

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL

MUNICIPIO DE YAUCO
AUDITORÍA 2007-2008
30 DE JUNIO DE 2008

DC 3M
AGENCIAS DE SERVICIOS
CORREOS Y TELÉFONOS
2008 FEB 13 AM 10:15

RECIBIDO
UNIDAD DE CORREO
09 FEB 12 PM 3:25

Cañal, 205

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2008

ac

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2008**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Governmental-wide financial statement	9
Statement of Net Assets	10
Statement of Activities	
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balance	13-14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	15
Notes to the Financial Statements	16-33
 <u>REQUIRED SUPPLEMENTARY INFORMATION</u>	 34
Schedule of Budgetary Comparison - General Funds	35
Notes to Schedule of Budgetary Comparison – General Funds	36-37
Schedule of Expenditures of Federal Awards	38-39
Notes to Schedule of Expenditures of Federal Awards	40
Report on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	41-43
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	44-46
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS	 47
Section I. – Summary of Auditor's Results	48
Section II. - Financial Statements Findings	49-50
Section III. – Federal Awards Findings and Questioned Costs	51-54
 EXHIBIT-I STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS	 55-56
 EXHIBIT-II CORRECTIVE ACTION PLAN	 57-59

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

INDEPENDENT AUDITOR'S REPORT

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

I have audited the financial statements of the governmental activities, each major funds, and the aggregate remaining fund information of the **Municipality of Yauco** (the Municipality) as of and for the year ended June 30, 2008 which collectively comprise the basic financial statements 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 financial audits contained in Government Audit Standards, issued by the Comptroller General of the United States. 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, each major funds, and the aggregate remaining fund information of the Municipality of Yauco as of June 30, 2008, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

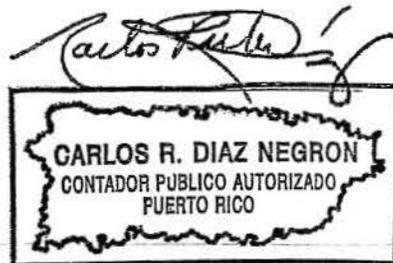
In accordance with Government Auditing Standards, I have also issued my report date December 3, 2008 on my consideration of **Municipality of Yauco's** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 38 through 40 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 financial statements that collectively comprise the Municipality of Yauco basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applies in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relations to the basic financial statements taken as a whole.

December 3, 2008
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010



The stamp No. 2373632 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008

MANAGEMENT AND DISCUSSION ANALYSIS

Our discussion and analysis of the Municipality of Yauco (Municipality) financial performance provides an overview of the Municipality's financial activities for the year ended June 30, 2008. Please read it in conjunction with the financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The Net Investment in Capital Assets reflected in the Statement of Net Assets increased by \$4.0 millions in comparison with the prior year financial statements. The increase in capital assets came up mainly from capital projects developed by the Municipality from federal program awards and city tax revenues.
- The project consisting of the construction of 70 low-income housing units started with the preparation of drawings and permit documentation. Initially this project is being financed through a construction loan for \$4.1 millions obtained from the Government Development Bank. The Municipal Administration is aware about there is a need of residential units for very low and low families that are safe, decent and affordable. Because the National Poverty Level evidences that Puerto Rico has three times more poverty rate than the national rate over any State in the United States, the Municipality is committed to alleviate the disadvantaged living conditions among the citizens of Yauco. A cash balance for 3.8 millions and an interim note payable for \$4.1 are included in the Statement of Net Assets as of June 30, 2008.
- The Statement of Activities shows a favorable change in net assets by \$939,751, when we compared the current with the former year. The main economic resources that the Municipality received to end its operations favorably came from property taxes, municipal license taxes, federal and state grant awards, and city taxes.
- The Municipality ended its operations as of June 30, 2008, as reflected in the General Fund of the Statement of Revenues, Expenditures and Changes in Fund Balance with a fund balance of \$49,823, which denotes that the administration expended almost the same amount of revenues and other sources they received. The Municipality has kept the reduction in the worked hours for all the employees, with the purpose of reducing the salary costs, employer contributions, utilities and other controllable costs.
- The Municipality has reduced its operational costs for purposes of matching them with the reality its revenues. Even though, the Municipality ended its operations with a reduced deficit, it is important to state that the financial strategies implemented by the management have reduced dramatically the operational deficit, when we compare the current year with the financial operations of prior years.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008

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 10 and 11) 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 11. 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 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 public safety (the municipal police), public works, garbage disposal, public energy and health services, education, culture and recreation, and general administration. Property taxes, sale taxes, municipal license tax, state and federal grants finance most of these activities.

Reporting the Municipality's Most Significant Funds

The fund financial statements begin on page 11 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 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 on Activities) and governmental funds in Reconciliation of the Governmental Funds on page 12 and 15 of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

THE MUNICIPALITY AS A WHOLE

The Municipality's combined net assets increased in the current year by \$.8 millions, to a total in net assets of \$12.6 millions at end of year. Table 1 and 2 focus on the net assets and changes in net assets of the Municipality's governmental activities for the year ended June 30, 2008 and 2007:

Table 1 Statement in Net Assets (In Millions)	Year Ended June 30, 2008	Year Ended June 30, 2007	Net Change Favorable (Unfavorable)
Cash and other current assets	\$.5		\$.5
Cash restricted	9.8	\$ 6.5	3.3
Accounts receivable	4.8	3.8	1.0
Capital assets-net	<u>41.1</u>	<u>37.1</u>	<u>4.0</u>
Total assets	<u>56.2</u>	<u>47.4</u>	<u>8.8</u>
Short-term debt	19.8	17.3	2.5
Long-term debt	<u>22.9</u>	<u>17.5</u>	<u>5.4</u>
Total liabilities	<u>42.7</u>	<u>34.8</u>	<u>7.90</u>
Net Assets:			
Invested in capital assets, net of related debt	26.0	24.8	1.2
Restricted for:			
Debt service	2.3	1.8	.5
Capital projects	5.2	4.4	.8
Other purposes	1.0	.3	.7
Unrestricted	<u>(21.0)</u>	<u>(18.7)</u>	<u>(2.3)</u>
Total net assets	<u>\$ 13.5</u>	<u>\$ 12.6</u>	<u>\$.9</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

THE MUNICIPALITY AS A WHOLE (CONTINUED)

Table 2			
Changes in Net Assets	Year Ended	Year Ended	Net Change
(In Millions)	June 30, 2008	June 30, 2007	Favorable
			(Unfavorable)
Revenues			
Program revenues:			
Charge for services	\$.1	\$.1	
Operating grants	.7	.6	\$.1
Capital grants	5.8	6.8	(1.0)
General revenues:			
Property taxes	5.3	5.7	(.4)
Municipal license tax	2.3	2.1	.2
Sales tax	3.1	2.6	.5
Grants and entitlements	5.3	5.0	.3
Other income	<u>2.9</u>	<u>2.1</u>	<u>.8</u>
Total Revenues	<u>25.5</u>	<u>25.0</u>	<u>.5</u>
Program Expenses:			
General administration	10.2	9.0	(1.2)
Public safety	2.7	2.0	(.7)
Education	2.5	2.7	.2
Public works	6.3	7.5	1.2
Health and welfare	1.6	1.0	(.6)
Other	<u>1.3</u>	<u>.9</u>	<u>(.4)</u>
Total Expenses:	<u>24.6</u>	<u>23.1</u>	<u>(1.5)</u>
Increase in Net Assets	<u>\$.9</u>	<u>\$ 1.9</u>	<u>\$(1.0)</u>

The principal revenues of the Municipality are composed of property taxes, sales tax, municipal license taxes and grant contributions. Table 2 shows that the Municipality ended its operations for the current year with an increase in net assets for \$.8 millions. The above table presents an increase in sale taxes, grant contributions and other income for \$.5 millions. However, during the current year the Municipality had an increase in program expenses for \$1.6 millions, mainly in general administration, public safety, health and welfare and other program expenses in comparison with prior year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

Governmental Activities

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements use the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

General Fund Budgetary Highlights

Once the Municipality's budget for the fiscal year 2007-2008 was approved on June 2007, the financial decisions were taken based on the available appropriations. However, during the course of the year, the Municipal Legislative Body revised the Municipality of Yauco' budget to adjust the original projections to the actual needs of the citizenship. The budget amendments fall into various categories. The first category includes transfers between expenditure accounts and the second one includes revisions to the amount of budget originally approved. The latest is related to additional revenues collected during the year, which exceeds the expectations originally included in the budget.

During the year ended June 30, 2008, the Mayor of the Municipality and the Municipal Legislative Body authorized various transfers among expenditure accounts based on the needs that arose during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2008, the Municipality of Yauco had \$41.1 millions invested in a broad range of capital assets, including land, land improvements, buildings, parks, roads, bridges and equipment.

Table 3 Capital Assets (Net of depreciation, in Millions)	Year Ended June 30, 2008	Year Ended June 30, 2007	Net Change Favorable (Unfavorable)
Land and works of art	\$ 3.1	\$ 2.8	\$.3
Land improvements	.2	.2	
Buildings and improvements	6.0	6.1	(.1)
Equipment	2.9	2.6	.3
Infrastructure	<u>28.9</u>	<u>25.4</u>	<u>3.5</u>
Totals	<u>\$41.1</u>	<u>\$37.1</u>	<u>\$ 4.0</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

As we can notice in Table 3, the Municipality increased its capital assets by \$4.0 millions in comparison with prior year financial statements. The main portion of the increase in capital assets came up from capital projects developed by the Municipality, as shown in Note 11 to the financial statements.

During the current year, the Municipality invested \$5.8 millions in infrastructure-capital assets, from state and federal resources. The net change in the infrastructure investment was reduced by the depreciation of the infrastructure asset, which amounted to \$2.3 millions. For that reason the increase in infrastructure-capital assets was \$3.5 millions, as shown in Table 3.

Long-Term Debt

As of June 30, 2008, the Municipality had \$28.4 millions, in bonds, notes and other outstanding debts as shown in Table 4, including \$4.2 millions in notes payable utilized as interim loan during the construction of a low-income housing units project. The outstanding balance of long-term debts was mainly utilized to finance capital projects, including infrastructure, acquisitions of land and construction projects.

Table 4			
Outstanding Debt	Year Ended	Year Ended	Change
(in Millions)	June 30, 2008	June 30, 2007	Favorable
			(Unfavorable)
Bonds and Note Payable	\$26.0	\$ 20.0	\$ (6.0)
Other	<u>2.4</u>	<u>2.6</u>	<u>.2</u>
Totals	<u>\$28.4</u>	<u>\$22.6</u>	<u>\$(5.8)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2008 budget. The most significant goal in the next year's budget in comparison with the amounts included for the year ended June 30, 2008, is to continue with the aggressive collection procedure to increase the municipal construction and city taxes, and also with the reduction of the salary expenditures for temporary employees. The purpose of these management decisions is focus to reduce the undesignated deficiency accrued as of June 30, 2008.

We expect to end the operations for the fiscal year on June 30, 2008 with a surplus based on the economies in various budgeted expenditure accounts that the management has identified during the present year.

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, PO Box 1, Yauco, Puerto Rico 00698.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008**

ASSETS	<u>PRIMARY GOVERNMENT</u>
Cash and cash equivalents	\$ 517,661
Cash with fiscal agent	9,762,058
Receivable other agencies	1,795,109
Other receivable net allowance for bad debts:	
Property tax	2,753,411
Sale tax	182,557
Others	37,565
Capital assets, net	<u>41,136,823</u>
Total Assets	<u>\$ 56,185,184</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Bank overdraft	\$ 722,202
Accounts payable	6,128,102
Due to other agencies	4,137,104
Accrued interest	924,178
Deposit	135,091
Deferred revenue	2,304,070
Note payable	4,155,000
Non-current liabilities:	
Due within one year	1,289,000
Due in more than one year	<u>22,873,956</u>
Total Liabilities	<u>42,668,703</u>
Net Assets:	
Invested in capital assets, net of related debt	25,997,787
Restricted for:	
Debt service	2,295,264
Capital projects	5,168,996
Other purpose	1,056,752
Unrestricted (deficit)	<u>(21,002,318)</u>
Total Net Assets	<u>\$ 13,516,481</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAMS REVENUES</u>			<u>NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS</u>
		<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>PRIMARY GOVERNMENT</u>
Primary government:					
General administration	\$(10,236,071)		\$ 85,404		\$(10,150,667)
Public safety	(2,683,510)	\$ 65,789			(2,617,721)
Education, culture and recreational	(2,509,567)	54,960	161,833		(2,292,774)
Public works and sanitation	(6,340,017)			\$5,771,116	(568,901)
Health and welfare	(1,544,095)		433,613		(1,110,482)
Interest	<u>(1,256,628)</u>	_____	_____	_____	<u>(1,256,628)</u>
Total expenditures	<u>\$(24,569,888)</u>	<u>\$120,749</u>	<u>\$ 680,850</u>	<u>\$5,771,116</u>	<u>(17,997,173)</u>
General revenues:					
Taxes:					
Property taxes					5,308,626
Municipal tax					2,350,580
Sales tax					3,092,950
Grants and entitlements					5,334,761
Rental income					1,240,110
Licenses and permits					171,108
Interest					435,482
Other income					<u>1,003,307</u>
Total general revenues					<u>18,936,924</u>
Changes in net assets					939,751
Net assets at beginning of the year					<u>12,576,730</u>
Net assets at end of the year					<u>\$ 13,516,481</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008**

	<u>MAJOR FUNDS</u>					<u>OTHER</u>	<u>TOTAL</u>
	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>\$4,155,000</u>	<u>\$3,785,000</u>	<u>SALE TAX</u>	<u>GOVERNMENTAL</u>	<u>GOVERNMENTAL</u>
Assets:	<u>FUND</u>	<u>FUND</u>	<u>NOTE FUND</u>	<u>NOTE FUND</u>	<u>FUND</u>	<u>FUNDS</u>	<u>FUNDS</u>
Cash:							
Cash in commercial bank						\$ 517,661	\$ 517,661
Cash with fiscal agent		\$2,274,474	\$3,792,602	\$2,742,820		952,162	9,762,058
Receivables:							
Due from governmental agencies	\$ 207,960					1,587,149	1,795,109
Due from other funds	542,049					670,716	1,212,765
Property tax	2,137,939	615,472					2,753,411
Sale tax					\$ 182,557		182,557
Other	<u>25,000</u>					<u>12,565</u>	<u>37,565</u>
Total assets	<u>\$2,912,948</u>	<u>\$2,889,946</u>	<u>\$3,792,602</u>	<u>\$2,742,820</u>	<u>\$ 182,557</u>	<u>\$3,740,253</u>	<u>\$16,261,126</u>
Liabilities and other credits							
Liabilities:							
Bank overdraft	\$ 655,634				\$ 66,568		\$ 722,202
Accounts payable and accrued expenses	1,419,687		\$ 96,080	\$1,243,779	529,761	\$2,358,968	5,648,275
Deferred revenues	3,952,239	\$ 594,682				630,829	5,177,750
Deposits	135,091						135,091
Due to governmental agencies	4,130,814					6,290	4,137,104
Due to other fund			<u>3,343</u>	<u>23,224</u>	<u>1,176,198</u>	<u>10,000</u>	<u>1,212,765</u>
Total liabilities	<u>10,293,465</u>	<u>594,682</u>	<u>99,423</u>	<u>1,267,003</u>	<u>1,772,527</u>	<u>3,006,087</u>	<u>17,033,187</u>
Fund balance (deficiency):							
Unreserved (deficit)	(7,380,517)	2,295,264	3,693,179	1,475,817	(1,589,970)		(1,506,227)
Unreserved reported in nonmajor; other purpose						<u>734,166</u>	<u>734,166</u>
Total fund balance (deficiency)	<u>(7,380,517)</u>	<u>2,295,264</u>	<u>3,693,179</u>	<u>1,475,817</u>	<u>(1,589,970)</u>	<u>734,166</u>	<u>(772,061)</u>
Total liabilities and fund balance	<u>\$ 2,912,948</u>	<u>\$2,889,946</u>	<u>\$3,792,602</u>	<u>\$2,742,820</u>	<u>\$ 182,557</u>	<u>\$3,740,253</u>	<u>\$16,261,126</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
AS OF JUNE 30, 2008**

Fund Balances in Governmental Funds	\$ (772,061)
 <i>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	41,136,823
Deferred revenues recorded as revenue in the governmental activities	2,873,680
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
Notes and bonds	(25,940,000)
Accrued interest	(924,178)
Landfill	(351,716)
Accrued vacation	(2,026,240)
Claims and judgments	(479,827)
 <i>Net Assets of Governmental Activities</i>	 <u>\$ 13,516,481</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	MAJOR FUNDS					OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEBT SERVICE FUND	\$4,155,000 NOTE FUND	\$3,785,000 NOTE FUND	SALE TAX FUND		
Revenues:							
Taxes:							
Property taxes	\$ 3,580,473	\$1,529,018					\$ 5,109,491
Municipal tax	2,350,580						2,350,580
Sale tax		322,586			\$2,670,367	\$ 99,997	3,092,950
Grants and entitlements	5,182,717					6,171,968	11,354,685
Rental income	171,108						171,108
Licenses and permits	1,240,110						1,240,110
Interest	385,096	50,386					435,482
Other	805,735					318,321	1,124,056
Total Revenues	<u>13,715,819</u>	<u>1,901,990</u>			<u>2,670,367</u>	<u>6,590,286</u>	<u>24,878,462</u>
Expenditures:							
General administration	7,590,708				252,596	2,155,245	9,998,549
Public safety	2,500,983					96,237	2,597,220
Education, culture and recreational	2,213,588					122,316	2,335,904
Public works and sanitation	2,074,587		\$ 278,543	\$ 2,309,183	1,634,335	4,353,370	10,650,018
Health and welfare	790,069				71,451	647,298	1,508,818
Debt service:							
Principal		845,000					845,000
Interest		856,172					856,172
Total Expenditures	<u>15,169,935</u>	<u>1,701,172</u>	<u>278,543</u>	<u>2,309,183</u>	<u>1,958,382</u>	<u>7,374,466</u>	<u>28,791,681</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,454,116)</u>	<u>\$ 200,818</u>	<u>\$(278,543)</u>	<u>\$(2,309,183)</u>	<u>\$ 711,985</u>	<u>\$ (784,180)</u>	<u>\$ (3,913,219)</u>

(continue)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>MAYOR FUNDS</u>						
	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>\$4,155,000 NOTE FUND</u>	<u>\$3,785,000 NONE FUND</u>	<u>SALE TAX FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Excess (deficiency) of revenues over (under) Expenditures	\$(1,454,116)	\$ 200,818	\$ (278,543)	\$(2,309,183)	\$ 711,985	\$ (784,180)	\$(3,913,219)
Other financing sources (uses):							
Operating transfer in	1,837,738	333,799					2,171,537
Operating transfer out	(333,799)	(61,240)			(462,953)	(1,313,545)	(2,171,537)
Proceed from loans				<u>3,785,000</u>		<u>2,957,000</u>	<u>6,742,000</u>
Total other financing sources (uses)	<u>1,503,939</u>	<u>272,559</u>		<u>3,785,000</u>	<u>(462,953)</u>	<u>1,643,455</u>	<u>6,742,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	49,823	473,377	(278,543)	1,475,817	249,032	859,275	(2,828,781)
Fund balance (deficit) at beginning of year	<u>(7,430,340)</u>	<u>1,821,887</u>	<u>3,971,722</u>		<u>(1,839,002)</u>	<u>(125,109)</u>	<u>(3,600,842)</u>
Fund balance (deficit) at end of year	<u>\$ (7,380,517)</u>	<u>\$2,295,264</u>	<u>\$3,693,179</u>	<u>\$ 1,475,817</u>	<u>\$(1,589,970)</u>	<u>\$ 734,166</u>	<u>\$ (772,061)</u>

31169

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Net change in fund balances – total governmental funds	\$ 2,828,781
 <i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	6,886,713
Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduce the long-term obligation in the statement of activities.	845,000
Payment of capital leases reported as expenses in the fund financial statements are presented in the statement of net assets as payment of the capital lease.	44,375
Change in accrued expenses which do not require the use of current financial resources:	
Deferred revenues	199,135
Interest	(400,456)
Compensating absences	(138,545)
Landfill postclosure expenses	(150,000)
Amount due to PR Health Insurance Administration	432,042
Governmental funds report proceed from notes and bonds as other financial resources, whereas the proceed is recorded as long-term debt on the statement of activities	(6,742,000)
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	<u>(2,865,294)</u>
<i>Changes in Net Assets of Governmental Activities</i>	<u>\$ 939,751</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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 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.

Since 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).

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).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Legislative Body 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. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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) \$4,155,000 Note Fund

The fund accounts for proceed from a note and expenditures for the construction of a low income housing project.

4) \$3,785,000 Note Fund.

The fund accounts for proceed from a note and expenditures for various capital projects. This loan will be repaid with for proceed of the sale tax collected by the PR Treasury Department.

5) Sale tax

The fund accounts for proceed and expenditures of the sale tax.

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 revenue 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 of 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

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

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

<u>Type of Asset</u>	<u>Threshold Amount</u>
Land/land improvements	Capitalized all
Buildings/buildings improvements	\$50,000
Other improvements	\$25,000
Equipment	\$2,000
Library books (collections)	Capitalized all
Works of Arts	Capitalized all
Leasehold improvements	\$10,000
Vehicles and Machinery	Capitalized all

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

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:

A) Debt Service

Represents net assets available to finance future debt service payments.

B) 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, 2008 amounted to approximately \$291,225. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$319,332 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. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed.

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

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

POST EMPLOYMENT BENEFITS

Pursuant various Acts, the Municipality is required to cover annually the 3% increase (costs of living allowance) in the retirement plan of its retirees employees. Substantially all of the employees may become eligible for these benefits if they reach normal retirement while working for the Municipality. For the fiscal year ended June 30, 2008, post employment benefits to retirees amounted to \$142,142. These benefits are recorded as expenditures when paid in the general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

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.

3. CASH AND CASH EQUIVALENTS

The Municipality is authorized to deposit its cash and cash equivalents only in institutions approved by the Commonwealth of Puerto Rico Treasury Department and such deposits should be kept in separate accounts in the name of the Municipality. Such financial institutions should maintain collateral for the cash deposited in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) as established by Law No. 69 of August 14, 1991 "Law regulating the deposits of public funds and the provide about security". The Secretary of the Treasury Department of the Commonwealth holds all securities pledged as collateral. The cash and cash equivalents deposited in Governmental Development Bank are excluded of the requirements of this Law and the Municipality does not have a deposit policy about these deposits. Cash and cash equivalents consists of interest-bearing and non-interest bearing accounts.

Custodial credit risk is the risk that in the event of bank failure, the Municipality's deposit might not be recovered. At year-end, the Municipality's bank balance of deposits in commercial bank and P.R. Development Bank was covered by FDIC and by collateral held by the Commonwealth's agent in the Commonwealth's name.

4. PROPERTY TAX

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

4. PROPERTY TAX (CONTINUED)

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

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

The annual rate for fiscal year 2008 is 9.03% for real property and 7.03% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.00% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund.

Total property tax receivable, net of an allowance for uncollectible accounts of \$4,905,903, amounted to \$2,753,411 at June 30, 2008. The composition of property taxes receivable and the related deferred revenue is as follows at June 30, 2008:

	<u>General Fund</u>	<u>Debt service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$ 5,959,591	\$ 1,699,723	\$ 7,659,314
Less:			
Allowance for uncollectible accounts	<u>(3,821,652)</u>	<u>(1,084,251)</u>	<u>(4,905,903)</u>
Net property taxes receivable	<u>\$ 2,137,939</u>	<u>\$ 615,472</u>	<u>\$ 2,753,411</u>
Deferred (unavailable) property tax revenues in GFFS	<u>\$ 2,071,038</u>	<u>\$ 594,682</u>	<u>\$ 2,665,720</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

5. 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 1st and January 1st 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, 2008, \$1,673,241 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.

6. SALE TAX

For the year ended June 30, 2005, the Municipality of Yauco become the second city in Puerto Rico in establishing a citizenship contribution, thought the Ordinance Number 99, Series 2004-2005. Then, during the next year, the Municipal Legislature amended the aforementioned ordinance, and approved the Ordinance Number 19, Series 2005-2006, in which a citizenship contribution of 1%, was established over all transactions of sales of goods and services made on Yauco's boundaries. Pursuant to an amendment to Puerto Rico Internal Revenue Code, Act 117 of July 4, 2006, the Municipal Legislature amended the Ordinance 19, Series 2005-2006 and approved the Ordinance Number 38, Series 2006-2007 for increasing the city tax contribution, effective November 1, 2006, to 1.5% over all transactions of sales of goods and services made on Yauco's boundaries. According to the Ordinance, these new resources will be principally used in the following activities: solid waste disposal costs, public construction, public safety, education and social activities, maintenance of culture and sport facilities and support general and administrative activities.

Pursuant to the provisions of the Law Number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, for all the municipalities in Puerto Rico, of which 1% will be collected by the municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of those funds will be deposited in the Puerto Rico Governmental Development Bank, as a redemption fund, for financing capital projects to the municipalities.

7. INTERGOVERNMENTAL REVENUES

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

<u>Primary government</u>	<u>Balance June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,599,247	\$ 349,970		\$ 2,949,217
Work of art	<u>156,000</u>			<u>156,000</u>
Total capital assets , not being depreciated	<u>2,755,247</u>	<u>349,970</u>		<u>3,105,217</u>
Capital assets being depreciated:				
Land improvements	800,308			800,308
Buildings and building improvements	8,060,361			8,060,361
Machinery and equipment	5,194,736	843,799		6,038,535
Infrastructure	<u>29,383,186</u>	<u>5,692,944</u>		<u>35,076,130</u>
Total capital assets being depreciated	<u>43,438,591</u>	<u>6,536,743</u>		<u>49,975,334</u>
Less accumulated depreciation for:				
Land improvements	547,453	8,733		556,186
Buildings and building improvements	1,909,330	161,655		2,070,985
Machinery and equipments	2,676,547	438,302		3,114,849
Infrastructure	<u>3,945,104</u>	<u>2,256,604</u>		<u>6,201,708</u>
Total accumulated depreciation	<u>9,078,434</u>	<u>2,865,294</u>		<u>11,943,728</u>
Total capital assets being depreciated, net	<u>34,360,157</u>	<u>3,671,449</u>		<u>38,031,606</u>
Governmental activities capital assets, net	<u>\$37,115,404</u>	<u>\$4,021,419</u>		<u>\$41,136,823</u>

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

General administration	\$ 143,352
Public safety	86,290
Public works	2,426,712
Education, culture and recreation	173,663
Health and welfare	<u>35,277</u>
Total depreciation expense	<u>\$2,865,294</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

9. AMOUNT DUE TO OTHER AGENCY:

Amount due to other agencies as of June 30, 2008 consist of the following:

PR Department of Labor	\$ 402,161
PR Water and Sewer Authority	127,025
Employees' Retirement System of Commonwealth of Puerto Rico	1,280,839
PR Department of Treasury	2,017,206
US Internal Revenue Service	50,862
PR General Service Administration	15,574
State fund Insurance Corporation	237,147
US Department of Housing and Urban Development	<u>6,290</u>
	<u>\$4,137,104</u>

10. DEFERRED REVENUE

Deferred revenue consists of the following:

Deferred revenue in the general fund related to the municipal license tax collected in the fiscal year 2007-2008 that will be earned in fiscal year 2008-2009.	\$1,673,241
The deferred revenue presented in other governmental funds is the portion of federal grants received for which qualifying expenditures have not been incurred.	<u>630,829</u>
	2,304,070
Property tax receivable but not available in the government fund financial statements.	2,665,720
Amount due from CRIM related to property tax collected and not remitted to the Municipality.	<u>207,960</u>
	<u>\$5,177,750</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

11. GENERAL LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2008 was as follows:

Primary Government Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Bonds and note payable	\$15,888,000	\$6,742,000	\$ 845,000	\$21,785,000	\$ 789,000
Capital leases	44,375		44,375		
Accrued vacation	1,887,695	138,545		2,026,240	500,000
Amount due to PR Health Insurance Administration	432,042		432,042		
Accrued for landfill postclosure expense	<u>201,716</u>	<u>150,000</u>		<u>351,716</u>	
Total Non-Current Liabilities	<u>\$18,453,828</u>	<u>\$7,030,545</u>	<u>\$1,321,417</u>	<u>\$24,162,956</u>	<u>\$1,289,000</u>

A. Bonds and notes payable:

1996 - \$4,585,000 public improvement bond due in annual principal installments ranging from \$250,000 to \$435,000 through July 1, 2015, plus interest ranging from 6.12% to 6.58%.	\$2,690,000
2002 - \$2,015,000 general obligation bond due in annual principal installments ranging from \$50,000 to \$165,000 through July 1, 2026, plus interest at ranging from 3.88% to 5.6%.	1,790,000
2003 - \$1,385,000 general obligation bond due in annual principal installments ranging from \$30,000 to \$105,000 through July 1, 2027, plus interest ranging from 4.24% to 5.2%.	1,255,000
2003 - \$1,005,000 special obligation bond due in annual principal installments ranging from \$25,000 to \$75,000 through July 1, 2029, plus interest ranging from 6.48% to 7%.	900,000
2004 - \$975,000 general obligation bond due in annual principal installments ranging from \$100,000 to \$120,000 through July 1, 2013, plus interest ranging from 6.48% to 7.5%.	550,000
2004 - \$495,000 general obligations bond due in annual principal installments ranging from \$10,000 to \$35,000 through July 1, 2028, plus interest ranging from 4.24 to 5.02%.	455,000
2008 - \$615,000 general obligation bond due in annual principal installments ranging from \$35,000 to \$60,000 through July 1, 2020, plus interest at 1.25% over LIBOR rate.	520,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

11. GENERAL LONG-TERM DEBT (CONTINUED)

A. Bonds and notes payable: (continued)

2008 - \$185,000 general obligation bond due in annual principal installments ranging from \$15,000 to \$25,000 through July 1, 2014, plus interest at 1.25% over LIBOR rate.	\$ 140,000
1999 - \$857,000 general obligation bond, due in annual principal installments ranging from \$22,000 to \$57,000 through January 1, 2029 plus interest at 4.75%	778,000
2004 - \$670,000 general obligation note due in annual principal installments ranging from \$15,000 to \$50,000 through January 1, 2027 plus interest ranging from 6.48% to 6.5%	595,000
2002 - \$505,000 general obligation note due in annual principal installments ranging from \$80,000 to \$90,000 through July 1, 2009 plus interest ranging from 4.24% to 4.38%.	170,000
2002 - \$730,000 general obligation bond due in annual principal installments ranging from \$15,000 to \$55,000 through July 1, 2027 plus interest ranging from 4.24% to 5.02%.	660,000
2004 - \$1,000,000 general obligation bond due in annual principal installments ranging from \$25,000 to \$75,000 through July 1, 2027 plus interest ranging from 4.24% to 5.02%.	895,000
2004 - \$240,000 general obligation note due in annual principal installments \$40,000 through July 1, 2010 plus interest ranging from 6.48% to 7.5%.	80,000
2004 - \$410,000 general obligation bond due in annual principal installments ranging from \$10,000 to \$30,000 through July 1, 2028 plus interest ranging from 4.24% to 5.2%.	370,000
2005 - \$376,000 general obligation bond due in annual principal installments ranging from 10,000 to \$24,000 through January 1, 2030, plus interest at 4.25%	349,000
2004 - \$1,191,000 general obligation bond due in annual principal installments ranging from \$30,000 to \$69,000 through January 1, 2029 plus interest at 4.25%	983,000
2004 - \$130,000 general obligation note due in annual principal installments of \$20,000 through July 1, 2011 plus interest at 1.25% over LIBOR rate.	80,000
2004 - \$85,000 general obligation bond due in annual principal installments ranging from \$5,000 to \$15,000 through July 1, 2019 plus interest at 1.25% over LIBOR rate.	70,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

11. GENERAL LONG-TERM DEBT (CONTINUED)

A. Bonds and notes payable: (continued)

2005 - \$215,000 special obligation note due in annual principal installments ranging from \$10,000 to \$25,000 through July 1, 2020 plus interest at 1.25% over LIBOR rate.	\$ 190,000
2006 - \$155,000 general obligation bond due in annual principal installments ranging from \$10,000 to \$20,000 through July 1, 2016 plus interests ranging from 6.48% to 7%.	145,000
2006 - \$135,000 general obligation bond due in annual principal installments ranging from \$5,000 to \$10,000 through July 1, 2031 plus interest ranging from 6.48% to 7%.	130,000
2007 - \$1,307,000 general obligation bonds due in annual principal installments ranging from \$56,000 to \$134,000 through July 1, 2021 plus interest ranging from 6.48% to 7.5%.	1,255,000
2007 - \$320,000 general obligation note due in annual principal installments ranging from \$5,000 to \$30,000 through July 1, 2030 plus interest at 1.25% for LIBOR rate.	320,000
2007 - \$280,000 general obligation bond due in annual installments of ranging from \$7,000 and \$19,000 through January 1, 2030 plus interest at 1.25% over LIBOR rate.	273,000
2008 - \$1,417,000 general obligation bond due in annual installments ranging from \$99,000 to \$192,000 through July 1, 2017 plus interest at 1.25% over LIBOR rate.	1,417,000
2008 - \$605,000 special obligation note (IVU) due in annual installments ranging from \$120,000 to \$215,000 through July 1, 2012 plus interest at 1.25% LIBOR rate.	605,000
2008 - \$300,000 special obligation note (IVU) due in annual installments ranging from \$35,000 to \$90,000 through July 1, 2014 plus interest at 1.25% over LIBOR rate.	300,000
2008 - \$35,000 special obligation note (IVU) due in annual installments ranging from \$5,000 to \$10,000 through July 1, 2014 plus interest at 1.25% over LIBOR rate.	35,000
2008 - \$3,785,000 special obligation note (IVU) due in annual installments ranging from \$60,000 to \$305,000 through July 1, 2032 plus interest at 1.25% over LIBOR rate.	<u>3,785,000</u>
Total bonds and note payable	<u>\$21,785,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

11. GENERAL LONG-TERM DEBT (CONTINUED)

The annual debt service requirements to maturity notes and bonds payable as of June 30, 2008 are as follows:

<u>Bonds and Notes Payable</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 789,000	\$ 979,931
2010	1,265,000	1,225,059
2011	1,262,000	1,166,599
2012	1,306,000	1,085,226
2013	1,425,000	998,472
2014-2018	5,683,000	3,885,658
2019-2023	3,983,000	2,407,766
2024-2028	4,237,000	1,505,658
2029-2032	<u>1,835,000</u>	<u>263,024</u>
	<u>\$21,785,000</u>	<u>\$13,517,393</u>

B. Amount due to PR Health Insurance Administration:

The amount due to the Puerto Rico Health Insurance Administration is related with an unpaid balance from year ended at June 30, 1997 accordingly with the implementation of Act No. 72 of September 7, 1993, which establishes contributions for the medical services covered by the Health Reform based on the operational budget of the municipalities. The unpaid balance was paid through the proportional participation of the municipality in the annual increase in electronic lottery income which was collected and withheld by the Treasury Department of Puerto Rico.

12. NOTE PAYABLE:

Note payable consists of an interim construction loan. The project consists of the construction of 70 low-income housing units. The note and interest will be paid with the proceed of the sale of low-income housing units. The note accrues interest at 7.5%.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

13. RETIREMENT SYSTEM

DEFINED BENEFIT PENSION PLAN

The Employees' Retirement System of the Commonwealth of Puerto Rico 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.

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 Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

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, 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 received a refund of their contributions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

13. RETIREMENT SYSTEM (CONTINUED)

DEFINED CONTRIBUTION PLAN

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 Municipality 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.

Employees and employer were required to contribute to the above mentioned plans during the year ended June 30, 2008 approximately \$374,070 and \$675,594, respectively. As of June 30, 2008, the Municipality due \$1,280,839 to the plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2008, a copy of which can be obtained from the Retirement System.

14. 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 \$201,716 as of June 30, 2008, which is based on 3% usage (filled) of the landfill. It is estimated that an additional \$688,508 will be recognized as closure and postclosure cost expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2050). The estimated total current cost of the landfill closure and postclosure care (\$890,224) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2008. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

15. COMMITMENTS AND CONTINGENCIES

At June 30, 2008, the Municipality is a 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.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL AMOUNT AT BUDGETARY BASIS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
Revenues:				
Taxes:				
Property taxes	\$ 3,852,655	\$ 3,852,655	\$ 3,580,473	\$ (272,182)
Municipal tax	2,300,000	2,300,000	2,350,580	50,580
Sales tax	1,028,860	1,028,860		(1,028,860)
Grants and entitlements	5,184,826	5,184,826	5,182,717	(2,109)
Rental income	100,000	100,000	171,108	71,108
Licenses and permits	1,279,398	1,279,398	1,240,110	(39,288)
Interest	190,000	190,000	446,336	256,336
Other	<u>691,000</u>	<u>691,000</u>	<u>805,735</u>	<u>114,735</u>
Total Revenues	<u>14,626,739</u>	<u>14,626,739</u>	<u>13,777,059</u>	<u>(849,680)</u>
Expenditures:				
General administration	7,307,475	7,355,301	7,688,700	(333,399)
Public safety	2,871,837	2,504,382	2,500,983	3,399
Education, culture and recreational	1,214,886	1,518,527	2,213,588	(695,061)
Public works and sanitation	2,075,347	2,091,335	2,074,587	16,748
Health and welfare	790,069	790,069	790,069	
Debt service	<u>367,125</u>	<u>367,125</u>	<u>333,799</u>	<u>33,326</u>
Total Expenditures	<u>14,626,739</u>	<u>14,626,739</u>	<u>15,601,726</u>	<u>(974,987)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$</u>	<u>\$</u>	<u>\$ (1,824,667)</u>	<u>\$ (1,824,667)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2008

1. BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON (CONTINUED)
JUNE 30, 2008

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

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

	<u>REVENUES</u>	<u>EXPENDITURES</u>
Generally accepted accounting principles (GAAP) basis	\$13,715,819	\$15,267,927
Transfer in/out included as revenue/expense in budgetary basis	<u>61,240</u>	<u>333,799</u>
Budgetary basis	<u>\$13,777,059</u>	<u>\$15,601,726</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

	<u>NUMBER</u>	<u>EXPENDITURES</u>
<u>US Department of Housing and Urban Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant/ State's Program	14.228	\$ 904,805
Direct programs:		
Section 8- Housing Choice Vouchers	14.871	501,228
Community Development Block Grant/ Entitlement Grant	14.218	1,808,425
 <u>US Department of Health and Human Services</u>		
Passed through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	118,199
 <u>US Department of Agriculture</u>		
Direct program:		
Water and Waste Disposal Systems for Rural Communities	10.760	97,914
Passed through:		
Puerto Rico Department of Education		
Child and Adult Care Food Program	10.558	23,028
 <u>US Department of Homeland Security</u>		
Passed through:		
PR Office of Management and Budget (GAR)		
Disaster Grant - Public Assistance Grant	97.036	13,280
PR Department of Justice		
Homeland Security Grant Program	97.067	138,344
 <u>US Department of Transportation</u>		
Passed through:		
PR Department of Transportation		
Federal Transit Investment Grant	20.500	93,404
		<u>\$3,698,627</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Yauco and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

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

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

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

I have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Yauco** as of and for the year ended June 30, 2008, which collectively comprise the Municipality of Yauco's basic financial statements, and have issued my report thereon dated December 3, 2008. 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.

Internal Control Over Financing Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality of Yauco's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality of Yauco's financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Yauco's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 01-08 and 02-08 to be significant deficiencies in internal control over financial reporting.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

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

My consideration of internal control over financial reporting was form the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of significant deficiencies described above is a material weakness.

Compliance and Other Material

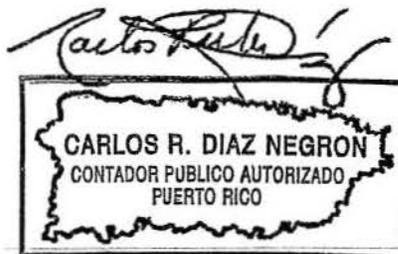
A part of obtaining reasonable assurance about whether the Municipality of Yauco's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as Findings 01-08 and 02-08.

The Municipality of Yauco's response to the findings in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the Municipality of Yauco's response and accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Municipal Legislative Body, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 3, 2008
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2010



The stamp No. 2373633 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

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

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

Compliance

I have audited the compliance of the **Municipality of Yauco** 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, 2008. The Municipality of Yauco's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality of Yauco's management. My responsibility is to express an opinion on the Municipality of Yauco'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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Yauco's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Municipality of Yauco's compliance with those requirements.

In my opinion, the Municipality of Yauco 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, 2008. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedules of findings and questioned costs as Findings 03-08 and 04-08.

REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):

Internal Control Over Compliance

The management of the Municipality of Yauco 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 the Municipality of Yauco's internal control over compliance with the requirements 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 my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Municipality of Yauco's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality of Yauco's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Municipality of Yauco's internal control. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 03-08 and 04-08 to be significant deficiencies.

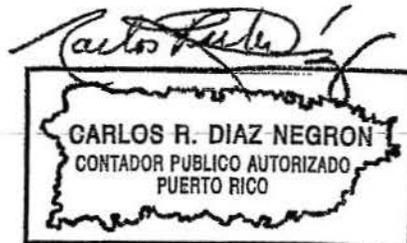
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Municipality of Yauco's internal control. I do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Municipality of Yauco's response to the findings in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the Municipality of Yauco's response and accordingly, I express no opinion on it.

This report is intended solely for the information and use of the management and the Municipal Legislative Body 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 3, 2008
Agua Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010



The stamp No. 2273634 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

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 Xno
- Significant deficiency(ies) identified that is not considered to be material weaknesses? Xyes ___no

Noncompliance material to financial statement noted? ___yes Xno

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ___yes Xno
- Significant deficiency (ies) identified that are not considered to be material weakness (es) Xyes ___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 Xyes ___no

Identification of major programs:

CFA Number(s)

Name of Federal Program

14.228

Community Development

14.871

Block Grants/State's Program

Section 8 Housing Choice Vouchers

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

\$300,000

Audit qualified as low-risk audited? Xyes ___no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding No. 01-08 – General Fund Deficit:

As of June 30, 2008, the Municipality closed with an accumulated deficit of \$7,478,509 in the general fund as presented in the statement of revenue, expenditures and changes in fund balance-governmental funds. This is the eight consecutive year that the Municipality closed its operations reporting deficit.

The deficit was caused by the overstatement of 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding No. 02-08 - 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, 2008 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 03-08 – Eligibility and Special Test – Section 8

Federal program

CFDA No. 14.871 – Housing Choice Voucher

Compliance requirement:

Eligibility:

Special Tests and Provisions: HQS Enforcement and Reasonable Rent

Category:

Compliance

Condition:

As part of my audit procedures I select 6 participants file to test the eligibility and special test and provision requirements of the Housing Choice Voucher Program and the following exceptions were noted:

	<u>Exceptions</u>
The HQS Inspection failed and no evidence of re-inspection was identified	6
No documentation of reasonable rent determination	4
No document of privacy Act Notice found	1
No evidence of eligibility for assistance based on citizen or eligible alien status.	1

Criteria:

24 CFR Sections 982.158(d) and 982.404 establishes that for units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

Finding No. 03-08 – Eligibility and Special Test – Section 8 (continued)

Criteria (continued):

is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations.

24 CFR Sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507 establish that the PHA must determine that the rent to owner is reasonable at the time of initial leasing. Also, the PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent (FMR) in effect 60 days before the HAP contract anniversary. The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract).

24 CFR Section 5.212 Compliance with the Privacy Act and other requirements establishes that (a) *Compliance with the Privacy Act*. The collection, maintenance, use, and dissemination of SSNs, EINs, any information derived from SSNs and Employer Identification Numbers (EINs), and income information under this subpart shall be conducted, to the extent applicable, in compliance with the Privacy Act (5 U.S.C. 552a) and all other provisions of Federal, State, and local law. (b) *Privacy Act notice*. All assistance applicants shall be provided with a Privacy Act notice at the time of application. All participants shall be provided with a Privacy Act notice at each annual income recertification.

24 CFR Section 5.508 - Submission of evidence of citizenship or eligible immigration status establishes that each family member, regardless of age, must submit the following evidence to the responsible entity. For US citizens or US nationals, the evidence consists of a signed declaration of US citizenship or US nationality. The responsible entity may request verification of the declaration by requiring presentation of a United States passport or other appropriate documentation as specified in HUD guidance. For no citizens who are 62 years of age or older or who will be 62 years of age or older and receiving assistance under section 214 covered program on September 30, 1996 or applying for assistance on or after that date, the evidence consists of, A signed declaration, Proof of age document. For all other no citizens, the evidence consists of a signed declaration of eligible immigration status, one of the INS documents referred to in Section 5.510, a signed verification consent form.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

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

Finding No. 03-08 – Eligibility and Special Test – Section 8

Effect:

The Municipality should be exposed to administrative actions by grantor.

Questioned cost:

None

Recommendation:

I recommend that municipality establish an adequate internal control system to ascertain that comply with the requirements of the program. The internal control system should include at least that the file should be revised by the control audit department.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

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

Finding No. 04-08 – Waiting List

Federal program

CFDA No. 14.871 – Housing Choice Voucher

Compliance requirement:

Special Tests and Provisions – Waiting List

Category:

Compliance

Condition:

During my examination, I noted that a there was no waiting list prepared in accordance with the administrative plan. One new admissions to the program were not selected from the waiting list as required by the administrative plan. No documentation in the participant's file was found for this determination.

Criteria:

24 CFR sections 5.410, 982.54(d) and 982.201 through 982.207 establish that the PHA must have written policies in its HCVP administrative plan for selecting applicants from the waiting list and PHA documentation must show that the PHA follows these policies when selecting applicants for admission from the waiting list. Except as provided in 24 CFR sections 982.203 (Special admission (non-waiting list)), all families admitted to the program must be selected from the waiting list. "Selection" from the waiting list generally occurs when the PHA notifies a family whose name reaches the top of the waiting list to come in to verify eligibility for admission.

Effect:

The continue occurrence of the condition may result in the disallowance of program cost. In addition, the ability to manage federal awards in compliance with laws, regulations, and provisions of contracts grant awards could also questioned.

Questioned costs:

None

Recommendation:

I recommend that the Municipality establish an adequate internal control system to ascertain compliance with the requirements of the program. The internal control system should include at least that file should be revised the internal audit department.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

EXHIBIT - I

STATUS OF PRIOR YEAR AUDIT FINDINGS

AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008



Abel Nazario Quiñones
Alcalde

December 22, 2008

Status of Prior Year ended June 30, 2008

Finding No. 01-07 Activities Allowed or Unallowed-Allowable Cost/Cost Principle:

We gave the instructions, they were corrected and completed the findings.

Finding No. Davis Bacon Act:

We already have solved this finding, all contracts coming from the municipality are required to have this stipulation.

If you have questions about this plan, please called at (787)856-1345, ext 253.

Sincerely yours,

Hon. Abel Nazario Quiñones

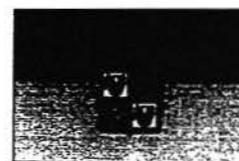
Yauco City Mayor

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

EXHIBIT - II

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2008



Abel Nazario Quiñones
Alcalde

December 22, 2008

Corrective Action Plan

Municipality of Yauco respectfully submits the following corrective plan for the year ended June 30, 2008.

Sr. Carlos R. Díaz Negrón
Certified Public Accountants
P.O. Box 408
Rafael Lasa No. 44
Aguas Buenas, P.R. 00703

Audit Period: Year ended June 30, 2008
Yauco City Mayor: Hon. Abel Nazario Quiñones
Person Design: Magaly Rodríguez Caraballo, Internal Auditor
Number of contact: (787)-856-3566 ext. 253

The findings from the June 30, 2008 schedule of finding and questioned cost are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

ANSWERS FINDING AND QUESTION COST FOR THE YEAR ENDED JUNE 30, 2008

Finding No. 01-08 General Fund Deficit

The Municipality of Yauco lacks enough economical resources to cover its basic necessities. In addition, the operational expenses such as gasoline and utilities have had a dramatic increase during the last years. However, for our people's pride, we have done the biggest monumental work projects in the history of this city. To control the Municipal operational expenses we reduced the employees' working hours, we eliminated twenty-two (22) regular positions, we eliminated overtime pay, and we also eliminated travel expenses including meals and cellular cost. We also limited the use of the official vehicles and reduced to 80% the expenses for the Municipal Traditional Folklore Celebration. In addition, my salary as a Mayor is the lowest island-wide. We will continue taking the necessary measures to correct this situation.

Finding No. 02-08 – Municipal Solid Waste Landfill GASB 18

The recommended study is responsibility of the company who is leasing the Municipal rubbish dump yard as establish in the contract between both parts. Again, we inform this requirement recommendation is very important and we hope to have the study by the next year to recognize the real estimate expense with the post and close expenses of the Municipal rubbish dump yard.

Finding No. 03-08 - Eligibility and Special Test – Section 8

In general terms the Municipality of Yauco has have comply with the establish criteria in this Program. All inspections were done by our personnel as establish in the files and contracts. Our personnel were orientated to follow up on inspections if any deficiencies were found.

Finding No. 05-08 – Waiting List

We reject this finding. In the specific case that was mentioned, that “the participant was not in the waiting list”, the participant provided evidence that he had have applied for services at the Municipality of Yauco Section 8 in 2002, he submitted all required documents. Copies of the documents were placed in his file, reason why he was chosen to participate in the Program. In addition, recently our personnel deurate the waiting list, and at this moment we have a list as recommended by the rules and regulations of the Federal Government with all the required documentation.

If you have any questions about this plan please communicate with us.

Sincerely yours,



Hon. Abel Nazario Quiñones

Yauco City Mayor