total columns on the combined statements – overview are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

# MUNICIPALITY OF YAUCO

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### M. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for transfer of funds, goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the combined balance sheets.

#### N. LONG-TERM OBLIGATIONS

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, such as accrued vacations, only that portion of such obligations is reported in the general long-term debt account group, by increasing the affording "amount to be provided for retirement of general long-term debt".

### 2. CASH

The Director of Finance of the Municipality is responsible for investing the available resources in deposits and other short term investments. The deposits are made combining all the Municipality's available funds except those in hands of the Department of the Treasury or those pertaining to federal financial assistance programs which are deposited in separate checking accounts. Interest earned on municipal funds, except funds related to federal financial assistance programs, are transferred and used in the general fund.

The Municipality is required to deposit on institutions authorized by the Department of the Treasury of the Commonwealth of Puerto Rico to be a depository of public funds. The authorized depository institutions are required to maintain federal insurance and provide adequate collateral to the Department of the Treasury, who maintains it on custody.

### 3. PROPERTY TAX

According to the Public Act No. 83, enacted on August 30, 1991, known as Act of Municipal Property Tax, the Municipal Revenues Collection Center (CRIM) is responsible for the assessment, administration and collection of all the real and personal property located in the Municipality.

## MUNICIPALITY OF YAUCO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

#### 3. PROPERTY TAX (CONTINUED)

Annually, the CRIM notifies the Municipality the estimated basic and additional special taxes to be collected during the next fiscal year and advances the Municipality the basic tax. These advances are amortized through the subsequent collection of the basic property tax and the related debt or receivable is recorded in the General fund when CRIM notify to the Municipality of the final settlement.

Property taxes are levied annually over the assessed value of the property at the beginning of the calendar year, which amounts to 5.37% for the personal property and 7.37% for the real property. The assessed valued of real property evolves from 1957 estimated values and of personal property from the current value at the date of the assessment. The Municipality grant business with a volume of less than \$150,000 full personal property tax exemption up to \$50,000 of the assessed value of the property.

Also, property tax laws grant, under certain circumstances, a tax exemption for the first \$15,000 of the assessment value of the principal residence occupied by its owner. Nevertheless, the Department of the Treasury pays to the Municipality the basic tax related to those \$15,000, except for properties that have an assessed value of less than \$3,500, which have full exemption. During the year ended June 30, 2002, the Municipality received \$541,693 from the real property tax exemption. Of the total tax imposed, 1.03% belongs to the CRIM and the remaining to the Municipality. From this amount, 3.31% for personal property and 5.31% for real property is known as the basic tax and is recorded in the General fund. The remaining 1.03% is known as the additional special tax which is used to pay the public debt and is retained by the CRIM for such purposes. The additional tax is recorded as revenue in the Debt service fund when collected by the CRIM and reported to the Municipality.

During the year ended June 30, 2002 the Municipality had recognized a debt of property advances of \$340,715 based on a preliminary settlement received from CRIM. However, such estimate was not realized and instead the settlement resulted in a surplus of \$253,140. Since this was a change in estimate the effect of eliminate this debt is reported in 2002 property tax revenues.

## **MUNICIPALITY OF YAUCO**

### **NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

#### **3. PROPERTY TAX (CONTINUED)**

No income is recognized from property taxes levied, but not collected because the Municipality is not able to determine the amount of such receivable and if the same is collectible within the 60 days period after the balance sheet date as required by the generally accepted accounting principles applicable to governmental entities. The records of such receivable are kept and maintained by the CRIM.

#### **4. VOLUME OF BUSINESS TAX**

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1<sup>st</sup> and January 1<sup>st</sup> of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date.

The Municipality levied and collected during the year ended June 30, 2002, \$1,322,526 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying combined balance sheets.

#### **5. DEFERRED REVENUES**

At June 30, 2002, an account receivable and a related deferred revenue amounting to \$823,277 was recorded in the Special revenue fund representing unearned federal funds granted. The Municipality receives pass-through federal funds under the Small Cities Block Grant Program. The Office of the Commissioner of Municipal Affairs is the grantor of these funds.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED)

YEAR ENDED JUNE 30, 2002

6. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements.

The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Special revenue fund.

7. CHANGES IN GENERAL FIXED ASSETS

The following is a summary of changes in the general fixed assets account group:

<i>Description</i>	<i>Restated Balance at July 1, 2001</i>	<i>Additions</i>	<i>Withdrawals</i>	<i>Balance at June 30, 2002</i>
Land	\$ 3,734,032	\$ 0	\$ 0	\$ 3,734,032
Building and improvements	5,594,481			5,594,481
Machinery and equipment	<u>5,916,808</u>	<u>1,300,644</u>	<u>(4,872)</u>	<u>7,212,580</u>
	<u>\$15,245,321</u>	<u>\$1,300,644</u>	<u>\$(4,872)</u>	<u>\$16,541,093</u>

The restated balance at July 1<sup>st</sup>, 2001, considers \$528,891 which represented the difference between the adjusted computerized records of the Municipality and the prior reported amount. (See third paragraph of the independent auditor's report).

**MUNICIPALITY OF YAUCO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**8. GENERAL LONG-TERM DEBT**

The following is a summary of the general long-term debt transactions for the year ended June 30, 2002.

Balance at July 1 <sup>st</sup> , 2001	\$7,418,594
Additions	2,015,000
Repayment of principal	<u>( 606,594)</u>
Balance at June 30, 2002	<u>\$8,827,000</u>

The general long-term at June 30, 2002 is as follows:

**A. Bonds:**

1984 - \$171,000, due in annual principal installments of \$3,000 to \$12,000 through January 1, 2008, plus interest at 5%	\$ 65,000
1989 - \$400,000, due in annual principal installments ranging from \$10,000 to \$50,000 through July 1, 2004, plus interest ranging from 6.23% to 8.60%	135,000
1996 - \$4,585,000 due in annual principal installments ranging from \$100,000 to \$435,000 through July 1, 2015, plus interest at 4.70% to 6.58%	3,855,000
2002 - \$2,075,000 due in annual principal installments ranging from \$30,000 to \$165,000 through July 1, 2026, plus interest at 7%	<u>2,015,000</u>
	<u>6,070,000</u>

**MUNICIPALITY OF YAUCO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**8. GENERAL LONG-TERM DEBT (CONTINUED)**

B. Notes:

\$2,900,000 special obligations from 1986, due in annual installments of \$138,000 through July 1, 2006, plus interest at variable rates estimated at 8.50%.	690,000
\$195,000 general obligation note of 1999, due in annual principal installments ranging from \$24,000 to \$33,000 through January 1 <sup>st</sup> , 2005 plus interest at 4.75%	92,000
\$1,210,000 general obligation note of 2001 due in annual principal installments ranging from \$205,000 to \$280,000 through July 1, 2005, plus interest at 6.13% to 8.0%.	1,005,000
\$180,000 general obligation note of 1999, due in annual principal installments ranging from \$22,000 to \$30,000 through January 1 <sup>st</sup> , 2006 plus interest at 4.75%.	113,000
\$857,000 general obligation note of 1999 due in annual principal installments through a term of twenty five years after the date of disbursement be completed plus interest at 4.75%. As of June 30, 2002 this loan is substantially disbursed	<u>857,000</u>
	<u>2,757,000</u>
	<u>\$8,827,000</u>

**MUNICIPALITY OF YAUCO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**8. GENERAL LONG-TERM DEBT (CONTINUED)**

Proceeds of general obligations are recorded in the Special Revenue Funds and are restricted to the use for which they are approved.

The maturity of general obligations is as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2003	\$ 675,140
2004	729,280
2005	774,280
2006	733,280
2007	460,280
Thereafter	<u>5,454,740</u>
	<u><u>\$8,827,000</u></u>

**9. LEASES**

The Municipality leases public sites, equipment, building space and transportation vehicles under operating leases agreements with terms no longer than one year. Total income from leases during the year ended June 30, 2002 amounted to \$217,929.

**10. RETIREMENT SYSTEM**

**Defined Benefit Pension Plan**

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

## MUNICIPALITY OF YAUCO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

#### 10. RETIREMENT SYSTEM (CONTINUED)

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined, otherwise they will receive 75 percent of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Bank is required by the same statute to contribute 9.275% of the participant's gross salary.

## MUNICIPALITY OF YAUCO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

#### 10. RETIREMENT SYSTEM (CONTINUED)

##### **Defined Contribution Plan**

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Bank is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

## MUNICIPALITY OF YAUCO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

#### 10. RETIREMENT SYSTEM (CONTINUED)

Total employee contributions to the above mentioned plans during the year ended June 30, 2002 amounted to approximately \$272,544. This amount represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2002, a copy of which can be obtained from the Retirement System.

#### 11. COMMITMENTS AND CONTINGENCIES

At June 30, 2002, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

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

#### 12. OPERATING LEASES

The Municipality maintains equipment and facilities under various operating leases. Most of the leases have renewable options from year to year.

The rent expense for all operating leases for the year ended June 30, 2002, amounted to \$115,100.

## MUNICIPALITY OF YAUCO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

#### 13. CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the Municipality of Yauco place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$25,429 as of June 30, 2002, which is based on 3% usage (filled) of the landfill. It is estimated that an additional \$872,420 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2050). The estimated total current cost of the landfill closure and postclosure care (\$890,224) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2002. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The Municipality of Yauco issued the ordinance 89, series 2001-02 to make annual contributions from general fund budget to finance closure and postclosure care. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

**MUNICIPALITY OF YAUCO**  
**YEAR ENDED JUNE 30, 2002**  
***SINGLE AUDIT SECTION***

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2002**

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2002**

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
<b>U.S. Department of Housing and Urban Development:</b>		
Passed through the Puerto Rico Office of Commissioner of Municipal Affairs-State Block Grant Program – Small Cities Program –	14.219	\$ 764,284
Direct Program: Section 8 – Low income Housing Assistance Payment Program	14.856	<u>125,173</u>
Total US Department of HUD		<u>889,457</u>
<b>Department of Health and Human Services:</b>		
Passed through Administration for Children and Families Family Preservation and Support Service	93.556	<u>33,530</u>
<b>Federal Emergency Management Agency:</b>		
Passed through GAR Disaster Assistance	83.516	<u>1,982,722</u>

**MUNICIPALITY OF YAUCO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
<b><u>Department of Justice:</u></b>		
Passed through the Puerto Rico Department of Justice Byrne Formula Grant Program	16.579	94,613
Local Law Enforcement Block Grant	Not available	166,301
Public safety and community Oriental Publishing Service	16.710	<u>163,861</u>
Total Department of Justice		<u>424,775</u>
		<u>\$3,330,484</u>

**MUNICIPALITY OF YAUCO**  
**NOTES TO THE SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2002**

**1. GENERAL**

The accompanying Schedule of expenditures of federal awards presents the activity of all the federal financial assistance programs of the Municipality of Yauco (the Municipality). The Municipality's reporting entity is defined in note 1 to the Municipality's general purpose financial statements. Federal awards received directly from federal agencies as well as federal award passed through other government agencies are included on the schedule and under the special revenue funds on the general purpose financial statements.

**2. BASIS OF ACCOUNTING**

The accompanying Schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in note 1 to the Municipality's general purpose financial statements.

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



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*Partners:*

*Juan E. Román Toro, MBA, CPA  
José D. Román Toro, CPA*

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

Honorable Mayor and Members  
of the Municipal Assembly  
Municipality of Yauco  
Yauco, Puerto Rico

We have audited the general purpose financial statements of **Municipality of Yauco, Puerto Rico**, as of and for the year ended June 30, 2002 and have issued our report there on dated December 17, 2002, which was qualified because of the inadequacy of the Municipality's accounting records we were unable to form an opinion regarding the amount at which fixed assets (stated at \$16,541,093) are presented in the general purpose financial statement. Except as discussed in the preceding sentence, we conducted our audit in accordance with the auditing standards generally accepted in the United States of America and Puerto Rico, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Municipality of Yauco general purpose financial statements are free of material misstatement, except for the scope limitation described in the preceding paragraph, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards which are described in the Section II of the accompanying schedule of findings and questioned costs.

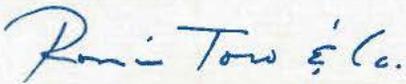
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Yauco internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Yauco's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the Section II of the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described in the accompanying schedule of findings and questioned costs are a material weakness.

This report is intended solely for the information of the Municipality's management, 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.

  
ROMAN TORO & CO., CSP

December 17, 2002  
Yauco, Puerto Rico

License No. 35  
Expires December 1, 2005

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to the original of this report

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



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Partners:

Juan E. Román Toro, MBA, CPA  
José D. Román Toro, CPA

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members  
of the Municipal Assembly  
Municipality of Yauco  
Yauco, Puerto Rico

**Compliance**

We have audited the compliance of **Municipality of Yauco, Puerto Rico**, 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, 2002. Municipality of Yauco, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule 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 of Yauco, Puerto Rico management. Our responsibility is to express an opinion on Municipality of Yauco, Puerto Rico compliance based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and Puerto Rico; 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 State and 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 non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Yauco, Puerto Rico 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 on Municipality of Yauco, Puerto Rico's compliance with those requirements.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE (CONTINUED):

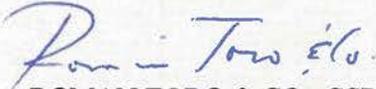
In our opinion, the Municipality of Yauco Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 7 and 8.

Internal Control Over Compliance

The management of Municipality of Yauco, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Yauco, Puerto Rico'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we consider that all reportable conditions described in the accompanying schedule of questioned costs are material weaknesses.

This report is intended solely for the information of the Municipality's management, 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.

  
ROMAN TORO & CO., CSP

December 17, 2002  
Yauco, Puerto Rico

License No. 35  
Expires December 1, 2005

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**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2002**

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2002

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

√ yes \_\_\_ no

Reportable condition(s) identified that are not considered to be material weakness(es)?

\_\_\_ yes √ none reported

Noncompliance material to financial statements noted?

√ yes \_\_\_ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

√ yes \_\_\_ no

Reportable condition(s) identified that are not considered to be material weakness(es)?

\_\_\_ yes √ none reported

Type of auditor's report issued on compliance for major programs

Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

\_\_\_ yes √ No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228  
83.516

State Block Grant Programs Small Cities Programs  
Disaster Assistance

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

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_ yes √ no

# MUNICIPALITY OF YAUCO

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

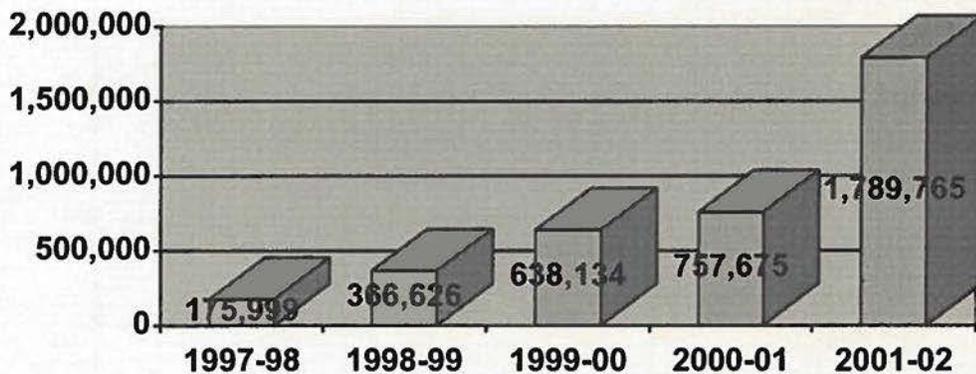
YEAR ENDED JUNE 30, 2002

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 1. General fund deficit

As of June 30, 2002 the Municipality closed with an accumulated deficit of \$1,789,765. This is the fifth consecutive year that the Municipality closed its operations reporting deficit. The deficit has increased since first reported during fiscal year ended June 30, 1998 by a 917% and by 136% when compared to last year as illustrated below.

#### Accumulated Deficit



The deficit is caused by the overestimation of revenues and by the incurrence of obligations without resources available.

The Article 7.011(a) of Autonomous Municipal Act (Law 81), as amended, stay that if the Municipal close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year.

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that it must be special care to prepare the revenues estimates so these do not results in budget appropriations in excess of available resources.

The deficit reported by Municipality of Yauco could not continue growing without harming the basic governmental services to its citizens. So we strongly recommend take the necessary measures to stop this trend.

## MUNICIPALITY OF YAUCO

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

#### SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

##### 2. Findings on cost incurred in Jacanas sewer system construction project

The Municipality disbursed cost amounted to \$83,100 on construction project of Jacanas Sewer System. We found the following deficiencies related to these transactions:

1. These disbursements were recorded in accounting records, therefore, the related reports did not included these incurred costs.
2. There was not an available budgetary item to charge these project costs.
3. The payments were issued without the pre-approval of intervention officer.

The revised regulations about basic rules for the Puerto Rico municipalities state the following regarding the violations observed in these transactions:

- The Finance Director will pay municipality obligations only when there is available existing credit in budget.
- The Finance Director will be responsible for the legality, accuracy, propriety, necessity and correctness of all the expenses that are submitted for payment from the heads of the administrative units.
- The Finance Director shall not approve for payment any document if not is certified as correct by the pre-audit unit or the intervention officer.
- The Finance Director, will be responsible for the accountability of all obligations and to carry out and account for all disbursement through documents adequately prepared by the administrative units. These documents will be previously certified for accrual or payment by the head of the administrative units and authorized and approved by the Mayor or his authorized representative.
- The Municipality will maintained a check register where the checks issued must be recorded in numerical sequence.

**MUNICIPALITY OF YAUCO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2. Findings on cost incurred in Jacanas sewer system construction project**

We recommend to follow the rules issued by laws and regulations that govern the operational procedures to be applied in the administration of public funds.

**3. Deviations of internal control procedures in the disbursement cycle**

Our disbursement test reported the following deviations to established internal control procedures in a frequency that is not acceptable.

1. Disbursements performed without the pre-approval of intervention officer.
2. Supporting documents not stamped as paid for the proper cancellation of documents as a preventive measure to avoid duplication of payment.
3. The mayor signature is not dated.

The established internal control procedures required by laws and regulations aid to prevent and detect the likelihood of error and irregularities. These must be followed strictly. The Finance Director and the Mayor are responsible for the performance and compliance with established internal control procedures, laws and regulations.

**4. Deviations of internal control procedures in the payroll cycle**

Our payroll test reported the following deviations to establish internal control procedures in a frequency that need immediate attention.

1. The employee file did not include all documents required during the hiring. Our sample size was 25 employees files and found missing the following documents:

<u>Documents</u>	<u>Frequency</u>
2 X 2 photo	4
Copy of driver license	1
Copy of social security card	2
Original of birth certificate	10

# MUNICIPALITY OF YAUCO

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

### SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

#### 4. Deviations of internal control procedures in the payroll cycle, Continue

<u>Documents</u>	<u>Frequency</u>
Health certificate	13
ASUME debt certification	6
Treasury Department debt certification	8
Income tax debt certification	7
CRIM debt certification	6
Completed employment application	1
Form I-9	1

We recommend to update all employee files.

#### 5. Accounting and reporting system

The Municipality of Yauco has not established the accounting procedures, controls and records necessary to provide accurate information to prepare the financial statements and federal reports in conformity with generally accepted accounting principles and the related grant agreements.

The following conditions were noted:

- a. At present, transactions are accounted through manual and computerized systems. Although it was observed that reconciliations for revenues and expenditures are being made between these two systems, the balance sheet accounts in the computerized systems are not reconciled making the system unable to produce reliable financial statements.
- b. The manual accounting system does not provide for a self balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities and residual equities or balances, and changes there in.

# MUNICIPALITY OF YAUCO

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

### SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

#### 5. Accounting and reporting system, Continue

- c. The accounting records do not provide for a segregation between expenditures incurred and encumbered. At year end the amount to be segregated as reserve for encumbrances is not considered to have a material effect on the general purpose financial statement.
- d. There are no adequate accounting controls to properly manage and keep accurate records of property and equipment. Accordingly, we were unable to ascertain as to amount of the Municipality's general fixed assets. The inadequacy of records is evidenced by a prior period adjustment of \$528,891 posted in the account group to reconciled with property record.
- e. No proper year-end closing procedure has been established to account for all transactions affecting all funds. We found material amounts of unrecorded payments and liabilities.
- f. Certain accounting information kept in various accounting records was also provided by other records or reports, resulting in extra work load to accounting personnel.
- g. The Department of Federal Funds keep a separated manual system of accounting for the programs they managed. This accounting is not incorporated in the main manual accounting system nor in the computer system. The accounting records and the financial reporting is not being monitored by the Finance Department, therefore, such accounting is not being reconciled with the Municipality accounting records.

#### 6. Municipal Solid Waste Landfill. GASB 18

The estimated liability and the related disclosure presented in the financial statement related to costs of closure and postclosure of the Municipal solid waste landfill is not based on actual engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were based. The opinion was not qualified because the impact in the current financial statements is not material. However, as years going by the accrual will be material and the amount must be based on reliable sources.

**MUNICIPALITY OF YAUCO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**6. Municipal Solid Waste Landfill. GASB 18, Continue**

We recommend to perform the engineering studies to determine the factors necessary to calculate the amount to be accrued for cost closure and postclosure care. These costs includes the following:

- The cost of equipment expected to be installed and facilities expected to be constructed near or after the date the landfill stops accepting waste and during the postclosure period. Such equipment might include gas monitoring and collection systems, storm water management systems, and groundwater monitoring wells.
- The cost of final cover (i.e., capping) expected to be applied near or after the closure date.
- The cost of monitoring and maintaining the expected usable landfill areas during the postclosure period.

The amount to be accrued each period should be determined using a depletion approach and should be based on the percentage of capacity used during the period calculated according to the following formula:

$$\frac{\text{Estimated total current cost} \times \text{Cumulative capacity used}}{\text{Estimated total capacity}} - \text{Amount previously recognized}$$

**MUNICIPALITY OF YAUCO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2002**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

	<b>Questioned Costs</b>
<b>Department of Housing and Urban Development State Block Grant Programs Small Cities Programs (SBGP) CFDA No. 14.219</b>	
<p><b>7. Condition:</b> Program was charged with payroll costs of an employee with non program related tasks.</p> <p><b>Criteria:</b> The compliance requirement of allowable costs / costs principles provide for costs charged to program must be allocable and the program must derived the benefits. All costs must be necessary for the program operation. Direct costs related to non program activities or operations can not be charged to the program. The payroll direct cost must be for the time devoted and identified specifically to the performance of the program.</p> <p><b>Effect:</b> The Municipality did not complied with federal grant laws and regulations.</p> <p><b>Recommendation:</b> To return the funds to the federal program bank account.</p>	\$11,470
<p><b>8. Condition:</b> A construction contract examined that corresponds to two selected payments did not include the clause requiring compliance with Davis Bacon Act. Also, the Municipality did not obtain the contractor payroll and the certification which indicate that laborers and mechanics were paid the prevailing wage rates established by the DOL for the locality at the time of the construction payroll.</p> <p><b>Criteria:</b> The Davis Bacon Act requires that all construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by Department of Labor (DOL).</p> <p><b>Effect:</b> The Municipality did not monitor the contractor's compliance with the Davis Bacon Act.</p> <p><b>Recommendation:</b> The Municipality must obtain from contractor certification of payroll and ascertain that laborers and mechanics were paid the prevailing wage rates.</p>	191,424
<b>Total Department of Housing and Urban Development</b>	<b>\$202,894</b>

**MUNICIPALITY OF YAUCO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Department of Housing and Urban Development  
State Block Grant Programs Small Cities  
CFDA No. 14.219**

**Finding 2001 – 6**

✓ **Condition:** Questioned cost of \$150,000 for the acquisition of land for the construction of a minor league baseball park.

**Current status:** The finding does not warrant further action. The case was referred to PR Comptroller Office and Justice Department. The investigation is in progress. ✓

**Finding 2001 – 7**

**Condition:** Questioned cost of \$22,500 for payment of professional services not authorized by OCAM.

**Current status:** The finding does not warrant further action. The Municipality returned the funds effective December 13, 2001. ?

**Finding 2001 – 8**

**Condition:** The Municipality did not provide the program's trial balance, general ledger and other accounting records.

**Current status:** Condition still prevail. ✓

**Finding 2001 – 9**

**Condition:** The funds received from OCAM were not disbursed in the same cost objective distribution there were requested.

**Current status:** Condition corrected during current year.



Estado Libre Asociado de Puerto Rico  
 Gobierno Municipal de Yauco  
 Apartado 1  
**OFICINA DEL ALCALDE**  
 Yauco, Puerto Rico 00698  
 Teléfono 856-1345



*Abel Nazario Quiñones*  
*Alcalde*

*December 26, 2002*

### **Corrective Action Plan**

*Municipality of Yauco respectfully submits the following corrective plan for the year ended June 30, 2002.*

*Name and address of independent public accounting firm:*

**ROMAN TORO & CO.,CSP**  
**Certified Public Accountants**  
**PO Box 3043**  
**Yauco P.R. 00698-3043**

*Audit period: Year ended June 30, 2002*

*The finding from the June 30, 2002 schedule of finding and questioned cost are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.*

*Finding- Financial Statement Audit*  
*Reportable Conditions*

#### **1. General fund deficit**

*Recommendation:*

*The deficit reported by the Municipality of Yauco could not continue growing without harming the basic governmental services to the citizens. So we strongly recommend take the necessary measures to stop this trend.*

*Action Taken:*

*We will take all the necessary measures to assure that we will not overestimate our revenue, and in that way our accumulated deficit will not increase. Always taking in concern that the basic services of our community will not be affected.*

**2. Findings on cost incurred in Jacanas sewer system construction project**

*Recommendation:*

*To follow the rules issued by laws and regulations that govern the operational procedures to be applied in the administration of public funds.*

*Action Taken:*

*The credit and the separation of funds by Governamental Development Bank it exist. What we are waiting for is that the Governamental Bank transfers us the deposit to the municipality account for the project of Jacanas sewer system. We will make all the required transfer to access this deposit.*

**3. Desviations of internal control procedures in the disbursement cycle**

*Recommendation:*

*The established internal control procedures required by the laws and regulations aid to prevent and detect the likelihood of error and irregularities.*

*Action Taken:*

*We will make all the necessary measures to correct this situation.*

#### ***4. Desviations of internal procedures in the payroll cycle***

*Recommendation:*

*Recommend to update all employee files.*

*Action Taken:*

*In a period of time of 30 days we will actualize all the records of the employees files.*

#### ***5. Accounting and reporting system***

*Action Taken:*

*We made a professional service contract to a Certificated Public Accountant so in that way we can assure a setter proces and have more control of the records in comfort with the generally accepted accounting principles.*

#### ***6. Municipal Solid Wasted Landfill. GASB 18***

*Recommendation:*

*To perform the engineering studies to determine the factors necessary to calculate the amount to be accrued for cost closure and postclosure care.*

*Action Taken:*

*We agree with the recomendation.*

#### ***7. Program was charged with payroll costs of an employee with non program related task.***

*Recommendation:*

*To return the funds to the federal program bank account.*

*Action Taken:*

*We will take the money from the municipality General Account and transfer it to the HUD Federal program account.*

***8. Two other construction contracts examined did not include the clause requiring compliance with Davis Bacon Act.***

*Recommendation:*

*The Municipality must obtain from the contractor certification of payroll and ascertain that laborers and mechanics were paid the prevailing wage rates.*

*Action Taken:*

*We agree with the recommendation and it was implement effective immediately.*

***If you have questions this plan, please call a Mayor, at (787) 856-1345.***

*Sincerely yours,*



***Hon. Abel Nazario Quiñones  
Mayor***