

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE YAUCO**  
**AUDITORIA 2002-2003**

**30 DE JUNIO DE 2003**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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**MUNICIPALITY OF YAUCO**  
**SINGLE AUDIT REPORTING PACKAGE**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**MUNICIPALITY OF YAUCO  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2003**

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2003

ABEL NAZARIO QUIÑONES  
MAYOR

Prepared by:



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CPA ROBERTO TORRES & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANT AND BUSINESS CONSULTANT  
787-267-2521 / cpatorres@hotmail.com

**INTRODUCTORY SECTION**

To the Honorable Mayor and Member of the Municipality  
Assembly and the Residents of the Municipality of Yauco:

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with general accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Municipality of Yauco for the fiscal year ended June 30, 2003.

This report consists of management's representations concerning the finances of the Municipality of Yauco. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this reports. To provide a responsible basis for making these representations, management of the Municipality of Yauco has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the representation of the Municipality of Yauco financial statements in conformity with GAAP, because the cost of internal controls should not outweigh their benefits, the Municipality of Yauco comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert to the best of our knowledge and beliefs, this financial report is complete and reliable in all material respects.

The Municipality of Yauco financial statements have been audited by Carlos R. Díaz Negrón, CPA a firm of licensed certified accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Municipality of Yauco for the fiscal year ended June 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amount and disclosure in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statements presentations. The independents auditors concluded, based upon the audit that there was a reasonable basis for rendering an unqualified opinion that the Municipality of Yauco financial statements for the fiscal year ended June 30, 2003 are fairly presented in conformity with GAAP. The independent auditor's is presented as the first component of the financial section of the report.

The standards governing Single Audit engagement require the independent auditor to report no only on the fair presentation of the financial statements, but also on the audited government's internal control and legal requirements involving the administration of federal awards. These reports are available in the Municipality of Yauco separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in form of Management's Discussion and analysis (MD&A). This letter of transmittal is designed to complement

MD&A and should be read in conjunction with it. The Municipality of Yauco's MD&A can be immediately following the report of the independent auditors.

### **Profile of the Government**

The municipality of Yauco, incorporated in 1756, is located in the southwest part of Puerto Rico, one of the top growth areas of the island. The Municipality of Yauco currently occupies a land area of 68.3 square miles and serves a population of 46,384.

The Municipality of Yauco has operating under the Commonwealth since 1952. Policy-making and legislative authority are vested in a Legislative Assembly consisting of the Mayor and fifteen legislative assembly members. The Legislative Assembly is responsible, amount other things, for passing ordinances, and approving the budget and any budget transfer is necessary. The City major is responsible for carrying out the polices and ordinances of the Legislative Assembly and for overseeing the day-to-day operations of the government. Legislative assembly members serve for four-years.

The Municipality of Yauco provides a full range of services, including police protection, the construction and maintenance of highways, streets, and other infrastructure, and recreational activities and cultural events.

The annual budget serves as the foundation for the Municipality of Yauco financial planning. The Budget Director uses these requests as the starting point for developing a proposed budget. The Budget Director, then present this proposed budget to the Mayor for review prior to May 15. The Mayor is required by the Law 81 to present this budget to the Legislative Assembly no later than May 31. The Legislative Assembly is required to hold public hearing on the proposed budget and adopt a final budget no later than June 13 year. The appropriated budget is prepared by fund, and department. Transfers of appropriations between departments, however, require the special approval of the Legislative Assembly. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

### **Factors Affecting Financial Condition**

The information presented in the financial statement is perhaps best understood when it is considered from the broader perspective environment within which the Municipality of Yauco operates.

### **Local Economy**

Yauco has been declared City by the Federal Government, and that means that the Municipality will administrate all the federal funds for infrastructure, and development.

The administration of this funds will increase from two to four percent direct and indirect employments.

Also, this federal funds will support the development of new manufacturers, and the stability of the unemployment's rate.

This movement in the Municipality of Yauco currently enjoys a favorable economic environment, and local indicators point to continued stability.

### **Cash management policies and practices**

#### **Risk Management**

The Administration of the Municipality of Yauco performed an evaluation of the valuation of all Municipal property with the purpose of obtaining insurance for damage which covers a real amount of value of the properties. All acquisitions or sales of property are supervised by the Director each of the department, the Municipality performed annual inventory of all personal and real property.

Additional information on the Municipality of Yauco risk management activity can be found in Note of the notes to the financial statements.

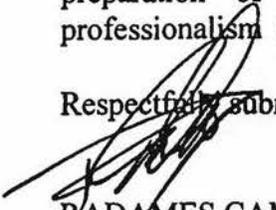
#### **Awards and Acknowledgements**

The Comptroller of Puerto Rico awarded a Certificated of Compliance with the Standard for the improvements of the municipal Administrations to the Municipality of Yauco. This was the second consecutive year that the Municipality of Yauco has received this prestigious award.

In addition, the Municipality of Yauco received an award from Commonwealth of Puerto Rico for the performance of the standard with the Work Investment Act program.

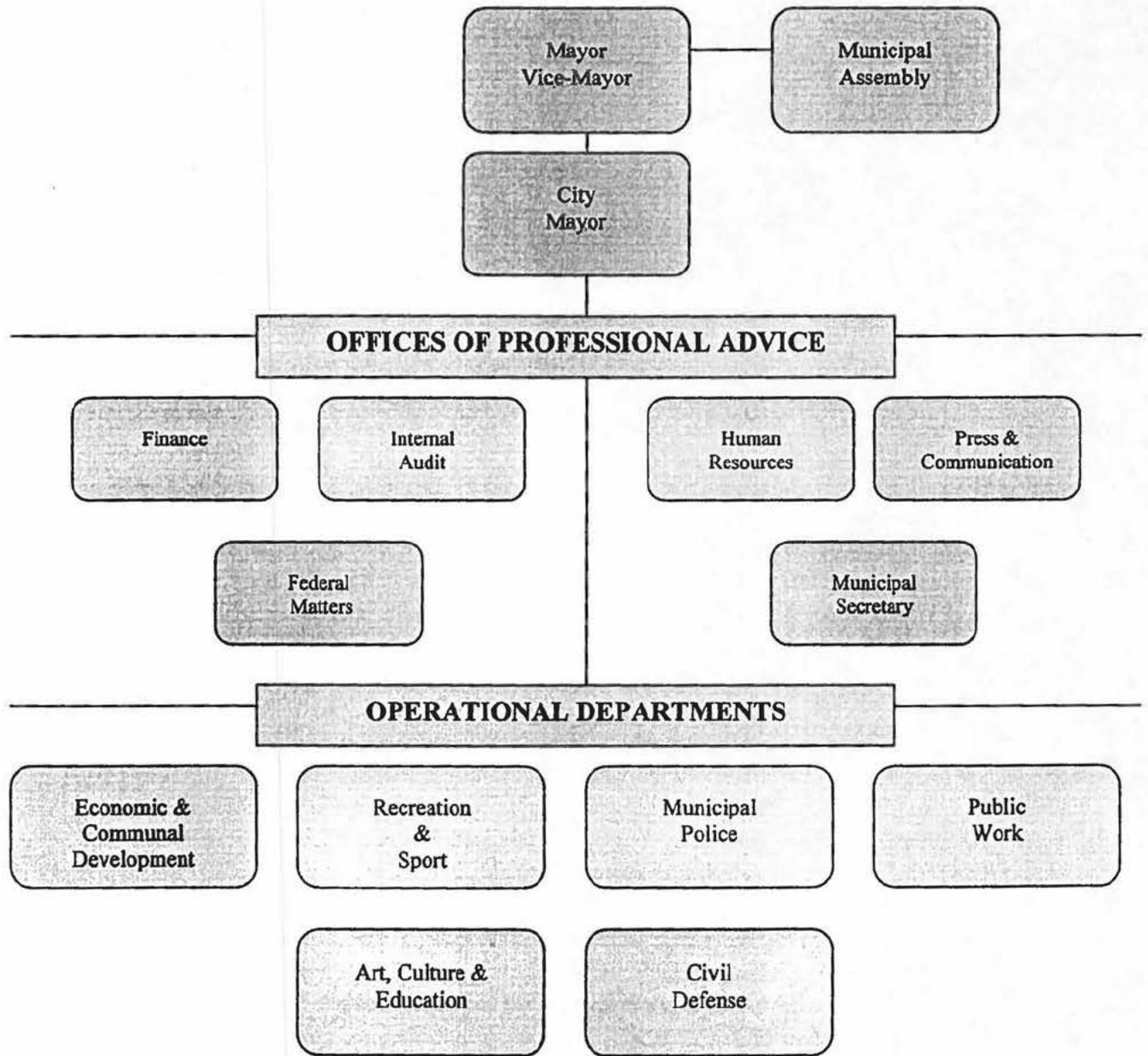
The presentation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance department. We would like to express our appreciation to all member of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor for the professionalism in the management of the Municipality of Yauco finance.

Respectfully submitted,



RADAMES CAMACHO IZQUIERDO  
Finance Director

# MUNICIPALITY OF YAUCO ORGANIZATION CHART



**MUNICIPALITY OF YAUCO**  
**LIST OF ELECTED AND APPOINTED OFFICIALS**

**Elected Officials**

**Mayor**

Hon. Abel Nazario Quiñones

**Legislative Municipality Assembly**

Jaime L Cintrón Rivera	President
Herminte Torres Rodríguez	Vice - President
Madeline Ortiz Nazario	Municipal Assembly Member
Israel Burgos Vélez	Municipal Assembly Member
Miriam Ruiz Alfonso	Municipal Assembly Member
Heidi Pons Irizarry	Municipal Assembly Member
Eda A. Santiago González	Municipal Assembly Member
Fidel Montes Rodríguez	Municipal Assembly Member
Eddie A. Cancel Ruiz	Municipal Assembly Member
Elaine Traversa Ramos	Municipal Assembly Member
Juan B. Romero Rodríguez	Municipal Assembly Member
Samuel Hernández Torres	Municipal Assembly Member
Carmen M. Quiñones Camacho	Municipal Assembly Member
Americo Báez García	Municipal Assembly Member
Carmen D. Feliciano Orengo	Municipal Assembly Member

**Appointed Officials**

Víctor M. Torres González	Vice - Mayor
Radamés Camacho Izquierdo	Finance Director
José Martínez Borrero	Municipal Secretary
Brenda Irizarry Caraballo	Human Resources
Mirna Alfonso Vélez	Press & Communication
María Alvarado Torres	Economic & Communal Dev.
Milagros Pacheco Cedeño	Education
Freddie León Santos	Internal Auditor
Angel L. Torres Ortiz	Public Work
Frances H. Irizarry Rivera	Recreation & Sport
Jorge Velázquez Almodóvar	Municipal Police
Jazmín Orengo Pacheco	Federal Matters
Johanna Ramos Castillo	Civil Defense

**FINANCIAL SECTION**

## **INDEPENDENT AUDITOR'S REPORT**

**To the Honorable Mayor and  
Municipal Council  
Municipality of Yauco  
Yauco, Puerto Rico**

I have audited the financial statements of the governmental activities, major funds, and remaining fund information which collectively comprise the basic financial statements of the Municipality of Yauco as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards. Those standards require that I 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities, major funds, and the aggregate remaining fund information of the Municipality of Yauco as of June 30, 2003, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, the Municipality of Yauco has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of and for the year ended June 30, 2003.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED):**

The Management's Discussion and Analysis and Budgetary comparison information on pages 10 through 17 and 48 through 50 are not required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the Municipality's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

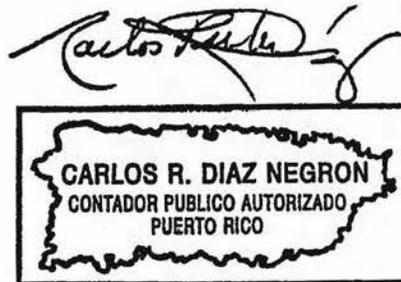
The introduction is presented for purpose of additional analysis and is not required part of the financial statements. Such information has not been subjected to the audit procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.

In accordance with Government Auditing Standards, I have also issued a report dated December 19, 2003, in my consideration of internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, grants and contracts. 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 assessing the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditure 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 financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

December 19, 2003  
Aguas Buenas, Puerto Rico

License No. 1339  
Expire December 1, 2004



The stamp No. 1928047 of the Society of Certified Public Accountants was affixed to the original of this report.

## MANAGEMENT AND DISCUSSION ANALYSIS

Our discussion and analysis of the Municipality of Yauco financial performance provides an overview of the Municipality's financial activities for the year ended June 30, 2003. Please read it in conjunction with the transmittal letter on page 2 and the financial statements, which begin on page 18.

### FINANCIAL HIGHLIGHTS

- Loans principal payments were \$663,000 this year and the loan proceeds were \$4,290,000 for an ending balance of \$12,454,000 in long term debt.
- The general fund reported a deficit of \$1,485,884 this year and an accumulated deficit of \$3,275,649.
- The Municipality reserved \$2,385,000 in special revenues funds within the governmental funds to redevelop various areas of the Municipality's infrastructure and capital assets. These projects will take place during the fiscal year 2003-2004.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 through 18) provide information about the activities of the Municipality as a whole and present a long-term view of the Municipality's finances. Fund financial statements start on page 19. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Municipalities' operations in more detail than the government-wide statements by providing information about the Municipality's most significant funds.

#### Reporting the Municipality as a Whole

##### The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's *net assets* and changes in them. You can think of the Municipality's net assets, the difference between assets and liabilities, as one

MUNICIPALITY OF YAUCO, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2003

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way to measure the Municipality's financial health, or *financial position*. Over time, *increases or decreases* in the Municipality's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the roads, to assess the *overall health* of the Municipality of Yauco.

In the Statement of Net Assets and the Statement of Activities, we grouped the Municipality's activities into:

- Governmental Activities – Most of the Municipality's basic services are reported here, including the municipal police, public works, garbage disposal, public energy and health services, and general administration. Property taxes, municipal license tax, state and federal grants finance most of these activities.

### **Reporting the Municipality's Most Significant Funds**

Our analysis of the Municipality's major funds begins on page 12. The Fund financial statements begin on page 19 and provide detailed information about the most significant funds, not the Municipality as a whole. Some funds are required to be established by bond covenants. The Municipality's basic services are reported in the governmental funds, that uses an accounting approach which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in then near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement on Activities) and governmental funds in reconciliation on page 20 and 23 of this report.

- Governmental funds - Most of the Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the next page of the fund financial statements.

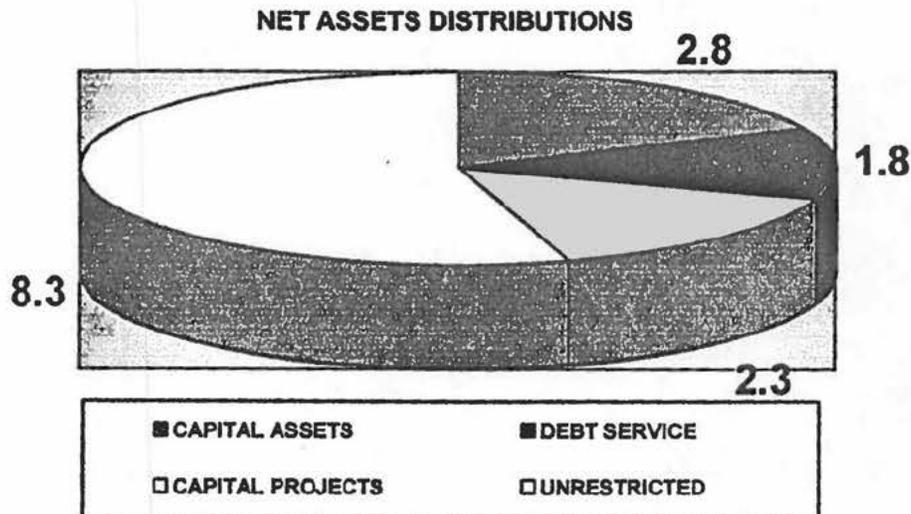
MUNICIPALITY OF YAUCO, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2003

**THE MUNICIPALITY AS A WHOLE**

The Municipality's combined net assets decreased in the current year by \$1.9 million to total \$ (1.4) million at year end. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Municipality's governmental activities for the current year. Because this is the first year of the GASB #34 implementation no comparative analysis is presented, however in future year comparative analysis of governmental-wide data will be presented.

**Table 1  
 Net Assets  
 (In Millions)**

Cash and other assets	\$ 6.8
Capital assets	<u>11.6</u>
Total assets	<u>18.4</u>
Long term debt outstanding	12.5
Other liabilities	<u>7.3</u>
Total liabilities	<u>19.8</u>
Net Assets:	
Invested in capital assets, net of related debt	2.8
Restricted for:	
Debt service	1.8
Capital Projects	2.3
Unrestricted	<u>(8.3)</u>
Total net assets	<u>\$ (1.4)</u>



MUNICIPALITY OF YAUCO, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2003

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**Table 2**  
**Changes in Net Assets**  
**(In Millions)**

<b>Revenues</b>	
Program revenues:	
Charge for services	\$ 3.9
Operating grants and contributions	.1
Capital grants and contributions	.6
General revenues:	
Property taxes	4.4
State government and public corporations	4.9
Federal grants	.8
Solid waste disposal	.2
Interest	.1
Other income	<u>.1</u>
<b>Total Revenues</b>	<b><u>15.1</u></b>
<b>Program Expenses:</b>	
General administration	7.6
Public safety	2.5
Education	1.8
Public works	3.6
Health and welfare	1
Interest on long term debt	<u>.5</u>
<b>Total Expenses:</b>	<b><u>17.0</u></b>
<b>Decrease in Net Assets</b>	<b><u>\$ (1.9)</u></b>

Net assets of the Municipality's governmental activities decreased by \$1.9 million in the current year. *Unrestricted* net assets, is the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

### **Governmental Activities**

The Mayor of the Municipality of Yauco made various reviews to the budget during the year to avoid a deficit increase. But despite these efforts the Municipality incurred in a deficit increase due to the non-realization of the budgeted revenues. The Mayor and the Finance Director are working together to implement cost reductions programs to improve the Municipality's financial health.

The increase in the general government deficit during the fiscal year ended June 30, 2003 was related to the following programs:

MUNICIPALITY OF YAUCO, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2003

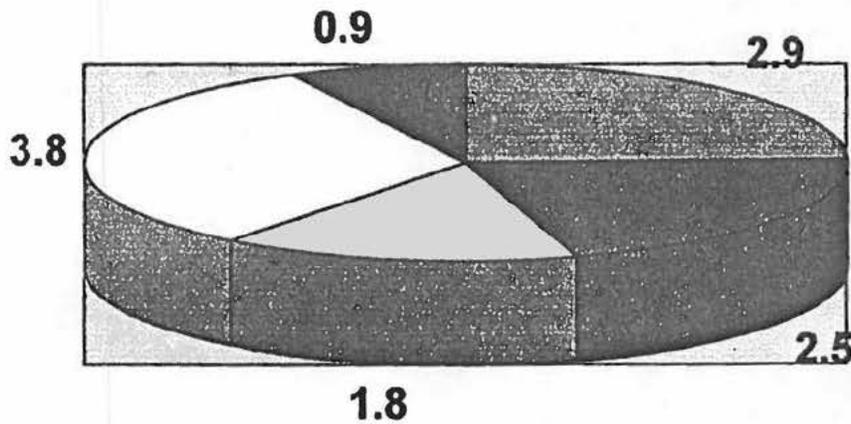
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**Table 3**  
**Governmental Activities**  
**(in Millions)**

	<u>Total Costs of Services</u>
General Administration	\$ 2.9
Public Safety	2.5
Education	1.8
Public Works	3.8
Health and welfare	.9
Debt service:	
Interest	<u>.5</u>
Total	<u>\$12.4</u>

The major governmental revenue sources are property taxes, municipal license taxes, federal grants and state governmental grant and contributions, which in total represent \$12,929,950 (85%) of all revenues in 2003

## GOVERNMENTAL ACTIVITIES



■ General Administration ■ Public Safety □ Education □ Public Works ■ Health and welfare ■ Interest

MUNICIPALITY OF YAUCO, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2003

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**THE MUNICIPALITY'S FUND**

As the Municipality completed the year, its governmental funds (as presented in the Balance Sheet in page 19) reported a combined fund balance of \$1.2 million.

In addition, these other changes in fund balance should be noted:

- The Municipality segregated two new capital loans into special funds to account for the redevelopment of several of the Municipality's areas. These projects were named Community Redevelopment Project -1 and Community Redevelopment Project - 2. The amount available in those funds increase the reported combined fund balance by \$2,323,070 which consists of the cash available but not yet expended.

**General Fund Budgetary Highlights**

Over the course of the year, the Municipal Assembly revised the Municipality of Yauco budget several times. These budget amendments fall into various categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amount we estimated in May 2003). The second category includes changes that Municipal Assembly made to take into consideration the amount required in operating accounts as temporary employees and donations.

Even with these adjustments, the actual changes to appropriations (expenditures) were \$71,977 thousand above the final budget amounts. The most significant negative variance (\$1,849,979) occurred in the budgeted amount to be received from the Puerto Rico Power Authority and other revenues, because the municipality expected to receive these amounts as part of the legal process that were in process against the mentioned governmental instrumentality.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2003, the Municipality of Yauco had \$11.6 million invested in a broad range of capital assets, including buildings, parks, roads, bridges and equipment. (See Table 4).

MUNICIPALITY OF YAUCO, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2003

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**Table 4**  
**Capital Assets at Year-End**  
**(Net of depreciation, in Millions)**

	<u>Governmental Activities</u>
Land and land improvements	\$ 1.1
Buildings and improvements	5.9
Equipment	2.7
Infrastructure	<u>1.9</u>
Totals	<u>\$ 11.6</u>

The City's fiscal-year 2004 capital budget calls for it to spend at least another \$2.3 million for capital projects. More detailed information about the Municipality's capital assets is presented in Note 13 to the financial statements.

The Municipality has elected to postpone the recognition of the infrastructure capital assets existent prior to the year ended June 30, 2003, the year of the GASB #34 implementation, according to the provisions the mentioned GASB provides. On or before the year ended June 30, 2007 all those capital assets will be accounted for and included in the Financial Statements.

**Debt**

At year-end, the Municipality had \$12.5 million in bonds and notes outstanding versus \$8.8 million last year, an increase of 34%, as shown in Table 5.

**Table 5**  
**Outstanding Debt, at Year-end**  
**(in Millions)**

	<u>Governmental Activities</u>
Bonds Payable	\$ 7.2
Notes Payable	<u>5.3</u>
Totals	<u>\$ 12.5</u>

New bonds in the amount of \$1.4 million and notes in the amount of \$2.9 million were issued to finance improvements. More detailed information about the Municipality's long-term liabilities is presented in Note 14 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's elected and appointed officials considered many factors when setting the fiscal-year 2004 budget. Unemployment in the Municipality now is incrementing.

Amounts available for expenditures in the General Fund for fiscal-year 2004 are \$13.2 million, a decrease of 4% over the final 2003 budget of \$13.7 million. In overall the

**MUNICIPALITY OF YAUCO, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2003**

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consolidated budget for the fiscal year 2004 is \$13.2 million, a decrease of 4.0% over the 2003 budget of \$13.7 million. The other income account will decrease over \$1.1 million during the 2004 as projected.

Budgeted expenditures are expected to decrease accordingly to the decrease in budgeted revenues.

If the estimated revenues and expenditures are realized, the Municipality's deficit will decrease \$125,000 by the close of 2004.

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Municipality's finances and to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at the Municipality of Yauco, P.O. Box 1, Yauco, Puerto Rico 00698.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
STATEMENT OF NET ASSETS  
JUNE 30, 2003**

<b>ASSETS</b>	<b>PRIMARY GOVERNMENT</b>
Cash and cash equivalents	\$ 2,917,567
Cash with fiscal agent	3,875,479
Other assets:	
Cash in escrow account to be used for landfill closure and postclosure costs	7,628
Capital assets, net	<u>11,629,647</u>
<b>Total Assets</b>	<b><u>\$ 18,430,321</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities:</b>	
Accounts payable and accrued expenses	\$ 5,587,271
Deferred revenue	1,766,076
Noncurrent liabilities:	
Due within one year	840,280
Due in more than one year	<u>11,613,720</u>
<b>Total Liabilities</b>	<u>19,807,347</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	2,777,647
Restricted for:	
Debt service	1,862,855
Capital projects	2,323,070
Unrestricted (Deficit)	<u>(8,340,598)</u>
<b>Total Net Assets</b>	<b><u>\$ (1,377,026)</u></b>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
STATEMENT OF ACTIVITIES  
JUNE 30, 2003**

FUNCTIONS AND PROGRAMS	PROGRAMS REVENUES			CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
	EXPENSES	CHARGE FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS		
<b>Primary Government:</b>					
General administration	\$ 7,597,256	\$ 3,949,438	\$ 148,952	\$ -	\$ (3,498,866)
Public safety	2,496,086	3,712	564,148		(1,928,226)
Education, culture and recreational	1,855,630	10,730			(1,844,900)
Public works and Sanitation	3,761,381				(3,761,381)
Health and welfare	950,747			622,825	(327,922)
Debt service:					
Interest	454,499				(454,499)
<b>Total Expenditures</b>	<b><u>\$ 17,115,599</u></b>	<b><u>\$ 3,963,880</u></b>	<b><u>\$ 713,100</u></b>	<b><u>\$ 622,825</u></b>	<b><u>(11,815,794)</u></b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property taxes					4,418,690
<b>Grants and entitlements:</b>					
State government and public corporations					4,903,986
Federal grants					234,374
Solid waste disposal					160,889
Interest					140,761
Other income					<u>16,373</u>
<b>Total General Revenues</b>					<b>9,875,073</b>
<b>CHANGES IN NET ASSETS</b>					<b>(1,940,721)</b>
<b>NET ASSETS AT BEGINNING OF THE YEAR</b>					<b><u>563,695</u></b>
<b>NET ASSETS AT END OF THE YEAR</b>					<b><u>\$ (1,377,026)</u></b>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2003**

	GENERAL FUND	DEBT SERVICE FUND	COMMUNITY REDEVELOPMENT PROJECT - 1	COMMUNITY REDEVELOPMENT PROJECT - 2	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Cash:</b>						
Cash including \$1,100,000 in certificates of deposits	\$ 697,611	\$ 1,862,855	\$ -	\$ -	\$ 364,729	\$ 2,925,195
Cash with fiscal agent			1,377,219	995,034	1,503,226	3,875,479
<b>Receivables:</b>						
Amount due from:						
Other funds	<u>159,815</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>551,603</u>	<u>711,418</u>
<b>Total Assets</b>	<u>\$ 857,426</u>	<u>\$ 1,862,855</u>	<u>\$ 1,377,219</u>	<u>\$ 995,034</u>	<u>\$ 2,419,558</u>	<u>\$ 7,512,092</u>
<b>Liabilities and Other Credits</b>						
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ 2,126,617		49,183		\$ 1,659,300	3,835,100
Deferred revenues	1,454,855				311,221	1,766,076
Due to other fund	<u>551,603</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,815</u>	<u>711,418</u>
<b>Total Liabilities</b>	<u>4,133,075</u>	<u>-</u>	<u>49,183</u>	<u>-</u>	<u>2,130,336</u>	<u>6,312,594</u>
<b>Fund Balance</b>						
Reserve for:						
Debt service		1,862,855				1,862,855
State and Federal programs					289,222	289,222
Capital projects			1,328,036	995,034		2,323,070
Undesignated deficit	<u>(3,275,649)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,275,649)</u>
<b>Total Fund Balance</b>	<u>(3,275,649)</u>	<u>1,862,855</u>	<u>1,328,036</u>	<u>995,034</u>	<u>289,222</u>	<u>1,199,498</u>
<b>Total liabilities, other credits and fund balance</b>	<u>\$ 857,426</u>	<u>\$ 1,862,855</u>	<u>\$ 1,377,219</u>	<u>\$ 995,034</u>	<u>\$ 2,419,558</u>	<u>\$ 7,512,092</u>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2003**

Fund Balances in Governmental Funds	\$ 1,199,498
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*Amounts reported for Governmental Activities in the  
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,629,647
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Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(14,206,171)</u>
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<i>Net Assets of Governmental Activities</i>	<u>\$ (1,377,026)</u>
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2003**

	GENERAL FUND	DEBT SERVICE FUND	COMMUNITY REDEVELOPMENT PROJECT - 1	COMMUNITY REDEVELOPMENT PROJECT - 2	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>						
<b>Taxes:</b>						
Property taxes	\$ 3,414,959	\$ 1,003,731	\$	\$	\$	\$ 4,418,690
Municipal tax	2,003,902					2,003,902
<b>Grants and entitlements:</b>						
State government and public corporations	4,196,778				856,160	5,052,938
Federal grants					1,421,347	1,421,347
Rental income	134,577					134,577
Licenses and permits	742,972					742,972
Fines, forfeits and penalties	3,712					3,712
Solid waste disposal	160,889					160,889
Interest	154,688	19,146				173,834
Other	<u>1,062,017</u>	<u>0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,062,017</u>
<b>Total Revenues</b>	<u>11,874,494</u>	<u>1,022,877</u>	<u>-</u>	<u>-</u>	<u>2,277,507</u>	<u>15,174,878</u>
<b>Expenditures:</b>						
General administration	6,591,404				24,047	6,615,451
Public safety	1,852,470				570,392	2,422,862
Education, culture and recreational	1,299,766				430,816	1,730,582
Public works and sanitation	3,525,278				94,885	3,620,163
Health and welfare	333,815				606,512	940,327
Capital outlays			56,964	4,966	4,948,518	5,010,448
<b>Debt service:</b>						
Principal	138,000	520,000				658,000
Interest	<u>37,532</u>	<u>416,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>454,499</u>
<b>Total Expenditures</b>	<u>13,778,265</u>	<u>936,967</u>	<u>56,964</u>	<u>4,966</u>	<u>6,675,170</u>	<u>21,452,332</u>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2003**

	GENERAL FUND	DEBT SERVICE FUND	COMMUNITY REDEVELOPMENT PROJECT - 1	COMMUNITY REDEVELOPMENT PROJECT - 2	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Excess (deficiency) of revenues over (under) expenditures	(1,903,771)	85,910	(56,964)	(4,966)	(4,397,663)	(6,277,454)
Other financing sources (uses):						
Operating transfer in	417,887				300,000	717,887
Operating transfer out		(717,887)				(717,887)
Loan proceeds	-	-	1,385,000	1,000,000	1,905,000	4,290,000
Total other financing sources (uses)	<u>417,887</u>	<u>(717,887)</u>	<u>1,328,036</u>	<u>1,000,000</u>	<u>2,205,000</u>	<u>4,290,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing	(1,485,884)	(631,977)	1,328,036	995,034	(2,192,663)	(1,987,454)
Fund balance (deficit) at beginning of year	<u>(1,789,765)</u>	<u>2,494,832</u>	<u>-</u>	<u>-</u>	<u>2,481,885</u>	<u>3,186,952</u>
Fund balance (deficit) at end of year	<u>(\$ 3,275,649)</u>	<u>\$ 1,862,855</u>	<u>\$ 1,328,036</u>	<u>\$ 995,034</u>	<u>\$ 289,222</u>	<u>\$ 1,199,498</u>

The accompanying notes are an integral part of these financial statements



# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

### 1. ORGANIZATION

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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For fiscal year ended June 30, 2003, the Municipality implemented GASB Statement No. 34 (GASB 34), Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 36 (GASB 36), Recipient Reporting for Certain Shared Non exchange Revenues (and amendment of GASB 33); GASB Statement No. 37 (GASB 37), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; GASB Statement No. 38 (GASB 38), Certain Financial Statements Disclosures; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis - GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of management's discussion and analysis (MD&A).

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Government - Wide Financial Statements - The new reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

Statement of Activities - The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

### REPORTING ENTITY

The Municipality's financial statements include all governmental funds 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.

### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

The Municipality reports the following major governmental funds:

#### 1) General Fund

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

#### 2) Debt Service Fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

#### 3) Community Redevelopment Project 1

This is a special fund created for the accountability of a loan proceed of \$1,385,000 which proceeds are intended to be used for Infrastructure Projects among the Municipality. This fund has a high amount of fund balance because all revenues were received at year end and the gross expenses will be made during the following fiscal year.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

##### 4) Community Redevelopment Project 2

This is a special fund created for the accountability of a loan proceed of \$1,000,000 which proceeds are intended to be used for Infrastructure Projects among the Municipality. This fund has a high amount of fund balance because all revenues were received at year end and the gross expenses will be made during the following fiscal year.

#### MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private -sector guidance.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

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

#### CASH, CASH EQUIVALENTS, AND CASH WITH FISCAL AGENT

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

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

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

#### INTERFUND RECEIVABLES AND PAYABLES

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

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements.

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

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

	Useful Life
Buildings and building improvements	20-50 years
Land improvements	15-30 years
Machinery and equipment	5-20 years
Infrastructure	20-30 years

The Municipality decides when to capitalize an asset using the following capitalization thresholds amounts:

Type of Asset	Threshold Amount
Land/land improvements	Capitalized All
Buildings/buildings improvements	\$ 50,000.00
Other improvements	25,000.00
Equipment	2,000.00
Library books (collections)	Capitalized All
Works of Arts	Capitalized All
Leasehold improvements	10,000.00
Vehicles and Machinery	Capitalized All

The Municipality has elected to postpone the recognition of the infrastructure capital assets existent prior to the year ended June 30, 2003, the year of the GASB #34 implementation, according to the provisions the mentioned GASB provides. On or before the year ended June 30, 2007 all those capital assets will be accounted for and included in the Financial Statements.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### RESERVATION OF FUND BALANCE

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

1) Debt Service

Represents net assets available to finance future debt service payments.

2) Capital Project Funds

Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

3) State and Federal Programs

Represent the reservations of amounts available for specific use under state and federal grant programs.

#### RISK FINANCING

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2003 amounted to approximately \$364,484. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$323,176 for workers compensation insurance covering all municipal employees.

#### COMPENSATED ABSENCES

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

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### COMPENSATED ABSENCES (CONTINUED)

to the maximum allowed. Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Assets.

#### USE OF ESTIMATES

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

#### INVENTORIES

The purchase of inventory of construction materials, supplies, spare parts, and medicines and drugs are recorded as expenditure in the accompanying 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.

### 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### BUDGETARY CONTROL

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Assembly prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Assembly. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Assembly.

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, include only the operations of the general and the debt service funds.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

#### BUDGETARY CONTROL (CONTINUED)

outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget is presented in the Combined Statement of Revenues, Expenditures And Changes in Fund Equity - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2003 representing the original budget.

#### 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 FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this \$14,206,171 difference are as follows:

Bonds and notes payable	\$ 12,454,000
Accrued interest payable	426,091
Compensated absences	1,300,651
Landfill closure and postclosure costs	<u>25,429</u>
Net adjustments to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$ 14,206,171</u>

### 5. DEPOSITS AND INVESTMENTS

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$1 million in the general fund were fully collateralized at June 30, 2003. The deposits at GDB of approximately \$3.8 million that are restricted principally for capital projects, and the \$1.9 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

### 6. 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 FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 6. 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 value of real property evolves from 1957 estimated values and of personal property from the current value at the date of the assessment. The Municipality grants 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 that \$15,000, except for properties that have an assessed value of less than \$3,500, which have full 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.

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.

### 7. 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, 2003, \$2,003,902 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.

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

**8. INTERFUND TRANSACTIONS**

Interfund receivables and payables balances at June 30, 2003 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non Major Governmental Funds	\$ 159,815
Non Major Governmental Funds	General Funds	<u>551,603</u>
		<u>\$ 711,418</u>

**9. 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 Other Governmental Funds.

**10. DEFERRED REVENUE**

Municipal Tax

The deferred revenues of approximately \$1,454,855 in the general fund related to the municipal license tax collected in the fiscal year 2002-2003 that will be earned in fiscal year 2003-2004.

Federal Government

The deferred revenues presented in Other Governmental Funds is the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined by their cash balances.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 10. DEFERRED REVENUE (CONTINUED)

#### Federal Government (Continued)

These were related to the following federal programs/grants:

<b>Program/Grant Description</b>	<b>Amount</b>
COPS	\$ 34,036
FEMA	46,325
HUD	159,712
Section 8	18,873
George	22,049
Child Care	<u>30,226</u>
Total	<u>\$ 311,221</u>

### 11. 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, 2003 amounted to \$206,904.

### 12. COMMITMENTS AND CONTINGENCIES

At June 30, 2003, 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.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**YEAR ENDED JUNE 30, 2003**

### 13. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

Primary Government	Balance June 30, 2002	Increases	Decreases	Balance June 30, 2003
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 773,172	\$ -	\$ -	\$ 773,172
Infrastructure	<u>-</u>	<u>1,865,385</u>	<u>-</u>	<u>1,865,385</u>
<b>Total capital assets not being depreciated</b>	<u>773,172</u>	<u>1,865,385</u>	<u>-</u>	<u>2,638,557</u>
<b>Capital assets being depreciated:</b>				
Land improvements	679,668	120,640		800,308
Building and building improvements	5,926,523	1,328,625		7,255,148
Machinery and equipments	<u>4,431,993</u>	<u>406,674</u>	<u>-</u>	<u>4,838,667</u>
<b>Total capital assets being depreciated</b>	<u>11,038,184</u>	<u>1,855,939</u>	<u>-</u>	<u>12,894,123</u>
<b>Less accumulated depreciation for:</b>				
Land improvements	498,656	10,977		509,633
Building and building improvements	1,208,873	131,352		1,340,225
Machinery and equipments	<u>1,721,732</u>	<u>331,443</u>	<u>-</u>	<u>2,053,175</u>
<b>Total accumulated depreciation</b>	<u>3,429,261</u>	<u>473,772</u>	<u>-</u>	<u>3,903,033</u>
<b>Total capital assets being depreciated, net</b>	<u>7,608,923</u>	<u>1,382,167</u>	<u>-</u>	<u>8,991,090</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,382,095</u>	<u>\$ 3,247,552</u>	<u>\$ -</u>	<u>\$ 11,629,647</u>

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 13. CAPITAL ASSETS (CONTINUED)

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

General administration	\$ 123,862
Public safety	73,224
Public works	141,218
Education, culture and recreation	125,048
Health and welfare	<u>10,420</u>
Total depreciation expense	<u>\$ 473,772</u>

### 14. GENERAL LONG-TERM DEBT

Bonds and notes payable outstanding at June 30, 2003 consist of:

#### A. Bonds:

1984 - \$171,000, due in annual principal installments of \$3,000 to \$12,000 through January 1, 2008, plus interest at 5%	\$ 55,000
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%	95,000
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%	3,695,000
2002 - \$2,015,000 due in annual principal installments ranging from \$30,000 to \$165,000 through July 1, 2026, plus interest at 7%.	1,985,000

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

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

**A. Bonds (Continued)**

2003 - \$1,385,000 due in annual principal installments ranging from \$20,000 to \$105,000 through July 1, 2027, plus interest at 5%.

1,385,000

Total outstanding bonds

\$ 7,215,000

**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%.

552,000

\$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%

63,000

\$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%.

780,000

\$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%.

87,000

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

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

\$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, 2003 this loan is substantially disbursed	857,000
\$670,000 general obligation note of 2003, due in annual principal installments ranging from \$4,000 to \$5,000 through January 1 <sup>st</sup> 2027 plus interest at 6.50%.	665,000
\$505,000 general obligation note of 2002 due in annual principal installments through a term of twenty five years after the date of disbursement be completed plus interest at 6.50%.	505,000
\$730,000 general obligation note of 2002 due in annual principal installments through a term of twenty five years after the date of disbursement be completed plus interest at 6.50%.	730,000
\$1,000,000 general obligation note of 2003 due in annual principal installments through a term of twenty five years after the date of disbursement be completed plus interest at 6.00%.	<u>1,000,000</u>
Total outstanding notes	<u>5,239,000</u>
Total bonds and notes payable	<u>\$ 12,454,000</u>

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

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

<u>Bonds Payable</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 281,000	\$ 452,399
2005	306,000	433,938
2006	276,000	417,113
2007	316,000	398,913
2008	321,000	379,020
2009-2013	1,635,000	1,543,372
2014-2018	1,805,000	839,370
2019-2023	1,215,000	489,425
2024-2028	<u>1,060,000</u>	<u>130,450</u>
	<u>\$ 7,215,000</u>	<u>\$ 5,083,999</u>

<u>Notes Payable</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 559,280	\$ 300,895
2005	603,280	256,885
2006	597,280	211,590
2007	294,280	189,819
2008	164,280	179,866
2009-2013	566,400	767,656
2014-2018	476,400	597,823
2019-2023	586,400	391,641
2024-2028	<u>1,391,400</u>	<u>124,258</u>
	<u>\$ 5,239,000</u>	<u>\$ 3,020,433</u>

Long term liability activity for the year ended June 30, 2003 was as follows:

<b>Primary Government Governmental Activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within one year</b>
Bonds Payable	\$ 6,070,000	\$ 1,385,000	\$ 240,000	\$ 7,215,000	\$ 281,000
Notes Payable	<u>2,757,000</u>	<u>2,905,000</u>	<u>423,000</u>	<u>5,239,000</u>	<u>559,280</u>
<b>Total Non-Current Liabilities:</b>	<u>\$ 8,827,000</u>	<u>\$ 4,290,000</u>	<u>\$ 663,000</u>	<u>\$ 12,454,000</u>	<u>\$ 840,280</u>

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 15. 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, 2003 amounted to \$134,577.

### 16. 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.

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.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 16. RETIREMENT SYSTEM (CONTINUED)

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.

#### 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 FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 16. RETIREMENT SYSTEM (CONTINUED)

Total employee contributions to the above mentioned plans during the year ended June 30, 2003 amounted to approximately \$312,826. 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, 2003, a copy of which can be obtained from the Retirement System.

### 17. COMMITMENTS AND CONTINGENCIES

At June 30, 2003, 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.

### 18. 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, 2003 amounted to \$206,904.

### 19. 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, 2003, 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

# **MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

### **19. CLOSURE AND POSTCLOSURE CARE COSTS (CONTINUED)**

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, 2003. 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL AND DEBT SERVICE FUNDS - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2003**

	GENERAL FUND				DEBT SERVICE FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	INITIAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>Revenues:</b>								
<b>Taxes:</b>								
Property taxes	\$ 541,693	\$ 541,693	\$ 3,414,959	\$ 2,873,266	\$ 1,007,701	\$ 1,007,701	\$ 1,003,731	\$ (3,970)
Municipal tax	1,960,000	1,960,000	2,003,902	43,902				
<b>Grants and entitlements:</b>								
State government and public Corporations	3,017,182	3,017,182	4,196,778	1,179,596				
Rental income	215,000	215,000	134,577	(80,423)				
Licenses and permits	835,000	835,000	742,972	(92,028)				
Fines, forfeits and penalties	20,000	20,000	3,712	(16,288)				
Solid waste disposal			160,889	160,889				
Interest	160,000	160,000	154,688	(5,312)			19,146	19,146
Other	<u>6,964,915</u>	<u>6,975,098</u>	<u>1,062,017</u>	<u>(5,913,081)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Revenues</b>	<u>13,713,790</u>	<u>13,723,973</u>	<u>11,874,494</u>	<u>(1,849,479)</u>	<u>1,007,701</u>	<u>1,007,701</u>	<u>1,022,877</u>	<u>15,176</u>
<b>Expenditures:</b>								
General administration	5,963,271	6,626,179	6,794,029	(167,850)				
Public safety	2,146,585	1,776,272	1,852,470	(76,198)				
Education, culture and recreational	1,530,822	1,467,070	1,299,766	167,304				
Public works and sanitation	3,398,626	3,612,434	3,525,278	87,156				
Health and welfare	674,486	242,018	333,815	(91,797)				
Capital outlays								
<b>Debt service:</b>								
Principal	138,000	138,000	138,000		680,659	680,659	520,000	160,659
Interest	<u>46,920</u>	<u>46,920</u>	<u>37,532</u>	<u>9,388</u>	<u>327,042</u>	<u>327,042</u>	<u>416,967</u>	<u>(89,925)</u>
<b>Total Expenditures</b>	<u>13,898,710</u>	<u>13,908,893</u>	<u>13,980,890</u>	<u>(71,997)</u>	<u>1,007,701</u>	<u>1,007,701</u>	<u>936,967</u>	<u>70,734</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL AND DEBT SERVICE FUNDS - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2003**

	<u>GENERAL FUND</u>				<u>DEBT SERVICE FUND</u>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>	<u>INITIAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
Excess (deficiency) of revenues over (under) expenditures	(184,920)	(184,920)	(2,106,396)	(1,921,476)			85,910	85,910
Other financing sources (uses):								
Operating transfer in	184,920	184,920	417,887	232,967				
Operating transfer out								
Loan proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>			<u>(717,887)</u>	<u>(717,887)</u>
Total other financing sources	<u>184,920</u>	<u>184,920</u>	<u>417,887</u>	<u>232,967</u>			<u>(717,887)</u>	<u>(717,887)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,688,509)</u>	<u>\$ (1,688,509)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (631,977)</u>	<u>\$ (631,977)</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
NOTES TO THE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL AND DEBT SERVICE FUNDS - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2003**

**1. BUDGET/GAAP RECONCILIATION**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2003 is presented below for the general, and debt service funds:

	General Fund
Excess (deficiency) of revenues over (under) expenditures – Budgetary Basis	\$ (1,688,509)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP Basis	(130,494)
Current year encumbrances recorded as expenditures for budgetary purposes	<u>333,119</u>
Excess (deficiency) of revenues over (under) expenditures - GAAP Basis	<u>\$ (1,485,884)</u>

## **COMBINING SCHEDULES**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2003**

	HUD	COPS	FEMA	SECTION 8	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Cash:</b>						
Cash including \$1,100,000 in certificates of deposits	\$ 159,711	\$ 34,036	\$ 46,325	\$ 18,874	\$ 105,783	\$ 364,729
Cash with fiscal agent					1,503,226	1,503,226
<b>Receivables:</b>						
Amount due from:						
Other funds	-	-	100,000	-	451,603	551,603
<b>Total Assets</b>	<u>\$ 159,711</u>	<u>\$ 34,036</u>	<u>\$ 146,325</u>	<u>\$ 18,874</u>	<u>\$ 2,060,612</u>	<u>\$ 2,419,558</u>
<b>Liabilities and Other Credits</b>						
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ 1,659,300	1,659,300
Deferred revenues	159,711	34,036	46,325	18,874	52,275	311,221
Due to other fund	-	-	-	-	159,815	159,815
<b>Total Liabilities</b>	<u>159,711</u>	<u>34,036</u>	<u>46,325</u>	<u>18,874</u>	<u>1,871,390</u>	<u>2,130,336</u>
<b>Fund Balance</b>						
State and Federal programs	-	-	100,000	-	189,222	289,222
<b>Total Fund Balance</b>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>189,222</u>	<u>289,222</u>
<b>Total liabilities, other credits and fund balance</b>	<u>\$ 159,711</u>	<u>\$ 34,036</u>	<u>\$ 146,325</u>	<u>\$ 18,874</u>	<u>\$ 2,060,612</u>	<u>\$ 2,419,558</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE- NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2003**

	HUD	COPS	FEMA	SECTION 8	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>						
<b>Grants and entitlements:</b>						
State government and public corporations	\$ -	\$ -	\$ -	\$ -	\$ 856,160	\$ 856,160
Federal grants	<u>622,824</u>	<u>564,148</u>	<u>30,498</u>	<u>201,267</u>	<u>2,610</u>	<u>1,421,347</u>
<b>Total Revenues</b>	<u>622,824</u>	<u>564,148</u>	<u>30,498</u>	<u>201,267</u>	<u>858,770</u>	<u>2,277,507</u>
<b>Expenditures:</b>						
General administration					24,047	24,047
Public safety		562,867			7,525	570,392
Education, culture and recreational					430,816	430,816
Public works and sanitation					94,885	94,885
Health and welfare				258,175	348,337	606,512
Capital outlays	<u>634,456</u>	<u>-</u>	<u>426,628</u>	<u>-</u>	<u>3,887,434</u>	<u>4,948,518</u>
<b>Total Expenditures</b>	<u>634,456</u>	<u>562,867</u>	<u>426,628</u>	<u>258,175</u>	<u>4,793,043</u>	<u>6,675,170</u>
Excess (deficiency) of revenues over (under) expenditures	(11,632)	1,281	(396,130)	(56,909)	(3,934,273)	(4,397,663)
<b>Other financing sources (uses):</b>						
Operating transfer in					300,000	300,000
Loan proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,905,000</u>	<u>1,905,000</u>
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,205,000</u>	<u>2,205,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing	(11,632)	1,281	(396,130)	(56,909)	(1,729,273)	(2,192,663)
Fund balance (deficit) at beginning of year	<u>11,632</u>	<u>(1,281)</u>	<u>496,130</u>	<u>56,909</u>	<u>1,918,495</u>	<u>2,481,885</u>
Fund balance (deficit) at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 189,222</u>	<u>\$ 289,222</u>

**MUNICIPALITY OF YAUCO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2003**

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2003**

	<u>NUMBER</u>	<u>DISBURSEMENT</u>
<b><u>US Department of Housing and Urban Development</u></b>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.219	\$ 634,456
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	<u>258,175</u>
		<u>892,631</u>
 <b><u>US Department of Justice</u></b>		
Direct program:		
Public Safety Partnership and Community Polices Grants (COPS)	16.710	490,941
Passed through:		
Puerto Rico Department of Justice:		
Edward Byne Memorial State and Local Law Enforcement Assistance Discretionary Grant Program	16.580	<u>37,007</u>
		<u>527,948</u>
 <b><u>Federal Emergency Management Agency</u></b>		
Passed through:		
Puerto Rico Office of Management and Budget (GAR) Public Assistance Grants	83.544	<u>426,628</u>
		<u>\$1,847,207</u>

**MUNICIPALITY OF YAUCO**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Federal Financial Assistance includes the federal grant activity of Municipality of Yauco and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-128, Audit of States and Local Governments. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the 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**

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

**To the Honorable Mayor and  
Municipal Council  
Municipality of Yauco  
Yauco, Puerto Rico**

I have audited the financial statements of **Municipality of Yauco Puerto Rico**, as of and for the year ended June 30, 2003 and have issued my report there on dated December 19, 2003. I conducted my 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.

**Compliance**

As part of obtaining reasonable assurance about whether Municipality of Yauco financial statements are free of material misstatement, I performed test 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 my audit and, accordingly, I do not express such an opinion. The results of my test disclosed instances of noncompliance that are required to be reported under Government Auditing Standard which are described in the accompanying schedule of findings and questioned costs as items Section II - Financial Statements Findings.-Findings 01-03 to 04-03.

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

### Internal Control Over Financial Reporting

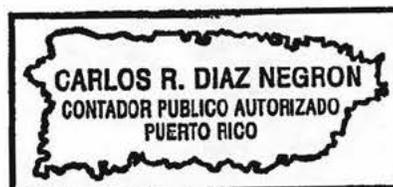
In planning and performing my audit, I considered Municipality of Yauco internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Municipality of Yauco ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items Section II - Financial Statements Items.- Findings 01-03 to 04-03.

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 period by employees in the normal course of performing their assigned functions. My 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, I believe none of the reportable conditions described above is a material weakness.

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

December 19, 2003  
Aguas Buenas, Puerto Rico

License No. 1339  
Expires December 1, 2004



The stamp No. 1928048 of the Society of Certified Public Accountants was affixed 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**

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

**To the Honorable Mayor and  
Municipal Council  
Municipality of Yauco  
Yauco, Puerto Rico**

**Compliance**

I 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, 2003. Municipality of Yauco, Puerto Rico major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Yauco, Puerto Rico's management. My responsibility is to express an opinion on Municipality of Yauco, Puerto Rico's compliance based on my audit.

I conducted my 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 State and Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I 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's compliance with those requirements and performing such other procedures as I considered necessary in the circumstance. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Yauco, Puerto Rico's compliance with those requirements.

**REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):**

In my opinion, 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 program for the year ended June 30, 2003. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Cost as items Section III - Federal Awards - Findings and Questioned Costs - Findings 05-03 to 08-03.

Internal Control Over Compliance

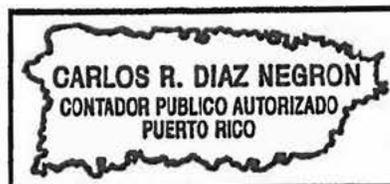
The management of Municipality of Yauco, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality of Yauco, Puerto Rico's internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine my 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.

My 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the management and Municipal Assembly of the Municipality of Yauco, 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.

December 19, 2003  
Aguas Buenas, Puerto Rico

License No. 1339  
Expire December 1, 2004



The stamp No. 1928049 of the Society of Certified Public Accountants was affixed to the original of this report.

**MUNICIPALITY OF YAUCO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2003**

**MUNICIPALITY OF YAUCO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**SECTION I. - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

**Type of auditor's report issued**

**Unqualified**

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_yes      X no
- Reportable condition(s) identified that are not considered to be material weaknesses? X yes      \_\_\_no

Noncompliance material to financial statement noted? \_\_\_yes      X no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_yes      X no
- Report condition(s) identified that are not considered to be material weakness(es) X yes      \_\_\_no

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

**Unqualified**

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

Identification of major programs:

**CFA Number(s)**

**Name of Federal Program Cluster**

14.219  
83.544  
16.710

Block Grant Program Small Cities  
Public Assistance Grants  
Public Safety Partnership and Community Policies Grants (COPS)

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Audit qualified as low-risk audited? \_\_\_yes      X no

**MUNICIPALITY OF YAUCO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE ENDED JUNE 30, 2003**

**SECTION II. - FINANCIAL STATEMENT FINDINGS**

**Finding No. 01-03 - General Fund Deficit:**

As of June 30, 2003 the Municipality closed with an accumulated deficit of \$3,275,649 in the statement of revenue, expenditures and changes in fund balance- governmental funds. This is the six consecutive year that the Municipality closed its operations reporting deficit. The deficit has increase since fiscal year ended June 30, 1998 as follow.

<u>Year ended June 30</u>	<u>Amount</u>	<u>Increase</u>
1998	\$ 175,999	\$ 175,999
2000	366,626	190,627
2000	638,134	271,508
2001	757,675	119,541
2002	1,789,765	1,032,090
2003	3,275,649	1,485,884

The deficit is caused by overstated the estimated revenues and/or the incurrence of obligations without credit available in the budgetary accounts.

The Article 7.011(a) of Autonomous Municipal Act (Law 81), as amended, stay that if the Municipal closes 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.

We recommend that the Municipality take the necessary measures to reduce the accumulated deficit.

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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

**Finding No. 02-03 - 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 grand agreements.

The following conditions were noted:

- A. At present transactions are accounted through manual and computerized accounting systems. However, no reconciliation has been made between these two systems. The balance sheet accounts in the computerized system are not reconciled and adjusted 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 including assets, liabilities and residual fund balances, and changes there in.
- C. The accounting records do not provide for segregation between expenditures incurred and encumbered. However, at year end the fund balance that should be reserved for encumbrances is not considered to have a material effect on the financial statement.
- D. There are no adequate accounting controls over property and no accurate records are kept for property and equipment.
- E. No adequate year-end closing procedures have been established to account for all transactions affecting all funds. Material amounts of unrecorded liabilities are recorded at year end.
- 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 keeps a separated manual system of accounting for the programs that they managed. This accounting is not incorporated in the main manual accounting system or in the computerized accounting 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.

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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

**Finding No. 03-03 - 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. Management believes that the effect in the June 30, 2003 financial statements is not material. However, as years going by the accrual will be material and the amount must be based on reliable sources.

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 include 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 area 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.

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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

**Finding No. 04-03 -Vacations:**

The Municipality should adopt the following procedures in connection with the accrued vacations:

- A. The records to control the accrued vacations should contain, as minimum, the following information:
- Employee name
  - Department
  - Social Security number
  - Balance of accrued vacation at the beginning of fiscal year.
  - Current year accrued vacations
  - Vacations used during the year
  - Balance of accrued vacations at the end of fiscal year.
  - These records should be updated each month, based on the punch cards or assistance records.
  - The cards of records should be audited periodically by the Finance Department in order to determine the accuracy of the balances.
  - The Personnel Department should provide each month to the Finance Department the following information:
    - Accrued Vacations at the beginning of the month.
    - Accrued vacations during the month.
    - Vacations used during the month.
    - Accrued vacations at the end of month.
  - The accrued vacations should be recorded in the Government-wide Financial Statements.
- B. The accrued vacations have not been accounted in the Municipality's book and have only been valued for audit purposes. The Municipality just keeps the accrued vacations days and hours.

**MUNICIPALITY OF YAUCO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2003**

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS:**

**Finding No. 05-03 - Supporting evidence of disbursements**

**Federal program:**

CFDA - No. 14.219 - State Block Grant Small Cities Program (SBGP)

**Category:**

Compliance / Internal Control

**Compliance requirement:**

Allowable cost / cost principles

**Condition found:**

In testing compliance and internal control over allowable cost / cost principle requirement, we select 23 disbursements amounting to \$539,254.98 of the total disbursement of \$634,456 of the SBGP. However, the following payments vouchers were not available for examination:

<b><u>Check No.</u></b>	<b><u>Date</u></b>	<b><u>Amount</u></b>
2353	1-27-03	\$11,362.13
2356	1-31-03	<u>16,347.37</u>
		<u>\$27,709.50</u>

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**SECTION III.- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED):**

**Finding No. 05-03 - Supporting evidence of disbursements (continued)**

**Federal program (continued):**

**Criteria**

Federal regulation required that expenditures be supported by appropriate documentation such as purchase orders, receiving reports, vendors' invoice and canceled checks, and should be correctly change as to account, amount and period.

**Effect**

Since no supporting document was available for examination, the Municipality could be required to reimburse federal funds to grantor.

**Questioned cost**

\$27,709.50

**Recommendation**

I recommend the Municipality to establish adequate procedures and controls, which should consider among other, the following:

- Maintain adequate documentation to support the allowability of its expenditure. The Municipality shall improve its internal control over the filing and safeguarding of documents in order to easily identify payments voucher and all related documentation.

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED):**

**Finding No. 06-03 - Financial Status Report - COPS Program** *n/o*

**Federal Program:**

CFDA - 16.710 Public Safety Partnership and Community Policing Grants (COPS)

**Category**

Compliance / internal control

**Compliance requirement**

Special reporting

**Condition found**

As part of my audit procedures I select the following financial status report for examination:

<u>Report</u>	<u>Period</u>
Form 269 A	September 30, 2002
Form 269 A	December 30, 2002
Form 269 A	March 31, 2003
Form 269 A	June 30, 2003

The total outlays per status report date was not supported by the Municipality accounting data. I was unable to satisfy myself about the adequacy of the information submitted.

**Criteria**

The COPS Program's grantor required that the Municipality submitted quarterly financial status reports.

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**SECTION III.- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
(CONTINUED):**

**Finding No. 06-03 - States Financial Report - COPS Program (continued)** *No*

**Effects**

Failure to submit the reports will accurate information prevents the federal agency from monitoring adequacy performance of the program.

**Questioned costs:**

None

**Recommendation**

The Municipality shall establish control procedures to ensure that financial states reports are submitted with accurate information.

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED):**

**Finding No. 07-03 - Cash Management**

**Federal Program:**

CFDA No. 14.219 - Community Development Block Grant/Small Cities Program

CFDA No. 83.554 - Public Assistance Grants

**Category**

Compliance

**Compliance requirements**

Cash management

**Conditions:**

During my audit procedures I noted that Municipality transfer fund from federal program to the general fund as follows: As of the date my report is issued no reimbursement has been note:

<u>Federal Program</u>	<u>Date</u>	<u>Amount</u>
CFDA No. 14.219 - Community Development Block Grant	May 2, 2003	\$ 50,000
CFDA No. 83.554 Public Assistance Grants	October 25, 2002	<u>100,000</u>
		<u>\$150,000</u>

**Criteria**

Federal regulations establish that procedures for minimizing the time elapsing between the transfer of funds from the US Treasury and disbursement by grantee and sub-grantees must be followed whenever advances payment procedures are used.

**Effect**

The Municipality could be exposed to significant administrative action by the grantor, including assessment of interest cost and funds that were not expended within the required period.

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED):**

**Finding No. 07-03 - Cash Management (Continued)**

**Questioned cost**

None

**Recommendation**

The Municipality should establish the control to request only the amounts of fund necessary to meet its immediate cash needs in order to prevent excess cash balances. Accordingly, the interfund balance should be eliminated.

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30,2003**

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED):**

**Finding No. 08-03 - Davis-Bacon Act**

**Federal program:**

CFDA - No. 83.544 - Public Assistance Grants

NO

**Compliance requirement:**

Davis-Bacon Act

**Category:**

Compliance

**Condition:**

As part of my audit procedures I select three contracts to test the compliance with the Davis-Bacon Act requirement of FEMA Program and noted that the Municipality did not obtain from contractors a copy of the payrolls and a statement of compliance as stated in the contract between the Municipality and the contractor.

**Criteria:**

The Davis Bacon Act requires that all construction contracts in excess of \$2,000 financial by federal assistance funds must be paid wages not less that those established for the locality of the project. In addition, the Act requires for the contractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance.

**Effect:**

The Municipality could be exposed to administrative actions by the grantor.

**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
(CONTINUED):**

**Finding No. 08-03 - Davis Bacon Act (continued)**

**Recommendation:**

I recommend the Municipality established adequate procedures and controls which shall consider, among other, the following:

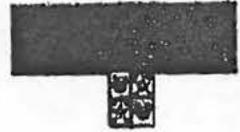
- Establish and implement within policies and procedures for all aspects of the program including controls for proper review and authorization during the processing and payments of program expenditures.
- Maintain adequate documentation to support the allowability of its expenditures.

**MUNICIPALITY OF YAUCO**  
**STATUS OF PRIOR YEAR AUDIT FINDINGS**  
**AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**



*Abel Nazario Quiñones*  
*Alcalde*

ESTADO LIBRE ASOCIADO DE PUERTO RICO  
GOBIERNO MUNICIPAL DE YAUCO  
APARTADO 1  
**OFICINA DEL ALCALDE**  
YAUCO, PUERTO RICO 00698  
TELÉFONO 856-1345



***Municipality of Yauco***  
***Schedule of Finding and Questioned Cost***  
***Year ended June 30, 2002***

***Corrective Plan:***

***1- Condition:*** Program was charged with payroll costs of an employee with non program related tasks.

***Action:*** The disbursement paid to the employee was return to the Federal Program Account.

***2- Condition:*** 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.

***Action:*** All construction projects contracts coming from the Municipality of Yauco, should include the following disposing of the law Davis Bacon Act.

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

*Sincerely yours,*

  
***Abel Nazario Quiñones***  
***Mayor***

***"Primero la Gente"***

**MUNICIPALITY OF YAUCO**  
**FINDINGS AND QUESTIONED COSTS**  
**CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**EXHIBIT I**



*Abel Nazario Quiñones*  
*Alcalde*

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

EXHIBIT I



*February 13, 2004*

### ***Corrective Action Plan***

*Municipality of Yauco respectfully submits the following corrective plan for the year ended June 30, 2003.*

*Name and address of independent public accounting firm:*

***CARLOS R. DIAZ NEGRON***  
***Certified Public Accountants***  
***P.O. Box 408***  
***Rafael Lasa No. 44***  
***Aguas Buenas, P.R. 00703***

*Audit period: Year ended June 30, 2003*

*The finding from the June 30, 2003 schedule of finding and questioned cost are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.*

*"Primero la Gente"*

## **ANSWERS FINDING AND QUESTION COST FOR THE YEAR ENDED JUNE 30, 2003**

### ***Finding No. 01-03 General Fund Deficit:***

*About this assignation we want to indicate, that the Municipal Government has the responsibility of offering the required services to our citizens. We are aware that our economic resources are limited but, the needs of our citizens are bigger every day. We will take the necessary proportions according to the fiscal resources available to amortize the deficit.*

### ***Finding No. 02-03 Accounting and Reporting System***

*The Municipal Mechanize System is impose by the Comission of Municipal Affairs. You can not make any changes to the system unless authorize by OCAM (Commisioners Office and Municipal Affairs). There has been some complaints about the deficiencies of OCAM's book-keeping, but, with not much of an advance. We understand this situation but the municipality has no authority to change the system so, the municipality does the book-keeping mannually to keep control and compare with the mechanize system. We will continue our effort to correct this deficiencies.*

### ***Finding No. 03-03 Municipal Solid Waste Land Fall Case 18***

*The Municipality in coordination with the private business will study the closing of the City Dump. All recommendations will be taken in consideration.*

### ***Finding No. 04-03 Vacations***

*We will take the necessary proportions to mechanize the Vacation account and this way be able to keep a record so that the Financial Department is aware of the monthly debt.*

***Finding No. 05-03 Supporting Evidence of Disbursement***

*We will establish more adequate procedures and controls for the custody of vouchers to prevent them from getting lost.*

***Finding No. 06-03 Financial Status Report – Coops Program***

*The required documentation was provided.*

***Finding No. 07-03***

*The Financial Manager was oriented so that this situation won't happen again.*

***Finding No. 08-03***

*This was corrected and all contracts coming from the municipality paid with State and Federal funds are required to have this stipulations.*

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

*Sincerely yours,*



*Hon. Abel Nazario Quiñones*  
*Major*

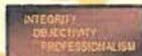
*ANQ/jsc*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003

ABEL NAZARIO QUIÑONES  
MAYOR

Prepared by:



CPA ROBERTO TORRES & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANT AND BUSINESS CONSULTANT  
787-267-2521 | [epatorres@hotmail.com](mailto:epatorres@hotmail.com)

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF YAUCO**  
**JUNE 30, 2003**  
**INITIAL IMPLEMENTATION OF GASB # 34**

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**INTRODUCTORY SECTION**

To the Honorable Mayor and Member of the Municipality  
Assembly and the Residents of the Municipality of Yauco:

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with general accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Municipality of Yauco for the fiscal year ended June 30, 2003.

This report consists of management's representations concerning the finances of the Municipality of Yauco. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this reports. To provide a responsible basis for making these representations, management of the Municipality of Yauco has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the representation of the Municipality of Yauco financial statements in conformity with GAAP, because the cost of internal controls should not outweigh their benefits, the Municipality of Yauco comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert to the best of our knowledge and beliefs, this financial report is complete and reliable in all material respects.

The Municipality of Yauco financial statements have been audited by Carlos R. Díaz Negrón, CPA a firm of licensed certified accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Municipality of Yauco for the fiscal year ended June 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amount and disclosure in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statements presentations. The independents auditors concluded, based upon the audit that there was a reasonable basis for rendering an unqualified opinion that the Municipality of Yauco financial statements for the fiscal year ended June 30, 2003 are fairly presented in conformity with GAAP. The independent auditor's is presented as the first component of the financial section of the report.

The standards governing Single Audit engagement require the independent auditor to report no only on the fair presentation of the financial statements, but also on the audited government's internal control and legal requirements involving the administration of federal awards. These reports are available in the Municipality of Yauco separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in form of Management's Discussion and analysis (MD&A). This letter of transmittal is designed to complement

MD&A and should be read in conjunction with it. The Municipality of Yauco's MD&A can be immediately following the report of the independent auditors.

### **Profile of the Government**

The municipality of Yauco, incorporated in 1756, is located in the southwest part of Puerto Rico, one of the top growth areas of the island. The Municipality of Yauco currently occupies a land area of 68.3 square miles and serves a population of 46,384.

The Municipality of Yauco has operating under the Commonwealth since 1952. Policy-making and legislative authority are vested in a Legislative Assembly consisting of the Mayor and fifteen legislative assembly members. The Legislative Assembly is responsible, amount other things, for passing ordinances, and approving the budget and any budget transfer is necessary. The City major is responsible for carrying out the polices and ordinances of the Legislative Assembly and for overseeing the day-to-day operations of the government. Legislative assembly members serve for four-years.

The Municipality of Yauco provides a full range of services, including police protection, the construction and maintenance of highways, streets, and other infrastructure, and recreational activities and cultural events.

The annual budget serves as the foundation for the Municipality of Yauco financial planning. The Budget Director uses these requests as the starting point for developing a proposed budget. The Budget Director, then present this proposed budget to the Mayor for review prior to May 15. The Mayor is required by the Law 81 to present this budget to the Legislative Assembly no later than May 31. The Legislative Assembly is required to hold public hearing on the proposed budget and adopt a final budget no later than June 13 year. The appropriated budget is prepared by fund, and department. Transfers of appropriations between departments, however, require the special approval of the Legislative Assembly. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

### **Factors Affecting Financial Condition**

The information presented in the financial statement is perhaps best understood when it is considered from the broader perspective environment within which the Municipality of Yauco operates.

### **Local Economy**

Yauco has been declared City by the Federal Government, and that means that the Municipality will administrate all the federal funds for infrastructure, and development.

The administration of this funds will increase from two to four percent direct and indirect employments.

Also, this federal funds will support the development of new manufacturers, and the stability of the unemployment's rate.

This movement in the Municipality of Yauco currently enjoys a favorable economic environment, and local indicators point to continued stability.

### **Cash management policies and practices**

#### **Risk Management**

The Administration of the Municipality of Yauco performed an evaluation of the valuation of all Municipal property with the purpose of obtaining insurance for damage which covers a real amount of value of the properties. All acquisitions or sales of property are supervised by the Director each of the department, the Municipality performed annual inventory of all personal and real property.

Additional information on the Municipality of Yauco risk management activity can be found in Note of the notes to the financial statements.

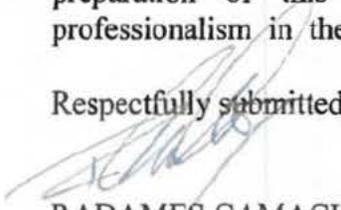
#### **Awards and Acknowledgements**

The Comptroller of Puerto Rico awarded a Certificated of Compliance with the Standard for the improvements of the municipal Administrations to the Municipality of Yauco. This was the second consecutive year that the Municipality of Yauco has received this prestigious award.

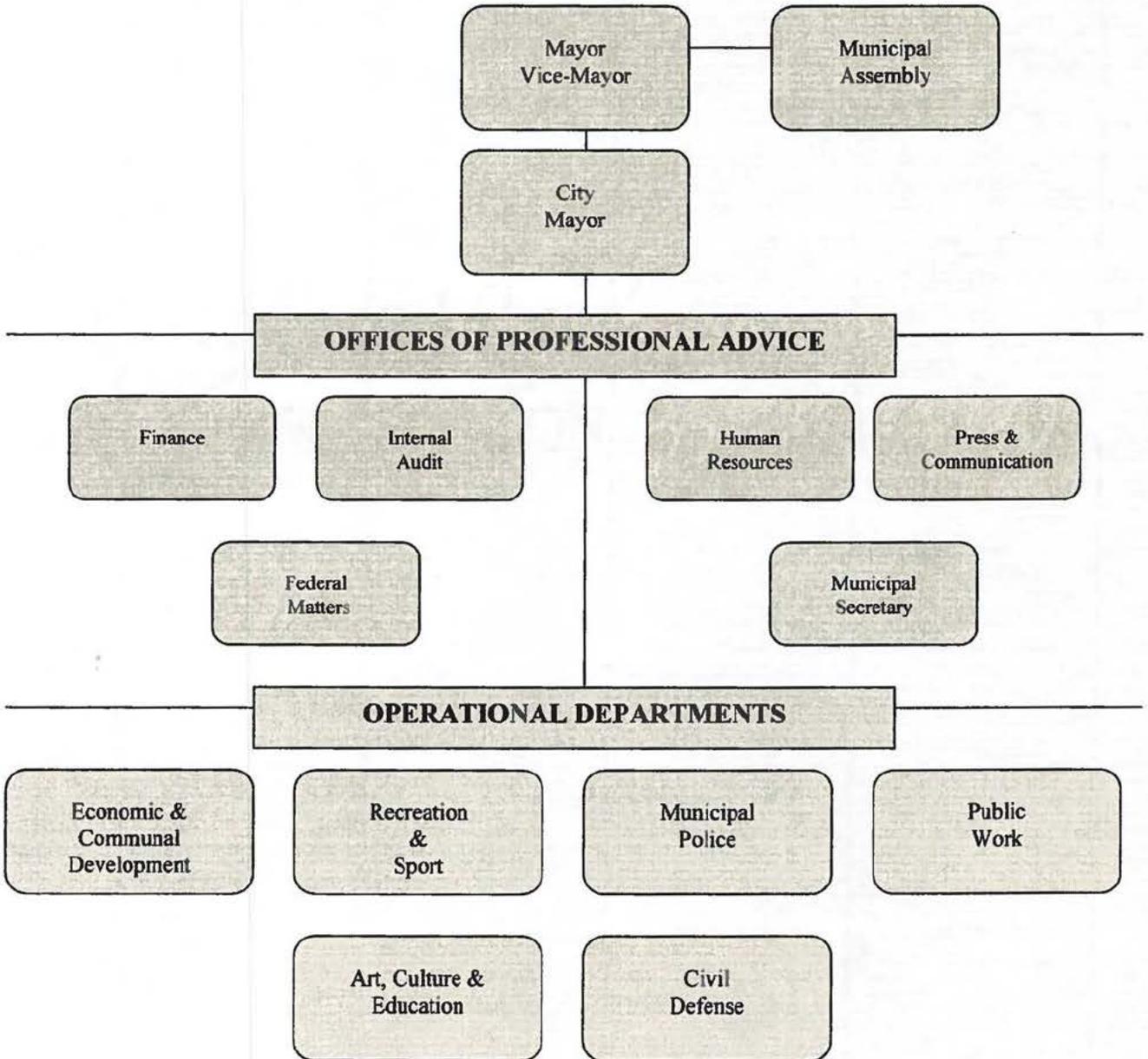
In addition, the Municipality of Yauco received an award from Commonwealth of Puerto Rico for the performance of the standard with the Work Investment Act program.

The presentation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance department. We would like to express our appreciation to all member of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor for the professionalism in the management of the Municipality of Yauco finance.

Respectfully submitted,

  
RADAMES CAMACHO IZQUIERDO  
Finance Director

# MUNICIPALITY OF YAUCO ORGANIZATION CHART



**MUNICIPALITY OF YAUCO**  
**LIST OF ELECTED AND APPOINTED OFFICIALS**

**Elected Officials**

**Mayor**

Hon. Abel Nazario Quiñones

**Legislative Municipality Assembly**

Jaime L. Cintrón Rivera	President
Herminte Torres Rodríguez	Vice - President
Madeline Ortiz Nazario	Municipal Assembly Member
Israel Burgos Vélez	Municipal Assembly Member
Miriam Ruiz Alfonso	Municipal Assembly Member
Heidi Pons Irizarry	Municipal Assembly Member
Eda A. Santiago González	Municipal Assembly Member
Fidel Montes Rodríguez	Municipal Assembly Member
Eddie A. Cancel Ruiz	Municipal Assembly Member
Elaine Traversa Ramos	Municipal Assembly Member
Juan B. Romero Rodríguez	Municipal Assembly Member
Samuel Hernández Torres	Municipal Assembly Member
Carmen M. Quiñones Camacho	Municipal Assembly Member
Americo Báez García	Municipal Assembly Member
Carmen D. Feliciano Orengo	Municipal Assembly Member

**Appointed Officials**

Víctor M. Torres González	Vice - Mayor
Radamés Camacho Izquierdo	Finance Director
José Martínez Borrero	Municipal Secretary
Brenda Irizarry Caraballo	Human Resources
Mirna Alfonso Vélez	Press & Communication
María Alvarado Torres	Economic & Communal Dev.
Milagros Pacheco Cedeño	Education
Freddie León Santos	Internal Auditor
Angel L. Torres Ortiz	Public Work
Frances H. Irizarry Rivera	Recreation & Sport
Jorge Velázquez Almodóvar	Municipal Police
Jazmín Orengo Pacheco	Federal Matters
Johanna Ramos Castillo	Civil Defense

**FINANCIAL SECTION**

*Carlos R. Diaz Negrón*

Certified Public Accountant

P.O. BOX 408 - RAFAEL LASA NO. 44, AGUAS BUENAS, PUERTO RICO 00703 - TEL. 732-8020 - FAX 732-0685

## INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and  
Municipal Council  
Municipality of Yauco  
Yauco, Puerto Rico**

I have audited the financial statements of the governmental activities, major funds, and remaining fund information which collectively comprise the basic financial statements of the Municipality of Yauco as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards. Those standards require that I 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities, major funds, and the aggregate remaining fund information of the Municipality of Yauco as of June 30, 2003, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, the Municipality of Yauco has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of and for the year ended June 30, 2003.

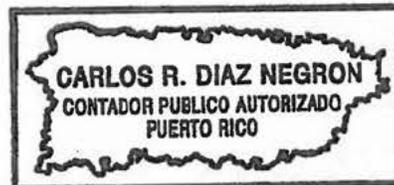
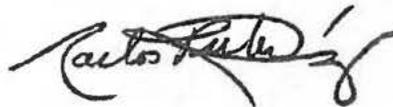
## INDEPENDENT AUDITOR'S REPORT (CONTINUED):

The Management's Discussion and Analysis and Budgetary comparison information on pages 10 through 17 and 48 through 50 are not required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the Municipality's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introduction is presented for purpose of additional analysis and is not required part of the financial statements. Such information has not been subjected to the audit procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.

In accordance with Government Auditing Standards, I have also issued a report dated December 19, 2003, in my consideration of internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, grants and contracts. 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 assessing the results of my audit.



December 19, 2003  
Aguas Buenas, Puerto Rico

License No. 1339  
Expire December 1, 2004

The stamp No. 1928037 of the Society of Certified Public Accountants was affixed to the original of this report.

## MANAGEMENT AND DISCUSSION ANALYSIS

Our discussion and analysis of the Municipality of Yauco financial performance provides an overview of the Municipality's financial activities for the year ended June 30, 2003. Please read it in conjunction with the transmittal letter on page 2 and the financial statements, which begin on page 18.

### FINANCIAL HIGHLIGHTS

- Loans principal payments were \$663,000 this year and the loan proceeds were \$4,290,000 for an ending balance of \$12,454,000 in long term debt.
- The general fund reported a deficit of \$1,485,884 this year and an accumulated deficit of \$3,275,649.
- The Municipality reserved \$2,385,000 in special revenues funds within the governmental funds to redevelop various areas of the Municipality's infrastructure and capital assets. These projects will take place during the fiscal year 2003-2004.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 through 18) provide information about the activities of the Municipality as a whole and present a long-term view of the Municipality's finances. Fund financial statements start on page 19. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Municipalities' operations in more detail than the government-wide statements by providing information about the Municipality's most significant funds.

#### Reporting the Municipality as a Whole

##### The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's *net assets* and changes in them. You can think of the Municipality's net assets, the difference between assets and liabilities, as one

MUNICIPALITY OF YAUCO, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2003

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way to measure the Municipality's financial health, or *financial position*. Over time, *increases or decreases* in the Municipality's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the roads, to assess the *overall health* of the Municipality of Yauco.

In the Statement of Net Assets and the Statement of Activities, we grouped the Municipality's activities into:

- Governmental Activities – Most of the Municipality's basic services are reported here, including the municipal police, public works, garbage disposal, public energy and health services, and general administration. Property taxes, municipal license tax, state and federal grants finance most of these activities.

### **Reporting the Municipality's Most Significant Funds**

Our analysis of the Municipality's major funds begins on page 12. The Fund financial statements begin on page 19 and provide detailed information about the most significant funds, not the Municipality as a whole. Some funds are required to be established by bond covenants. The Municipality's basic services are reported in the governmental funds, that uses an accounting approach which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in then near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement on Activities) and governmental funds in reconciliation on page 20 and 23 of this report.

- Governmental funds - Most of the Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the next page of the fund financial statements.

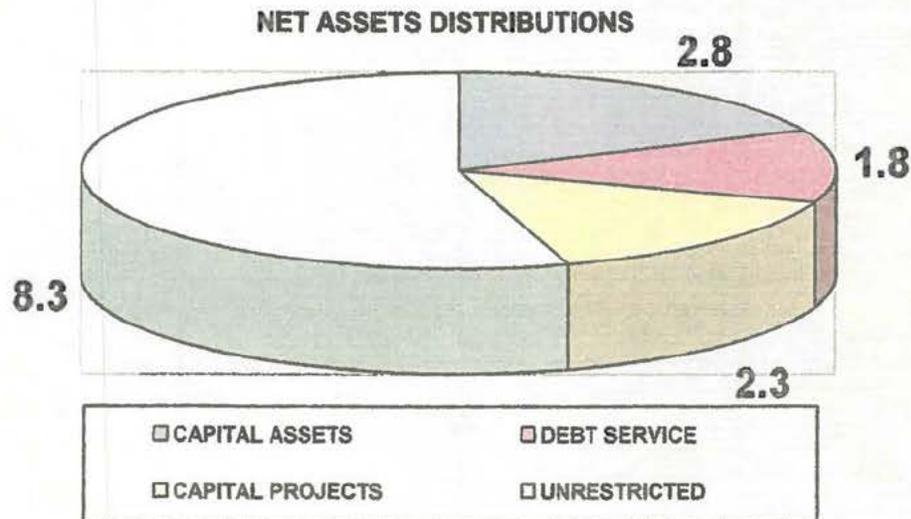
MUNICIPALITY OF YAUCO, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2003

**THE MUNICIPALITY AS A WHOLE**

The Municipality's combined net assets decreased in the current year by \$1.9 million to total \$ (1.4) million at year end. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Municipality's governmental activities for the current year. Because this is the first year of the GASB #34 implementation no comparative analysis is presented, however in future year comparative analysis of governmental-wide data will be presented.

**Table 1**  
**Net Assets**  
**(In Millions)**

Cash and other assets	\$ 6.8
Capital assets	<u>11.6</u>
Total assets	<u>18.4</u>
Long term debt outstanding	12.5
Other liabilities	<u>7.3</u>
Total liabilities	<u>19.8</u>
Net Assets:	
Invested in capital assets, net of related debt	2.8
Restricted for:	
Debt service	1.8
Capital Projects	2.3
Unrestricted	<u>(8.3)</u>
Total net assets	<u>\$ (1.4)</u>



MUNICIPALITY OF YAUCO, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2003

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**Table 2**  
**Changes in Net Assets**  
(In Millions)

<b>Revenues</b>	
Program revenues:	
Charge for services	\$ 3.9
Operating grants and contributions	.1
Capital grants and contributions	.6
General revenues:	
Property taxes	4.4
State government and public corporations	4.9
Federal grants	.8
Solid waste disposal	.2
Interest	.1
Other income	.1
<b>Total Revenues</b>	<u>15.1</u>
<b>Program Expenses:</b>	
General administration	7.6
Public safety	2.5
Education	1.8
Public works	3.6
Health and welfare	1
Interest on long term debt	.5
<b>Total Expenses:</b>	<u>17.0</u>
<b>Decrease in Net Assets</b>	<u>\$ (1.9)</u>

Net assets of the Municipality's governmental activities decreased by \$1.9 million in the current year. *Unrestricted* net assets, is the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

**Governmental Activities**

The Mayor of the Municipality of Yauco made various reviews to the budget during the year to avoid a deficit increase. But despite these efforts the Municipality incurred in a deficit increase due to the non-realization of the budgeted revenues. The Mayor and the Finance Director are working together to implement cost reductions programs to improve the Municipality's financial health.

The increase in the general government deficit during the fiscal year ended June 30, 2003 was related to the following programs:

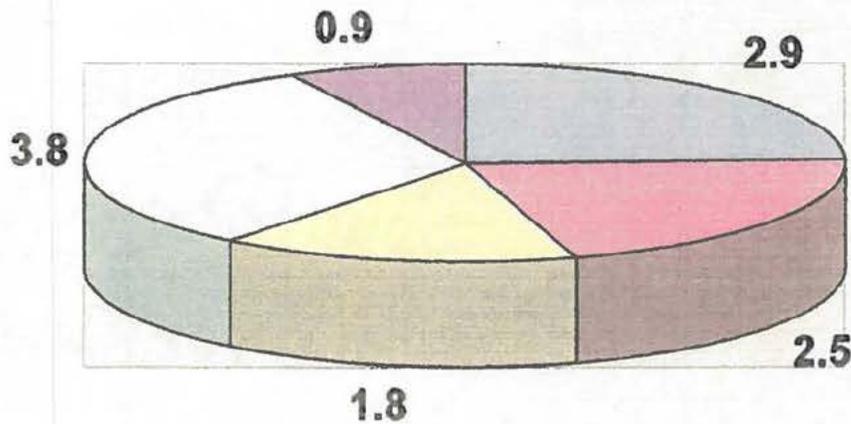
MUNICIPALITY OF YAUCO, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2003

**Table 3**  
**Governmental Activities**  
 (in Millions)

	<u>Total Costs of Services</u>
General Administration	\$ 2.9
Public Safety	2.5
Education	1.8
Public Works	3.8
Health and welfare	.9
Debt service:	
Interest	<u>.5</u>
Total	<u>\$12.4</u>

The major governmental revenue sources are property taxes, municipal license taxes, federal grants and state governmental grant and contributions, which in total represent \$12,929.950 (85%) of all revenues in 2003

## GOVERNMENTAL ACTIVITIES



General Administration
  Public Safety
  Education
  Public Works
  Health and welfare
  Interest

MUNICIPALITY OF YAUCO, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2003

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**THE MUNICIPALITY'S FUND**

As the Municipality completed the year, its governmental funds (as presented in the Balance Sheet in page 19) reported a combined fund balance of \$1.2 million.

In addition, these other changes in fund balance should be noted:

- The Municipality segregated two new capital loans into special funds to account for the redevelopment of several of the Municipality's areas. These projects were named Community Redevelopment Project -1 and Community Redevelopment Project - 2. The amount available in those funds increase the reported combined fund balance by \$2,323,070 which consists of the cash available but not yet expended.

**General Fund Budgetary Highlights**

Over the course of the year, the Municipal Assembly revised the Municipality of Yauco budget several times. These budget amendments fall into various categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amount we estimated in May 2003). The second category includes changes that Municipal Assembly made to take into consideration the amount required in operating accounts as temporary employees and donations.

Even with these adjustments, the actual changes to appropriations (expenditures) were \$71,977 thousand above the final budget amounts. The most significant negative variance (\$1,849,979) occurred in the budgeted amount to be received from the Puerto Rico Power Authority and other revenues, because the municipality expected to receive these amounts as part of the legal process that were in process against the mentioned governmental instrumentality.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2003, the Municipality of Yauco had \$11.6 million invested in a broad range of capital assets, including buildings, parks, roads, bridges and equipment. (See Table 4).

MUNICIPALITY OF YAUCO, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2003

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**Table 4**  
**Capital Assets at Year-End**  
**(Net of depreciation, in Millions)**

	<u>Governmental Activities</u>
Land and land improvements	\$ 1.1
Buildings and improvements	5.9
Equipment	2.7
Infrastructure	<u>1.9</u>
Totals	<u>\$ 11.6</u>

The City's fiscal-year 2004 capital budget calls for it to spend at least another \$2.3 million for capital projects. More detailed information about the Municipality's capital assets is presented in Note 13 to the financial statements.

The Municipality has elected to postpone the recognition of the infrastructure capital assets existent prior to the year ended June 30, 2003, the year of the GASB #34 implementation, according to the provisions the mentioned GASB provides. On or before the year ended June 30, 2007 all those capital assets will be accounted for and included in the Financial Statements.

**Debt**

At year-end, the Municipality had \$12.5 million in bonds and notes outstanding versus \$8.8 million last year, an increase of 34%, as shown in Table 5.

**Table 5**  
**Outstanding Debt, at Year-end**  
**(in Millions)**

	<u>Governmental Activities</u>
Bonds Payable	\$ 7.2
Notes Payable	<u>5.3</u>
Totals	<u>\$ 12.5</u>

New bonds in the amount of \$1.4 million and notes in the amount of \$2.9 million were issued to finance improvements. More detailed information about the Municipality's long-term liabilities is presented in Note 14 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's elected and appointed officials considered many factors when setting the fiscal-year 2004 budget. Unemployment in the Municipality now is incrementing.

Amounts available for expenditures in the General Fund for fiscal-year 2004 are \$13.2 million, a decrease of 4% over the final 2003 budget of \$13.7 million. In overall the

**MUNICIPALITY OF YAUCO, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2003**

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consolidated budget for the fiscal year 2004 is \$13.2 million, a decrease of 4.4% over the 2003 budget of \$13.7 million. The other income account will decrease over \$1.1 million during the 2004 as projected.

Budgeted expenditures are expected to decrease accordingly to the decrease in budgeted revenues.

If the estimated revenues and expenditures are realized, the Municipality's deficit will decrease \$125,000 by the close of 2004.

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Municipality's finances and to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at the Municipality of Yauco, P.O. Box 1, Yauco, Puerto Rico 00698.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
STATEMENT OF NET ASSETS  
JUNE 30, 2003**

<b>ASSETS</b>	<b><u>PRIMARY GOVERNMENT</u></b>
Cash and cash equivalents	\$ 2,917,567
Cash with fiscal agent	3,875,479
Other assets:	
Cash in escrow account to be used for landfill closure and postclosure costs	7,628
Capital assets, net	<u>11,629,647</u>
<b>Total Assets</b>	<b><u>\$ 18,430,321</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities:</b>	
Accounts payable and accrued expenses	\$ 5,587,271
Deferred revenue	1,766,076
Noncurrent liabilities:	
Due within one year	840,280
Due in more than one year	<u>11,613,720</u>
<b>Total Liabilities</b>	<b><u>19,807,347</u></b>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	2,777,647
Restricted for:	
Debt service	1,862,855
Capital projects	2,323,070
Unrestricted (Deficit)	<u>(8,340,598)</u>
<b>Total Net Assets</b>	<b><u>\$ (1,377,026)</u></b>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
STATEMENT OF ACTIVITIES  
JUNE 30, 2003**

FUNCTIONS AND PROGRAMS	EXPENSES	PROGRAMS REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
		CHARGE FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT
<b>Primary Government:</b>					
General administration	\$ 7,597,256	\$ 3,949,438	\$ 148,952	\$ -	\$ (3,498,866)
Public safety	2,496,086	3,712	564,148		(1,928,226)
Education, culture and recreational	1,855,630	10,730			(1,844,900)
Public works and Sanitation	3,761,381				(3,761,381)
Health and welfare	950,747			622,825	(327,922)
Debt service:					
Interest	454,499				(454,499)
<b>Total Expenditures</b>	<u>\$ 17,115,599</u>	<u>\$ 3,963,880</u>	<u>\$ 713,100</u>	<u>\$ 622,825</u>	<u>(11,815,794)</u>
<b>General Revenues:</b>					
Taxes:					
Property taxes					4,418,690
Grants and entitlements:					
State government and public corporations					4,903,986
Federal grants					234,374
Solid waste disposal					160,889
Interest					140,761
Other income					16,373
<b>Total General Revenues</b>					9,875,073
<b>CHANGES IN NET ASSETS</b>					(1,940,721)
<b>NET ASSETS AT BEGINNING OF THE YEAR</b>					<u>563,695</u>
<b>NET ASSETS AT END OF THE YEAR</b>					<u>\$ (1,377,026)</u>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2003**

	GENERAL FUND	DEBT SERVICE FUND	COMMUNITY REDEVELOPMENT PROJECT - 1	COMMUNITY REDEVELOPMENT PROJECT - 2	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Cash:</b>						
Cash including \$1,100,000 in certificates of deposits	\$ 697,611	\$1,862,855	\$ -	\$ -	\$ 364,729	\$ 2,925,195
Cash with fiscal agent			1,377,219	995,034	1,503,226	3,875,479
<b>Receivables:</b>						
Amount due from:						
Other funds	<u>159,815</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>551,603</u>	<u>711,418</u>
<b>Total Assets</b>	<b><u>\$ 857,426</u></b>	<b><u>\$1,862,855</u></b>	<b><u>\$ 1,377,219</u></b>	<b><u>\$ 995,034</u></b>	<b><u>\$ 2,419,558</u></b>	<b><u>\$ 7,512,092</u></b>
<b>Liabilities and Other Credits</b>						
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ 2,126,617		49,183		\$ 1,659,300	3,835,100
Deferred revenues	1,454,855				311,221	1,766,076
Due to other fund	<u>551,603</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,815</u>	<u>711,418</u>
<b>Total Liabilities</b>	<b><u>4,133,075</u></b>	<b><u>-</u></b>	<b><u>49,183</u></b>	<b><u>-</u></b>	<b><u>2,130,336</u></b>	<b><u>6,312,594</u></b>
<b>Fund Balance</b>						
Reserve for:						
Debt service		1,862,855				1,862,855
State and Federal programs					289,222	289,222
Capital projects			1,328,036	995,034		2,323,070
Undesignated deficit	<u>(3,275,649)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,275,649)</u>
<b>Total Fund Balance</b>	<b><u>(3,275,649)</u></b>	<b><u>1,862,855</u></b>	<b><u>1,328,036</u></b>	<b><u>995,034</u></b>	<b><u>289,222</u></b>	<b><u>1,199,498</u></b>
<b>Total liabilities, other credits and fund balance</b>	<b><u>\$ 857,426</u></b>	<b><u>\$1,862,855</u></b>	<b><u>\$ 1,377,219</u></b>	<b><u>\$ 995,034</u></b>	<b><u>\$ 2,419,558</u></b>	<b><u>\$ 7,512,092</u></b>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2003**

Fund Balances in Governmental Funds	\$ 1,199,498
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*Amounts reported for Governmental Activities in the Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,629,647
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Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(14,206,171)</u>
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<i>Net Assets of Governmental Activities</i>	<u>\$ (1,377,026)</u>
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2003**

	GENERAL FUND	DEBT SERVICE FUND	COMMUNITY REDEVELOPMENT PROJECT - 1	COMMUNITY REDEVELOPMENT PROJECT - 2	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>						
Taxes:						
Property taxes	\$ 3,414,959	\$ 1,003,731	\$	\$	\$	\$ 4,418,690
Municipal tax	2,003,902					2,003,902
Grants and entitlements:						
State government and public corporations	4,196,778				856,160	5,052,938
Federal grants					1,421,347	1,421,347
Rental income	134,577					134,577
Licenses and permits	742,972					742,972
Fines, forfeits and penalties	3,712					3,712
Solid waste disposal	160,889					160,889
Interest	154,688	19,146				173,834
Other	<u>1,062,017</u>	<u>0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,062,017</u>
<b>Total Revenues</b>	<u>11,874,494</u>	<u>1,022,877</u>	<u>-</u>	<u>-</u>	<u>2,277,507</u>	<u>15,174,878</u>
<b>Expenditures:</b>						
General administration	6,591,404				24,047	6,615,451
Public safety	1,852,470				570,392	2,422,862
Education, culture and recreational	1,299,766				430,816	1,730,582
Public works and sanitation	3,525,278				94,885	3,620,163
Health and welfare	333,815				606,512	940,327
Capital outlays			56,964	4,966	4,948,518	5,010,448
Debt service:						
Principal	138,000	520,000				658,000
Interest	<u>37,532</u>	<u>416,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>454,499</u>
<b>Total Expenditures</b>	<u>13,778,265</u>	<u>936,967</u>	<u>56,964</u>	<u>4,966</u>	<u>6,675,170</u>	<u>21,452,332</u>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2003**

	GENERAL FUND	DEBT SERVICE FUND	COMMUNITY REDEVELOPMENT PROJECT - 1	COMMUNITY REDEVELOPMENT PROJECT - 2	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Excess (deficiency) of revenues over (under) expenditures	(1,903,771)	85,910	(56,964)	(4,966)	(4,397,663)	(6,277,454)
Other financing sources (uses):						
Operating transfer in	417,887				300,000	717,887
Operating transfer out		(717,887)				(717,887)
Loan proceeds	<u>-</u>	<u>-</u>	<u>1,385,000</u>	<u>1,000,000</u>	<u>1,905,000</u>	<u>4,290,000</u>
Total other financing sources (uses)	<u>417,887</u>	<u>(717,887)</u>	<u>1,328,036</u>	<u>1,000,000</u>	<u>2,205,000</u>	<u>4,290,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing	(1,485,884)	(631,977)	1,328,036	995,034	(2,192,663)	(1,987,454)
Fund balance (deficit) at beginning of year	<u>(1,789,765)</u>	<u>2,494,832</u>	<u>-</u>	<u>-</u>	<u>2,481,885</u>	<u>3,186,952</u>
Fund balance (deficit) at end of year	<u>(\$ 3,275,649)</u>	<u>\$ 1,862,855</u>	<u>\$ 1,328,036</u>	<u>\$ 995,034</u>	<u>\$ 289,222</u>	<u>\$ 1,199,498</u>

The accompanying notes are an integral part of these financial statements



**MUNICIPALITY OF YAUCO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2003**

**1. ORGANIZATION**

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For fiscal year ended June 30, 2003, the Municipality implemented GASB Statement No. 34 (GASB 34), Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 36 (GASB 36), Recipient Reporting for Certain Shared Non exchange Revenues (and amendment of GASB 33); GASB Statement No. 37 (GASB 37), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; GASB Statement No. 38 (GASB 38), Certain Financial Statements Disclosures; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis - GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of management's discussion and analysis (MD&A).

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Government - Wide Financial Statements - The new reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

Statement of Activities - The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

### REPORTING ENTITY

The Municipality's financial statements include all governmental funds 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.

### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

The Municipality reports the following major governmental funds:

#### 1) General Fund

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

#### 2) Debt Service Fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

#### 3) Community Redevelopment Project 1

This is a special fund created for the accountability of a loan proceed of \$1,385,000 which proceeds are intended to be used for Infrastructure Projects among the Municipality. This fund has a high amount of fund balance because all revenues were received at year end and the gross expenses will be made during the following fiscal year.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

##### 4) Community Redevelopment Project 2

This is a special fund created for the accountability of a loan proceed of \$1,000,000 which proceeds are intended to be used for Infrastructure Projects among the Municipality. This fund has a high amount of fund balance because all revenues were received at year end and the gross expenses will be made during the following fiscal year.

#### MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private -sector guidance.

# **MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)**

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

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

#### **CASH, CASH EQUIVALENTS, AND CASH WITH FISCAL AGENT**

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

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

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

#### **INTERFUND RECEIVABLES AND PAYABLES**

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

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements.

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

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

	Useful Life
Buildings and building improvements	20-50 years
Land improvements	15-30 years
Machinery and equipment	5-20 years
Infrastructure	20-30 years

The Municipality decides when to capitalize an asset using the following capitalization thresholds amounts:

Type of Asset	Threshold Amount
Land/land improvements	Capitalized All
Buildings/buildings improvements	\$ 50,000.00
Other improvements	25,000.00
Equipment	2,000.00
Library books (collections)	Capitalized All
Works of Arts	Capitalized All
Leasehold improvements	10,000.00
Vehicles and Machinery	Capitalized All

The Municipality has elected to postpone the recognition of the infrastructure capital assets existent prior to the year ended June 30, 2003, the year of the GASB #34 implementation, according to the provisions the mentioned GASB provides. On or before the year ended June 30, 2007 all those capital assets will be accounted for and included in the Financial Statements.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

#### RESERVATION OF FUND BALANCE

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

1) Debt Service

Represents net assets available to finance future debt service payments.

2) Capital Project Funds

Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

3) State and Federal Programs

Represent the reservations of amounts available for specific use under state and federal grant programs.

#### RISK FINANCING

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2003 amounted to approximately \$364,484. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$323,176 for workers compensation insurance covering all municipal employees.

#### COMPENSATED ABSENCES

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

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up

# **MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **COMPENSATED ABSENCES (CONTINUED)**

to the maximum allowed. Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Assets.

#### **USE OF ESTIMATES**

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

#### **INVENTORIES**

The purchase of inventory of construction materials, supplies, spare parts, and medicines and drugs are recorded as expenditure in the accompanying 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.

### **3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **BUDGETARY CONTROL**

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Assembly prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Assembly. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Assembly.

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, include only the operations of the general and the debt service funds.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

#### BUDGETARY CONTROL (CONTINUED)

outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget is presented in the Combined Statement of Revenues, Expenditures And Changes in Fund Equity - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2003 representing the original budget.

#### 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 FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this \$14,206,171 difference are as follows:

Bonds and notes payable	\$ 12,454,000
Accrued interest payable	426,091
Compensated absences	1,300,651
Landfill closure and postclosure costs	<u>25,429</u>
Net adjustments to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$ 14,206,171</u>

### 5. DEPOSITS AND INVESTMENTS

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$1 million in the general fund were fully collateralized at June 30, 2003. The deposits at GDB of approximately \$3.8 million that are restricted principally for capital projects, and the \$1.9 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

### 6. 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 FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 6. 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 value of real property evolves from 1957 estimated values and of personal property from the current value at the date of the assessment. The Municipality grants 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 that \$15,000, except for properties that have an assessed value of less than \$3,500, which have full 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.

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.

### 7. 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, 2003, \$2,003,902 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.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 8. INTERFUND TRANSACTIONS

Interfund receivables and payables balances at June 30, 2003 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non Major Governmental Funds	\$ 159,815
Non Major Governmental Funds	General Funds	<u>551,603</u>
		<u>\$ 711,418</u>

### 9. 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 Other Governmental Funds.

### 10. DEFERRED REVENUE

#### Municipal Tax

The deferred revenues of approximately \$1,454,855 in the general fund related to the municipal license tax collected in the fiscal year 2002-2003 that will be earned in fiscal year 2003-2004.

#### Federal Government

The deferred revenues presented in Other Governmental Funds is the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined by their cash balances.

# MUNICIPALITY OF YAUCO

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

### 10. DEFERRED REVENUE (CONTINUED)

#### Federal Government (Continued)

These were related to the following federal programs/grants:

<b>Program/Grant Description</b>	<b>Amount</b>
COPS	\$ 34,036
FEMA	46,325
HUD	159,712
Section 8	18,873
George	22,049
Child Care	<u>30,226</u>
Total	<u>\$ 311,221</u>

### 11. 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, 2003 amounted to \$206,904.

### 12. COMMITMENTS AND CONTINGENCIES

At June 30, 2003, 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.

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

**13. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2003 was as follows:

Primary Government	Balance June 30, 2002	Increases	Decreases	Balance June 30, 2003
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 773,172	\$ -	\$ -	\$ 773,172
Infrastructure	<u>-</u>	<u>1,865,385</u>	<u>-</u>	<u>1,865,385</u>
Total capital assets not being depreciated	<u>773,172</u>	<u>1,865,385</u>	<u>-</u>	<u>2,638,557</u>
Capital assets being depreciated:				
Land improvements	679,668	120,640		800,308
Building and building improvements	5,926,523	1,328,625		7,255,148
Machinery and equipments	<u>4,431,993</u>	<u>406,674</u>	<u>-</u>	<u>4,838,667</u>
Total capital assets being depreciated	<u>11,038,184</u>	<u>1,855,939</u>	<u>-</u>	<u>12,894,123</u>
Less accumulated depreciation for:				
Land improvements	498,656	10,977		509,633
Building and building improvements	1,208,873	131,352		1,340,225
Machinery and equipments	<u>1,721,732</u>	<u>331,443</u>	<u>-</u>	<u>2,053,175</u>
Total accumulated depreciation	<u>3,429,261</u>	<u>473,772</u>	<u>-</u>	<u>3,903,033</u>
Total capital assets being depreciated, net	<u>7,608,923</u>	<u>1,382,167</u>	<u>-</u>	<u>8,991,090</u>
Governmental activities capital assets, net	<u>\$ 8,382,095</u>	<u>\$ 3,247,552</u>	<u>\$ -</u>	<u>\$ 11,629,647</u>

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

**13. CAPITAL ASSETS (CONTINUED)**

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

General administration	\$ 123,862
Public safety	73,224
Public works	141,218
Education, culture and recreation	125,048
Health and welfare	<u>10,420</u>
Total depreciation expense	<u>\$ 473,772</u>

**14. GENERAL LONG-TERM DEBT**

Bonds and notes payable outstanding at June 30, 2003 consist of:

**A. Bonds:**

1984 - \$171,000, due in annual principal installments of \$3,000 to \$12,000 through January 1, 2008, plus interest at 5%	\$ 55,000
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%	95,000
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%	3,695,000
2002 - \$2,015,000 due in annual principal installments ranging from \$30,000 to \$165,000 through July 1, 2026, plus interest at 7%.	1,985,000

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

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

**A. Bonds (Continued)**

2003 - \$1,385,000 due in annual principal installments ranging from \$20,000 to \$105,000 through July 1, 2027, plus interest at 5%.

1,385,000

Total outstanding bonds

\$ 7,215,000

**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%.

552,000

\$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%

63,000

\$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%.

780,000

\$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%.

87,000

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

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

\$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, 2003 this loan is substantially disbursed	857,000
\$670,000 general obligation note of 2003, due in annual principal installments ranging from \$4,000 to \$5,000 through January 1 <sup>st</sup> 2027 plus interest at 6.50%.	665,000
\$505,000 general obligation note of 2002 due in annual principal installments through a term of twenty five years after the date of disbursement be completed plus interest at 6.50%.	505,000
\$730,000 general obligation note of 2002 due in annual principal installments through a term of twenty five years after the date of disbursement be completed plus interest at 6.50%.	730,000
\$1,000,000 general obligation note of 2003 due in annual principal installments through a term of twenty five years after the date of disbursement be completed plus interest at 6.00%.	<u>1,000,000</u>
Total outstanding notes	<u>5,239,000</u>
Total bonds and notes payable	<u>\$ 12,454,000</u>

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

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

<u>Bonds Payable</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 281,000	\$ 452,399
2005	306,000	433,938
2006	276,000	417,113
2007	316,000	398,913
2008	321,000	379,020
2009-2013	1,635,000	1,543,372
2014-2018	1,805,000	839,370
2019-2023	1,215,000	489,425
2024-2028	<u>1,060,000</u>	<u>130,450</u>
	<u>\$ 7,215,000</u>	<u>\$ 5,083,999</u>

<u>Notes Payable</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 559,280	\$ 300,895
2005	603,280	256,885
2006	597,280	211,590
2007	294,280	189,819
2008	164,280	179,866
2009-2013	566,400	767,656
2014-2018	476,400	597,823
2019-2023	586,400	391,641
2024-2028	<u>1,391,400</u>	<u>124,258</u>
	<u>\$ 5,239,000</u>	<u>\$ 3,020,433</u>

Long term liability activity for the year ended June 30, 2003 was as follows:

<b>Primary Government Governmental Activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within one year</b>
Bonds Payable	\$ 6,070,000	\$ 1,385,000	\$ 240,000	\$ 7,215,000	\$ 281,000
Notes Payable	<u>2,757,000</u>	<u>2,905,000</u>	<u>423,000</u>	<u>5,239,000</u>	<u>559,280</u>
Total Non-Current Liabilities:	<u>\$ 8,827,000</u>	<u>\$ 4,290,000</u>	<u>\$ 663,000</u>	<u>\$ 12,454,000</u>	<u>\$ 840,280</u>

## MUNICIPALITY OF YAUCO

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

#### 15. 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, 2003 amounted to \$134,577.

#### 16. 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.

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.

## MUNICIPALITY OF YAUCO

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

#### 16. RETIREMENT SYSTEM (CONTINUED)

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.

#### **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 FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

#### **16. RETIREMENT SYSTEM (CONTINUED)**

Total employee contributions to the above mentioned plans during the year ended June 30, 2003 amounted to approximately \$312,826. 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, 2003, a copy of which can be obtained from the Retirement System.

#### **17. COMMITMENTS AND CONTINGENCIES**

At June 30, 2003, 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.

#### **18. 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, 2003 amounted to \$206,904.

#### **19. 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, 2003, 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

**MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2003**

**19. CLOSURE AND POSTCLOSURE CARE COSTS (CONTINUED)**

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, 2003. 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF YAUCO**  
**SCHEDULE OF REVENUES END EXPENDITURES**  
**GENERAL AND DEBT SERVICE FUNDS - BUDGET AND ACTUAL**  
**YEAR ENDED JUNE 30, 2003**

	<b>GENERAL FUND</b>				<b>DEBT SERVICE FUND</b>			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	INITIAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>Revenues:</b>								
Taxes:								
Property taxes	\$ 541,693	\$ 541,693	\$ 3,414,959	\$ 2,873,266	\$ 1,007,701	\$ 1,007,701	\$ 1,003,731	\$ (3,970)
Municipal tax	1,960,000	1,960,000	2,003,902	43,902				
Grants and entitlements:								
State government and public Corporations	3,017,182	3,017,182	4,196,778	1,179,596				
Rental income	215,000	215,000	134,577	(80,423)				
Licenses and permits	835,000	835,000	742,972	(92,028)				
Fines, forfeits and penalties	20,000	20,000	3,712	(16,288)				
Solid waste disposal			160,889	160,889				
Interest	160,000	160,000	154,688	(5,312)			19,146	19,146
Other	6,964,915	6,975,098	1,062,017	(5,913,081)	-	-	-	-
<b>Total Revenues</b>	<b>13,713,790</b>	<b>13,723,973</b>	<b>11,874,494</b>	<b>(1,849,479)</b>	<b>1,007,701</b>	<b>1,007,701</b>	<b>1,022,877</b>	<b>15,176</b>
<b>Expenditures:</b>								
General administration	5,963,271	6,626,179	6,794,029	(167,850)				
Public safety	2,146,585	1,776,272	1,852,470	(76,198)				
Education, culture and recreational	1,530,822	1,467,070	1,299,766	167,304				
Public works and sanitation	3,398,626	3,612,434	3,525,278	87,156				
Health and welfare	674,486	242,018	333,815	(91,797)				
Capital outlays								
Debt service:								
Principal	138,000	138,000	138,000		680,659	680,659	520,000	160,659
Interest	46,920	46,920	37,532	9,388	327,042	327,042	416,967	(89,925)
<b>Total Expenditures</b>	<b>13,898,710</b>	<b>13,908,893</b>	<b>13,980,890</b>	<b>(71,997)</b>	<b>1,007,701</b>	<b>1,007,701</b>	<b>936,967</b>	<b>70,734</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL AND DEBT SERVICE FUNDS - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2003**

	<u>GENERAL FUND</u>				<u>DEBT SERVICE FUND</u>			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	INITIAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Excess (deficiency) of revenues over (under) expenditures	(184,920)	(184,920)	(2,106,396)	(1,921,476)			85,910	85,910
Other financing sources (uses):								
Operating transfer in	184,920	184,920	417,887	232,967				
Operating transfer out								
Loan proceeds	-	-	-	-			(717,887)	(717,887)
Total other financing sources	<u>184,920</u>	<u>184,920</u>	<u>417,887</u>	<u>232,967</u>			<u>(717,887)</u>	<u>(717,887)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,688,509)</u>	<u>\$ (1,688,509)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (631,977)</u>	<u>\$ (631,977)</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
NOTES TO THE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL AND DEBT SERVICE FUNDS - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2003**

**1. BUDGET/GAAP RECONCILIATION**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2003 is presented below for the general, and debt service funds:

	General Fund
Excess (deficiency) of revenues over (under) expenditures – Budgetary Basis	\$ (1,688,509)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP Basis	(130,494)
Current year encumbrances recorded as expenditures for budgetary purposes	<u>333,119</u>
Excess (deficiency) of revenues over (under) expenditures - GAAP Basis	<u>\$ (1,485,884)</u>

**COMBINING SCHEDULES**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2003**

	HUD	COPS	FEMA	SECTION 8	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Cash:</b>						
Cash including \$1,100,000 in certificates of deposits	\$ 159,711	\$ 34,036	\$ 46,325	\$ 18,874	\$ 105,783	\$ 364,729
Cash with fiscal agent					1,503,226	1,503,226
<b>Receivables:</b>						
Amount due from:						
Other funds	-	-	100,000	-	451,603	551,603
<b>Total Assets</b>	<u>\$ 159,711</u>	<u>\$ 34,036</u>	<u>\$ 146,325</u>	<u>\$ 18,874</u>	<u>\$ 2,060,612</u>	<u>\$ 2,419,558</u>
<b>Liabilities and Other Credits</b>						
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ 1,659,300	1,659,300
Deferred revenues	159,711	34,036	46,325	18,874	52,275	311,221
Due to other fund	-	-	-	-	159,815	159,815
<b>Total Liabilities</b>	<u>159,711</u>	<u>34,036</u>	<u>46,325</u>	<u>18,874</u>	<u>1,871,390</u>	<u>2,130,336</u>
<b>Fund Balance</b>						
State and Federal programs	-	-	100,000	-	189,222	289,222
<b>Total Fund Balance</b>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>189,222</u>	<u>289,222</u>
<b>Total liabilities, other credits and fund balance</b>	<u>\$ 159,711</u>	<u>\$ 34,036</u>	<u>\$ 146,325</u>	<u>\$ 18,874</u>	<u>\$ 2,060,612</u>	<u>\$ 2,419,558</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE- NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2003**

	HUD	COPS	FEMA	SECTION 8	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>						
Grants and entitlements:						
State government and public corporations	\$ -	\$ -	\$ -	\$ -	\$ 856,160	\$ 856,160
Federal grants	<u>622,824</u>	<u>564,148</u>	<u>30,498</u>	<u>201,267</u>	<u>2,610</u>	<u>1,421,347</u>
<b>Total Revenues</b>	<u>622,824</u>	<u>564,148</u>	<u>30,498</u>	<u>201,267</u>	<u>858,770</u>	<u>2,277,507</u>
<b>Expenditures:</b>						
General administration					24,047	24,047
Public safety		562,867			7,525	570,392
Education, culture and recreational					430,816	430,816
Public works and sanitation					94,885	94,885
Health and welfare				258,175	348,337	606,512
Capital outlays	<u>634,456</u>	<u>-</u>	<u>426,628</u>	<u>-</u>	<u>3,887,434</u>	<u>4,948,518</u>
<b>Total Expenditures</b>	<u>634,456</u>	<u>562,867</u>	<u>426,628</u>	<u>258,175</u>	<u>4,793,043</u>	<u>6,675,170</u>
Excess (deficiency) of revenues over (under) expenditures	(11,632)	1,281	(396,130)	(56,909)	(3,934,273)	(4,397,663)
Other financing sources (uses):						
Operating transfer in					300,000	300,000
Loan proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,905,000</u>	<u>1,905,000</u>
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,205,000</u>	<u>2,205,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing	(11,632)	1,281	(396,130)	(56,909)	(1,729,273)	(2,192,663)
Fund balance (deficit) at beginning of year	<u>11,632</u>	<u>(1,281)</u>	<u>496,130</u>	<u>56,909</u>	<u>1,918,495</u>	<u>2,481,885</u>
Fund balance (deficit) at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 189,222</u>	<u>\$ 289,222</u>