

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

MUNICIPIO DE YAUCO
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009

SECRETARIA DEL GOBIERNO
DE PUERTO RICO

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
BASIC FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

BASIC FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2009

CONTENTS

	Page
<u>BASIC FINANCIAL STATEMENTS</u>	
Independent Auditors' Report	1-2
Required Supplementary Information (Part 1) Management's Discussion and Analysis	3-12
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Notes to Basic Financial Statements	18-42
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	43
Notes to Budgetary Comparison Schedule-General Fund	44
Schedule of expenditures of federal awards	45-47
Notes to the schedule of federal awards	48
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	49-50

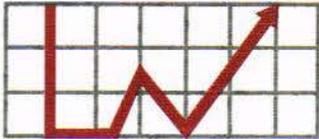
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2009

CONTENTS

	Page
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u> <u>(CONTINUED)</u>	
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	51-53
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of findings and questioned costs	54-69
Summary schedule of prior year audit findings	70



López-Vega, CPA, PSC

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Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Yauco, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Yauco, Puerto Rico**, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2009, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedule-General Fund on pages 43 and 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Yauco's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 29, 2009

Stamp No. 2407056 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2009

This discussion and analysis of the **Municipality of Yauco** (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2009. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2008. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2008-2009 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2009 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$57,861,744 which represents an increase of 3% compared to prior fiscal year.
2. At the end of fiscal year 2009, total liabilities amounted to \$40,780,430. Out of said amount, \$25,423,923 corresponded to long-term liabilities of which \$22,101,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$17,081,314 which represents an increase of 8% compared to prior fiscal year, as restated.
4. Total revenues available for the financing operating of activities as reflected in the Statement of Activities amounted to \$25,850,386, derived from the following sources: \$191,117 from charges for services; \$7,681,925 from operating grants and contributions, and \$17,977,344 from general revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$24,584,685.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$1,265,701.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of (\$5,658,666).
8. In the fund financial statements, the governmental activities revenue increased \$971,924 (or 4%), and the governmental activities expenditures increased \$3,152,142 (or 11%).
9. At the end of the current fiscal year, the Municipality's general fund balance decreased to (\$8,173,608) compared to a fund balance of (\$7,380,517) in the prior fiscal year.
10. The actual General Fund budgetary activities resulted in an unfavorable balance of \$(980,090).

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2009. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Assets reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

GOVERNMENT - WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

FUND FINANCIAL STATEMENTS

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental 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, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements. Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FUND FINANCIAL STATEMENTS (CONTINUED)

By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Yauco**, primary government assets exceeded total liabilities by \$17,081,314 at the end of 2009, as compared with \$15,815,613 which reflect an increase of \$1,265,701 over previous fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$1,265,701 increase reflected in the Net Assets figure.

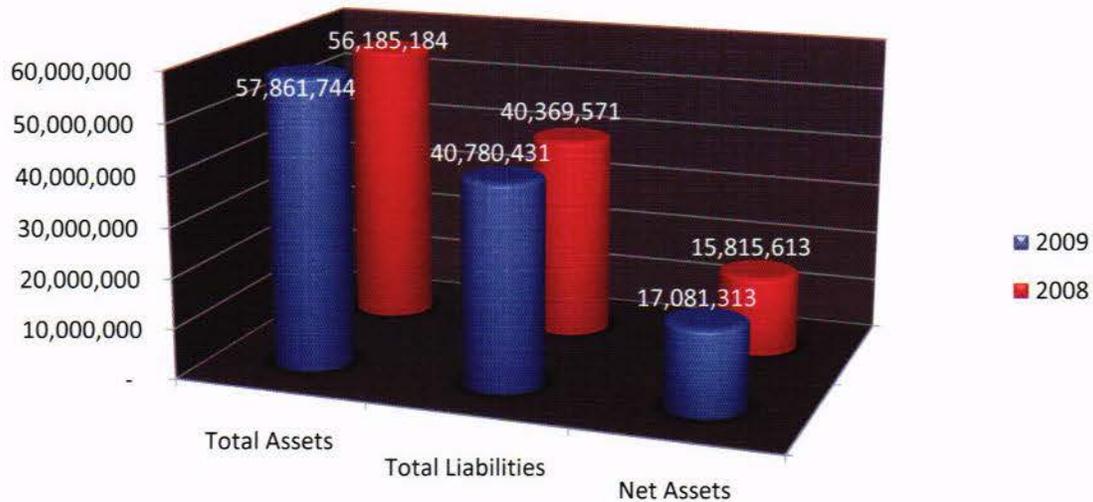
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets	2009	2008	Change	%
Current and other assets	\$ 9,697,841	\$15,048,361	(\$5,350,520)	(36%)
Capital assets	48,163,903	41,136,823	7,027,080	17%
Total assets	57,861,744	56,185,184	1,676,560	3%
Current and other liabilities	15,356,507	14,262,579	1,005,760	7%
Long-term liabilities	25,423,923	26,106,992	(2,894,032)	10%
Total liabilities	40,780,430	40,369,571	(1,888,272)	4%
Invested in capital assets, net of related debt	26,062,903	28,208,751	(2,145,484)	(8)%
Restricted	2,514,942	8,609,180	(6,094,238)	(71)%
Unrestricted deficit	(11,496,531)	(21,002,318)	9,505,787	(46)%
Total net assets	\$ 17,081,314	\$ 15,815,613	\$3,265,131	26%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Municipality's net assets increase by \$1,265,701. Approximately thirty nine percent (39%) of the Municipality's total revenue came from taxes, while fifty eight percent (58%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%), Interest and Investment earnings one percent (1%) and miscellaneous one percent (1%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2009 and 2008. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2009	2008	Change	%
Program revenues:				
Charges for services	\$ 191,117	\$ 120,749	\$ 70,368	58%
Operating grants and contributions	7,681,925	680,850	7,001,075	1028%
Capital grants and contributions		5,771,116	(5,771,116)	(100)%
General revenues:				
Property taxes	4,775,389	5,308,626	(533,237)	(10)%
Municipal license tax	2,563,400	2,350,580	212,820	9%
Municipal sales and use tax	2,821,049	3,092,950	(271,901)	(9)%
Rent		1,240,110	(1,240,110)	(100)%
Grants and contributions not restricted to specific programs	7,103,530	5,334,761	1,768,769	33%
Licenses and permits		171,108	(171,108)	(100)%
Interest and investment earnings	378,649	435,482	(56,833)	(13)%
Miscellaneous	335,327	1,003,307	(667,980)	(67)%
Total revenues	<u>25,850,386</u>	<u>25,509,639</u>	<u>340,747</u>	1%
Expenses:				
General government	4,720,241	7,936,939	(3,216,698)	(41)%
Public safety	2,251,966	2,683,510	(431,544)	(16)%
Public works and sanitation	9,988,310	6,340,017	3,648,293	58%
Health and welfare	1,191,754	1,544,095	(352,341)	(23)%
Culture and Recreation	2,788,788		2,788,788	100%
Economic development	1,794		1,794	100%
Community development	1,493,521		1,493,521	100%
Education	1,090,223	2,509,567	(1,419,344)	(57)%
Interest on long-term debt	1,058,088	1,256,628	(198,540)	(16)%
Total expenses	<u>24,584,685</u>	<u>22,270,756</u>	<u>2,313,929</u>	11%
Change in net assets	1,265,701	3,238,883	(1,973,182)	(61)%
Net assets, beginning of year (as restated)	<u>\$15,815,613</u>	<u>\$ 12,576,730</u>	<u>3,238,883</u>	26%
Net assets, end of year	<u>\$ 17,081,314</u>	<u>\$ 15,815,613</u>	<u>\$ 1,265,701</u>	8%

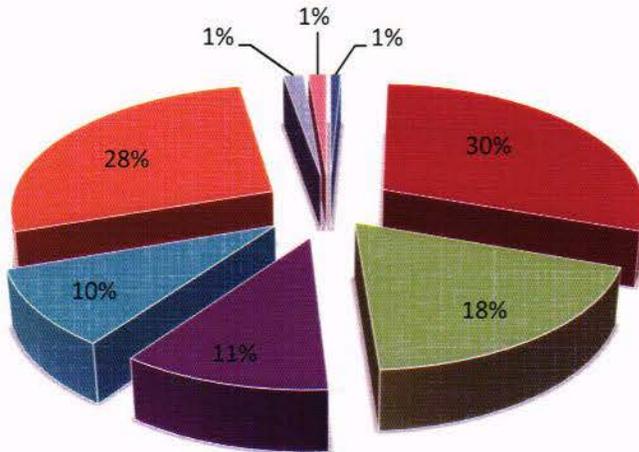
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2009



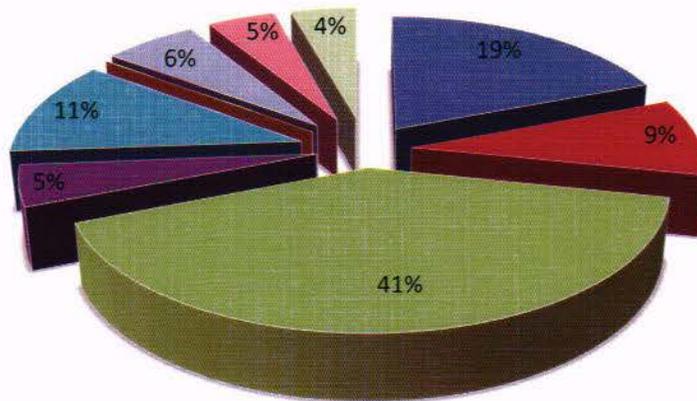
- Charges for services
- Operating grants and contributions
- Property taxes
- Municipal sales and use tax
- Municipal license tax
- Grants and contributions not restricted to specific programs
- Interest and investment earnings
- Miscellaneous

Expenses 2009

- General government
- Health and welfare
- Community development

- Public safety
- Culture and recreation
- Education

- Public works and sanitation
- Economic development
- Interest on long-term debt



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund deficit amounting to (\$5,658,666), which represents a deficit increase of (\$4,798,437) when compared with the prior year. Of the indicated balance, \$2,538,932 were reserved or committed for the following purposes: (1) \$23,990 to liquidate contracts and purchase orders corresponding to prior fiscal year; 2) \$2,048,855 for debt service payments, and 3) \$466,087 for other purposes.

As of June 30, 2009, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund deficit of (\$8,197,598).

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2008-2009, the Municipal Legislature approved revisions to the operational budget which resulted in further increases in revenues and current expenditures which represented transactions detected during the normal course of business. Despite these budgets readjustments and as previously stated, the Municipal administration of **Yauco** was able to maintain a balanced budget as required by law as reflected in exhibit, Budgetary Comparison Schedule- General Fund attached hereto, budgetary analysis reflected a deficiency of \$(980,090) of total operating revenues over current expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2009, amounted to \$63,261,773 which upon deduction of accumulated depreciation in the amount of \$15,097,870 produced a net book value attributable to capital assets in the amount of \$48,163,903. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately seventeen percent (17%) of net book value. Depreciation charges for the year totaled \$3,154,142.

Debt Administration

The Puerto Rico Legislative Assembly has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act requires a Municipality must has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. In the particular case of the **Municipality of Yauco**, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2009-2010.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 millions in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Yauco** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objective of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

In the first phase, the municipalities can use the funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts with governmental agencies.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

**Commonwealth of Puerto Rico
Municipality of Yauco
Statement of Net Assets
June 30, 2009**

	Primary Government
	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,594,049
Cash with fiscal agent	5,954,304
Accounts receivable:	
Municipal license tax	226,142
Intergovernmental	890,170
Others	33,176
Capital assets:	
Land, improvements and construction in progress	4,109,679
Buildings, infrastructure and other capital assets, net of depreciation	44,054,224
Total capital assets	48,163,903
Total assets	57,861,744
Liabilities	
Bank overdraft	231,952
Accounts payable and accrued liabilities	6,622,879
Due to other governmental entities	5,443,817
Deferred revenues:	
Municipal license tax	1,691,288
Property tax	735,741
Federal grant revenues	630,830
Noncurrent liabilities:	
Due within one year	1,642,338
Due in more than one year	23,781,585
Total liabilities	40,780,430
Net Assets	
Invested in capital assets, net of related debt	26,062,903
Restricted for:	
Debt service	2,048,855
Other purposes	466,087
Unrestricted (deficit)	(11,496,531)
Total net assets	\$ 17,081,314

**Commonwealth of Puerto Rico
Municipality of Yauco
Statement of Activities
For the Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues		TOTAL
		Charges for Services	Operating Grants and Contributions	
General government	\$ 4,720,241	\$ 1,810	\$ 4,225,059	\$ (493,372)
Public safety	2,251,966	50,241	121,292	(2,080,433)
Public works	9,988,310		2,648,252	(7,340,058)
Health and welfare	1,191,754		586,245	(605,509)
Culture and recreation	2,788,788	139,066	101,077	(2,548,645)
Economic development	1,794			(1,794)
Community development	1,493,521			(1,493,521)
Education	1,090,223			(1,090,223)
Interest on long-term debt	1,058,088			(1,058,088)
Total governmental activities	\$ 24,584,685	\$ 191,117	\$ 7,681,925	\$ (16,711,643)

General revenues:

Property taxes	4,775,389
Municipal sales and use tax	2,821,049
Municipal license tax	2,563,400
Grants and contributions not restricted to specific programs	7,103,530
Interest and investment earnings	378,649
Miscellaneous	335,327

Total general revenues and transfers	<u>17,977,344</u>
Change in net assets	1,265,701
Restatement	2,299,132
Net assets - beginning	<u>13,516,481</u>
Net assets - ending	<u>\$ 17,081,314</u>

The note to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Yauco
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Debt Service Fund	Municipal Sales and Use Tax	HUD Grants	Other Governmental Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 260,555	\$ 2,333,494	\$ 2,594,049
Cash with fiscal agent		2,028,065			3,926,239	5,954,304
Accounts receivable:						
Municipal sales and use tax			226,142			226,142
Intergovernmental		615,472	51,790		222,908	890,170
Other	33,176					33,176
Due from other funds	1,250,719			16,000	673,724	1,940,443
Total assets	\$ 1,283,895	\$ 2,643,537	\$ 277,932	\$ 276,555	\$ 7,156,365	\$ 11,638,284
Liabilities and Fund Balances						
Liabilities :						
Bank overdraft	\$ 155,492	\$ -	\$ 76,460	\$ -	\$ -	\$ 231,952
Accounts payable and accrued liabilities	2,076,835		1,111,943	101,265	3,332,836	6,622,879
Due to other governmental entities	5,392,829			50,988		5,443,817
Due to other funds			1,921,144	19,299		1,940,443
Deferred revenues:						
Municipal license tax	1,691,288					1,691,288
Property taxes	141,059	594,682				735,741
Federal grant revenues					630,830	630,830
Total liabilities	9,457,503	594,682	3,109,547	171,552	3,963,666	17,296,950
Fund balances:						
Reserved for:						
Encumbrances	23,990					23,990
Capital projects						
Reserved reported in nonmajor funds:						
Debt service fund		2,048,855				2,048,855
Other purposes			(2,831,615)	105,003	3,192,699	466,087
Unreserved:						
Undesignated	(8,197,598)					(8,197,598)
Total fund balances	(8,173,608)	2,048,855	(2,831,615)	105,003	3,192,699	(5,658,666)
Total liabilities and fund balances	\$ 1,283,895	\$ 2,643,537	\$ 277,932	\$ 276,555	\$ 7,156,365	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	48,163,903
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds	(25,423,923)
Net assets of governmental activities	\$ 17,081,314

Municipality of Yauco
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Debt Service Fund	Municipal Sales and Use Tax	HUD Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 3,864,278	\$ 911,111	\$ -	\$ -	\$ -	\$ 4,775,389
Municipal sales and use tax		567,712	2,253,337			2,821,049
Municipal license taxes	2,563,400					2,563,400
Licenses, permits and other local taxes	1,509,676					1,509,676
Charges for services	1,810					1,810
Intergovernmental	5,593,854			2,716	3,982,931	9,579,501
Fines and forfeitures	50,241					50,241
Rent of property	139,066					139,066
Interest	367,176	11,473				378,649
Federal grants				2,018,818	1,677,460	3,696,278
Miscellaneous	335,327					335,327
Total revenues	14,424,828	1,490,296	2,253,337	2,021,534	5,660,391	25,850,386
Expenditures						
Current:						
General government	\$ 5,848,235	\$ -	\$ 904,741	\$ 399	\$ 1,075,038	\$ 7,828,413
Public safety	2,642,026				36,784	2,678,810
Public works	2,022,487		2,505,241	1,354,302	7,457,459	13,339,489
Health and welfare	1,326,444				343,308	1,669,752
Culture and recreation	1,734,519				70,214	1,804,733
Economic development	1,794					1,794
Community development				1,493,521		1,493,521
Education	1,090,223					1,090,223
Debt service:						
Principal		979,000				979,000
Interest		1,058,088				1,058,088
Total expenditures	14,665,728	2,037,088	3,409,982	2,848,222	8,982,803	31,943,823
Excess (deficiency) of revenues over (under) expenditures	(240,900)	(546,792)	(1,156,645)	(826,688)	(3,322,412)	(6,093,437)
Other financing sources (uses)						
Transfers in	96,473	311,857			400,976	809,306
Transfers out	(648,664)	(11,473)	(85,000)	(37,215)	(26,954)	(809,306)
Long-term debt issued				1,000,000	295,000	1,295,000
Total other financing sources (uses)	(552,191)	300,384	(85,000)	962,785	669,022	1,295,000
Net change in fund balances	(793,091)	(246,408)	(1,241,645)	136,097	(2,653,390)	(4,798,437)
Fund balance, beginning as restricted	(7,380,517)	2,295,263	(1,589,970)	(31,094)	5,846,089	(860,229)
Fund balance, ending	\$ (8,173,608)	\$ 2,048,855	\$ (2,831,615)	\$ 105,003	\$ 3,192,699	\$ (5,658,666)

**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, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ (4,798,437)
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	10,181,222
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(3,154,142)
Bonds and notes proceeds provide current financial resources to Governmental Funds. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments.	(316,000)
Advance property tax in excess of actual collections are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, advance property tax in excess of actual collections are not reported as expenditures in Government Funds. This amount of advance property tax in excess of actual collection for the current fiscal year.	5,332
Repayment of long term Land Information Management System (LIMS) debt is an expenditure in Governmental Funds, but the repayment reduces long term LIMS debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	45,081
Change in landfill accrual	(1,335,712)
Repayment of long term Retirement System Administration debt is an expenditure in Governmental Funds, but the repayment reduces long term Retirement System Administration debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	(141,441)
Long-term Claim and Judgments are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated were not reported as expenditures in Governmental Funds. The following amount represents the change in long-term compensated absences from prior year.	(848,068)
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated were not reported as expenditures in Governmental Funds. The following amount represents the change in long-term compensated absences from prior year.	1,627,866
Change in Net Assets of Governmental Activities	\$ <u>1,265,701</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Yauco** (the Municipality) was founded on the year 1756. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen-member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality elected to implement the retroactive capitalization of infrastructure assets in the year ended June 30, 2006.

The following is a summary of the significant accounting policies of the Municipality:

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Components Units an amendment of GASB Statement 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria the Municipality does not have component units to include within its reporting entity.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 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.
3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Municipal Sales and used Tax- is the accounting entity used to account for the resources that will be principally used for solid waste disposal cost, construction and support general and administrative activities.

Special Revenue Fund – HUD Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund- is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

The other governmental funds of the Municipality account for grants and other resources whose use is restricted for a particular purpose.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Fund – Section 8 Housing Choice Voucher - Special Revenue Funds are used to account for revenues derived from Section 8 Housing Choice Voucher Program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Other Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America (“USGAAP”) as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20.

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 the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement focus, basis of accounting and financial presentation (Continued)

Property taxes, other taxes, licenses, rent, 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. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue 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 Municipality has elected not to follow subsequent private-sector guidance.

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, if any. 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, then unrestricted resources, as they are needed.

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

1. Cash, cash equivalents, and cash with fiscal agent- The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, liabilities and net assets (Continued)

- 2. Receivables and payables-** Activity 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."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the General Fund represents the balance due from the Municipal Revenue Collection Center (CRIM) resulting from the final liquidations of advances made by CRIM to the Municipality corresponding to collections from property taxes and legislative appropriations from the Commonwealth of Puerto Rico plus final liquidation of contributions in lieu of taxes payable by the Puerto Rico Electric Power Authority (PREPA) to the Municipality. Intergovernmental Receivables in the debt service fund represent the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Intergovernmental receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state funded programs. The Municipal sales and use tax is collected on a contract basis with the Commonwealth of Puerto Rico Department of Treasury.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 4. Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, liabilities and net assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. **Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.
7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.
8. **Reservations of fund balance-** Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, liabilities and net assets (Continued)

- a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Accounting for Pension Costs-** For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.
10. **Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:
- a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, liabilities and net assets (Continued)

11. Risk financing- The Municipality carries commercial 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 ("CRIM") for the year ended June 30, 2009 amounted to \$273,793. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$327,995 for workers compensation insurance covering all municipal employees.

12. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The detail of this reconciliation is as follows:

		<u>Total Net Assets Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 48,163,903	
Deduct:		
Bonds Payable	(19,971,000)	
Notes Payable	<u>(2,130,000)</u>	\$ 26,062,903
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		2,048,855
<u>Net assets restricted for other purposes</u>		
Special Revenue HUD - fund balance restricted for other purposes	\$ 105,003	
Municipal Sales and Used Tax- fund balance restricted for other purposes	(2,831,615)	
Other governmental funds - fund balance restricted for other purposes	<u>3,192,699</u>	466,087
<u>Net assets unrestricted</u>		
General fund - total fund balance:	\$ (8,173,608)	
Deduct:		
Landfill Obligation	(1,687,428)	
Compensated absences debt	(398,374)	
LIMS repayment plan	(124,972)	
Property taxes debt- Law 146	(122,640)	
Retirement System Administration payment plan	(141,441)	
Claims and judgments debt	<u>(848,068)</u>	<u>(11,496,531)</u>
Total net assets - governmental activities		<u>\$ 17,081,314</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk -In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk - The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

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

The Municipality's bank balances in commercial banks of \$260,555 in the HUD Grant, and \$2,333,494 in the other governmental funds were fully collateralized at June 30, 2009.

The deposits at GDB of \$2,028,065 in the debt service fund and \$3,926,239 in the other governmental fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. Municipal sales and used tax- On July 29, 2007, an amendment to Act No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and used tax of 1.5% at the Municipal Level. The Municipality is responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides an optional surtax on the unprocessed food. This surtax must be approved by the Municipal Legislature.

The Treasury Department is responsible to create, the Municipal Development Fund (.1%), the Municipal Redemption Fund (.3%), and the Municipal Improvement Fund (.1%) with the remaining 0.5%. The Municipality can transfer up to 50% of the Municipal Development Fund to the Municipal Redemption Fund. Municipal sales and used tax

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

receivable of \$226,142 represents filed tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectible

The Municipality collected \$2,821,049 during the year ended June 30, 2009.

B. Intergovernmental- Intergovernmental receivables in Municipal Sales and Used Tax and Debt Service Fund represent amounts receivable from Municipal Revenue Collection Center (CRIM) and the Treasury Department. The Intergovernmental receivables in the Other Governmental Funds represent mainly expenditure incurred not yet reimbursed by the Federal Government. Following is a detail of the intergovernmental receivables:

<u>Program Description</u>	<u>Amount</u>
Municipal Sales and Use Tax	\$ 51,790
Debt Service Fund	615,472
Other Governmental Fund	<u>222,908</u>
Total	\$ 890,170

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2009, and interfund transfers during the fiscal year ended at June 30, 2009, are summarized as follows:

a. Due from/to other fund and Advances from/to other funds:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 1,250,719	\$ -
HUD Grants	16,000	19,299
Municipal Sales and Use Tax		1,921,144
Other Governmental Fund	<u>673,724</u>	<u>-</u>
Total	\$ 1,940,443	\$ 1,940,443

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Special Revenue HUD	Other Governmental Fund	Transfer out to cover Other Governmental Fund payments	\$ 37,215
Municipal Sales and Used Tax	General Fund	Transfer out to cover General Fund payments	85,000
Debt Service Fund	General Fund	Transfer out to cover General Fund payments	11,473
Other Governmental Fund	Other Governmental Fund	Transfer out to cover Other Governmental Fund payments	26,954
General Fund	Debt Service Fund	Transfer out to cover Debt service Fund payments	311,857
General Fund	Other Governmental Fund	Transfer out to cover Other Governmental Fund payments	<u>336,807</u>
Total			\$ 809,306

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS

Capital assets those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>
Capital asset, not being depreciated:				
Land	\$ 2,949,217	\$ 1,004,462	\$ -	\$ 3,953,679
Construction in progress	<u>156,000</u>	<u>-</u>	<u>-</u>	<u>156,000</u>
Total capital assets not being depreciated	<u>3,105,217</u>	<u>1,004,462</u>	<u>-</u>	<u>4,109,679</u>
Capital assets, being depreciated:				
Land improvements	800,308			800,308
Buildings improvements	8,060,361			8,060,361
Infrastructure	35,076,130	8,911,640		43,987,770
Equipment	<u>6,038,535</u>	<u>265,120</u>	<u>-</u>	<u>6,303,655</u>
Total capital assets being depreciated	<u>49,975,334</u>	<u>9,176,760</u>	<u>-</u>	<u>59,152,094</u>
Less accumulated depreciation for:				
Land improvements	(556,186)	(8,733)		(564,919)
Buildings improvements	(2,070,985)	(147,904)		(2,218,889)
Infrastructure	(6,201,708)	(2,628,835)		(8,830,543)
Equipment	<u>(3,114,849)</u>	<u>(368,670)</u>	<u>-</u>	<u>(3,483,519)</u>
Total accumulated depreciation	<u>(11,943,728)</u>	<u>(3,154,142)</u>	<u>-</u>	<u>(15,097,870)</u>
Total capital assets being depreciated, net	<u>38,031,606</u>	<u>6,022,618</u>	<u>-</u>	<u>44,054,224</u>
Governmental activities capital assets, net	<u>\$ 41,136,823</u>	<u>\$ 7,027,080</u>	<u>\$ -</u>	<u>\$ 48,163,903</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities</u>	<u>Amount</u>
General government	\$ 125,904
Public safety	82,217
Public works	2,757,554
Health and welfare	31,063
Education	<u>157,404</u>
Total depreciation expense-governmental activities	<u>\$ 3,154,142</u>

6. PROPERTY TAXES

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 CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate 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. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect 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 settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. 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 payable to the CRIM is recorded at June 30. On June 26 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. PROPERTY TAXES (CONTINUED)

Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. As of June 30, 2009, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$122,640.

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 exempted 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 the Municipal Autonomous Law of 1991, the exempt amount to be paid by the 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 tax rate 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 remaining percentage is distributed as follows: (a) 6.00% and 4.0%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics 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 a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.00% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Municipal Sales and Use Tax</u>	<u>HUD Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts payable	\$ 1,042,509	\$ -	\$ 1,111,943	\$ 101,265	\$ 3,332,836	\$ 5,588,553
Bank overdraft	155,492		76,460			231,952
Accrued liabilities	<u>1,034,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,034,326</u>
Total	<u>\$ 2,232,327</u>	<u>\$ -</u>	<u>\$ 1,188,403</u>	<u>\$ 101,265</u>	<u>\$ 3,332,836</u>	<u>\$ 6,854,831</u>

8. DUE TO OTHER GOVERNMENTAL ENTITIES

The amounts due to other governmental entities in the General Fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
General Services Administration	\$ 15,574
Department of Labor - Unemployment Program	141,442
US Internal Revenue Service	48,566
Retirement System Administration	2,386,396
PR Department of Treasury	2,704,442
Puerto Rico Aqueduct and Sewer Authority	<u>96,409</u>
Total	<u>\$ 5,392,829</u>

9. DEFERRED REVENUES

A. *Municipal License Tax*- the Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2009, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable of \$226,142 represents filed municipal license tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectibles.

The deferred revenues of \$1,691,288 in the general fund relates to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

9. DEFERRED REVENUES (CONTINUED)

B. Federal Government- The deferred revenues presented in the other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Voucher Program	\$ 189,249
Child Care and Development Block Grant	63,083
Community Development Block Program- Entitlement	<u>378,498</u>
Total	\$ 630,830

The deferred revenues presented in the general fund and debt service fund represent property tax revenues earned but not available at the end of fiscal year.

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 141,059
Debt Service Fund	<u>594,682</u>
Total	\$ 735,741

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$20,515,000	\$ 295,000	\$ (839,000)	\$ 19,971,000	\$ 970,000
Notes Payable	1,270,000	1,000,000	(140,000)	2,130,000	410,000
LIMS Repayment Plan	170,053		(45,081)	124,972	50,690
Property Tax Debt- Law 146	127,972		(5,332)	122,640	5,332
Landfill Obligation	351,716	1,335,712		1,687,428	9,432
Claims and judgments Retirement System		848,068		848,068	61,884
Administration payment plan		419,778	(278,337)	141,441	-
Compensated Absences	<u>2,026,240</u>	<u>-</u>	<u>(1,627,866)</u>	<u>398,374</u>	<u>100,000</u>
Total	\$24,460,981	\$ 3,898,558	\$(2,935,616)	\$ 25,423,923	\$ 1,607,338

1. Legal debt margin- The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority and to the PRIDCO), is paid with unrestricted funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

10. LONG-TERM LIABILITIES

- 2. Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2009 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2009
2009 Series	7-1-2029	\$ 295,000	2.43% to 5.40%	\$ 295,000
2008 Series	7-1-2033	320,000	2.43% to 7.50%	315,000
2008 Series	7-1-2018	1,417,000	2.43% to 7.50%	1,318,000
2008 Series	7-1-2033	3,785,000	4.38% to 7.00%	3,785,000
2007 Series	7-1-2017	155,000	2.70% to 5.60%	135,000
2007 Series	7-1-2032	135,000	2.43% to 7.00%	125,000
2007 Series	7-1-2022	1,307,000	2.43% to 7.50%	1,199,000
2005 Series	7-1-2020	85,000	3.28% to 4.73%	65,000
2005 Series	7-1-2020	615,000	2.43% to 6.62%	485,000
2005 Series	7-1-2030	280,000	4.50%	266,000
2005 Series	7-1-2020	215,000	2.43% to 7.50%	180,000
2004 Series	7-1-2029	410,000	4.17% to 5.31%	360,000
2004 Series	7-1-2029	495,000	2.36% to 5.31%	445,000
2004 Series	7-1-2015	185,000	4.17% to 4.73%	125,000
2004 Series	7-1-2028	1,005,000	2.43% to 7.00%	875,000
2004 Series	7-1-2013	975,000	2.43% to 7.50%	450,000
2003 Series	7-1-2028	730,000	4.17% to 5.31%	645,000
2003 Series	7-1-2028	1,385,000	4.17% to 5.31%	1,225,000
2003 Series	7-1-2028	10,000,000	4.17% to 5.31%	870,000
2003 Series	7-1-2029	1,091,000	4.25%	953,000
2003 Series	7-1-2030	376,000	4.25% to 5.00%	339,000
2003 Series	7-1-2027	670,000	2.43% to 6.62%	580,000
2002 Series	7-1-2027	2,015,000	2.70% to 5.60%	1,740,000
2000 Series	7-1-2029	857,000	4.17% to 5.31%	756,000
1996 Series	7-1-2016	4,585,000	4.70% to 6.63%	<u>2,440,000</u>
Total general obligation bonds				<u>\$ 19,971,000</u>

These bonds are payable from the ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

10. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 970,000	\$ 963,394
2011	1,047,000	1,114,580
2012	1,116,000	1,047,659
2013	1,180,000	976,390
2014	1,138,000	904,642
2015-2019	5,147,000	3,481,846
2020-2024	4,080,000	2,178,468
2025-2029	4,020,000	984,444
2030-2034	<u>1,273,000</u>	<u>181,723</u>
Total	<u>\$ 19,971,000</u>	<u>\$ 11,833,146</u>

- 3. Notes Payable-** The proceeds of the issuance of notes payables were used principally to cover the expenditures of a special event, such as capital projects and real property acquisitions. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2009</u>
2008 Series	2015	\$35,000	2.43% to 7.50%	\$ 35,000
2008 Series	2015	300,000	2.43% to 7.50%	300,000
2008 Series	2013	605,000	2.43% to 7.50%	605,000
2005 Series	2012	130,000	3.28% to 4.62%	60,000
2004 Series	2010	240,000	2.43% to 7.50%	40,000
2003 Series	2010	505,000	4.17% to 5.00%	90,000
Section 108 Note	2019	1,000,000	.002%	<u>1,000,000</u>
Total notes payable				<u>\$ 2,130,000</u>

The Section 108 note is payable from Special Revenue Fund - Federal Grants funds. The 1999 Series note is payable from the ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

10. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$410,000	\$36,101
2011	295,000	53,511
2012	305,000	39,100
2013	365,000	21,762
2014	155,000	9,762
2015-2019	<u>600,000</u>	<u>4,748</u>
Total	<u>\$ 2,130,000</u>	<u>\$ 164,984</u>

4. **LIMS Repayment Plan-** During the fiscal year 2000-2001, the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System- LIMS, contracted by the CRIM. A total of \$406,631 is to be retained in a ten years period at an interest rate of 5.95% until November 28, 2011. At June 30, 2009, the outstanding debt balance is \$124,972. This amount is presented in the government-wide financial statements.
5. **Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2009 as described in Note 6.
6. **Compensated absences-** The government-wide statement of net assets includes \$282,846 of accrued sick leave benefits, and \$115,528 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
7. **Landfill Obligations-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$ 1,687,428 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2009. The annual estimate of post closure costs has been assessed approximately to be \$141,480 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and post-closure costs are reported in the government-wide statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

10. LONG-TERM LIABILITIES (CONTINUED)

- 8. Retirement System Administration Special Law -Payment Plan-** This amount represents the amount owed by the Municipality to the Retirement System Administration.

11. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Government of Puerto Rico's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities.

Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 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. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

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. Total Municipality contributions during the year ended June 30, 2009 amounted to approximately \$184,458. This amount represented 100% of the required contribution.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. PENSION PLAN (CONTINUED)

On September 24, 1999 an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program.

Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940-2003.

12. RISK MANAGEMENT

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three (3) fiscal years.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

13. COMMITMENTS AND CONTINGENCIES

A. Federal Grants:

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2009, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

B. Claims and lawsuits:

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$848,068 for awarded or anticipated unfavorable judgments in the Government-Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

14. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2009:

- a. GASB Statement No.51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- b. GASB Statement No.53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, this is effective for periods beginning after June 15, 2010.
- d. GASB Concepts Statement No. 5, *Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2*. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2.

The impact of these statements on the Municipality's basic financial statements has not yet been determined.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

15. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Debt Service Fund	Municipal sales and Used Tax	HUD Grants	Other Governmental Funds	Total
Fund balance beginning	\$ (7,380,517)	\$ 2,295,263	\$ (1,589,970)	\$ (31,094)	\$ 5,934,257	\$ (772,061)
To reclassify prior year fund balances	-	-	-	-	(88,168)	(88,168)
Fund balance, beginning as restated	<u>\$ (7,380,517)</u>	<u>\$ 2,295,263</u>	<u>\$ (1,589,970)</u>	<u>\$ (31,094)</u>	<u>\$ 5,846,089</u>	<u>\$ (860,229)</u>

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 13,516,481
To correct prior year statement net assets	<u>2,299,132</u>
Net assets, beginning, as restated	<u>\$ 15,815,613</u>

16. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 millions in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Yauco** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA. The Municipality expects additional projects and funding to be awarded and expended in the following fiscal year 2009-2010.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

16. SUBSEQUENT EVENTS (CONTINUED)

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objectives of the Plan are to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The **Municipality of Yauco** can use the (PINI) Plan funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts with governmental agencies.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 4,065,909	\$ 4,065,909	\$ 3,864,278	\$ (201,631)
Municipal license tax	2,330,000	2,330,000	2,563,400	233,400
Fines and Forfeitures	47,000	47,000	50,241	3,241
Licenses, permits and other local taxes	1,252,500	1,252,500	1,511,486	258,986
Intergovernmental	5,233,941	5,233,941	5,593,854	359,913
Rent of property	208,348	208,348	367,176	158,828
Interest	150,000	150,000	139,066	(10,934)
Miscellaneous	1,401,000	1,401,000	335,327	(1,065,673)
Operating transfer from other fund	<u>1,116,000</u>	<u>1,116,000</u>	<u>96,473</u>	<u>(1,019,527)</u>
Total revenues	<u>15,804,698</u>	<u>15,804,698</u>	<u>14,521,301</u>	<u>(1,283,397)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	7,292,426	7,292,426	\$ 7,474,288	\$ (181,862)
Public safety	2,765,100	2,765,100	2,642,025	123,075
Public works	3,945,729	3,945,729	3,626,570	319,159
Health and welfare	-	-	22,516	(22,516)
Culture and recreation	<u>1,801,443</u>	<u>1,801,443</u>	<u>1,735,992</u>	<u>65,451</u>
Total expenditures, encumbrances and other financing uses	<u>15,804,698</u>	<u>15,804,698</u>	<u>15,501,391</u>	<u>303,307</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (980,090)</u>	<u>\$ (980,090)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				<u>\$ 14,521,301</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 14,521,301</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 15,501,391
Differences-budget to GAAP:				
Nonbudgeted expenditures				(163,009)
Operating transfer out to other funds				-
Prior year encumbrances recorded as current year expenditures for GAAP basis				-
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(23,990)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 15,314,392</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO THE BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2009

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund. For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2009 representing original budget. There were no supplemental appropriations for the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 25,089
Total U.S. Department of Agriculture			<u>25,089</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Community Development Block Grants/Entitlement Grants	14.218		1,506,493
Direct Program:			
Community Development Block Grants - Section 108 Loan Guarantee	14.248		832,066
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		430,726
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State Program	14.228		39,367
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241		<u>33,983</u>
Total U.S. Department of Housing and Urban Development			<u>2,842,635</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico – Department of Transportation:			
Federal Transit Investment Grant	20.500		207,430
Pass-through the Commonwealth of Puerto Rico – Transit Safety Commission:			
Incentive Grants	20.600		<u>36,784</u>
Total U.S. Department of Transportation			<u>244,214</u>
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Child Care and Development Block Grant	93.575	Not Available	<u>179,625</u>
Total U.S. Department of Health and Human Services			<u>179,625</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance	97.036	Not Available	1,175,573

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY: (Continued)			
Homeland Security Grant Program	97.067	Not Available	<u>303,774</u>
Total U.S. Department of Homeland Security			<u>1,479,347</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,770,910</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Yauco** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the HUD Grants, and Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>HUD Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 2,842,635	\$ 1,928,275	\$ 4,770,910
Non federal programs expenditures	<u>5,587</u>	<u>7,054,528</u>	<u>7,060,115</u>
Total expenditures in the fund financial statements	<u>\$ 2,848,222</u>	<u>\$ 8,982,803</u>	<u>\$ 11,831,025</u>



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Yauco, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 29, 2009, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **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 **Municipality of Yauco's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Yauco's** internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as items **09-01** through **09-02**.

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 **Municipality of Yauco's** internal control.

**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 (CONTINUED)**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies in internal control over compliance described above, we consider items **09-01** to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Yauco's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the **Municipality of Yauco** in a separate letter dated December 29, 2009.

The **Municipality of Yauco's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Yauco's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 29, 2009

Stamp No. 2407057 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

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

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

Compliance

We 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, 2009. 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 requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Yauco's** management. Our responsibility is to express an opinion on the **Municipality of Yauco's** compliance based on our audit.

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

In our 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 programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **09-03** through **09-09**.

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

Internal Control Over Compliance

The management of the **Municipality of Yauco** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality 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 our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Yauco's** internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **09-03** through **09-09** 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 entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items **09-04**, **09-07**, and **09-08**, to be material weaknesses.

The **Municipality of Yauco's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Yauco's** response and, accordingly, we express no opinion on it.



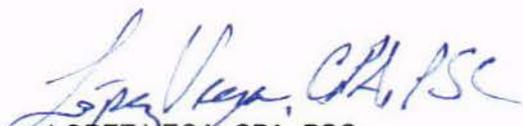
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 (CONTINUED)**

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Yauco** in a separate letter dated March 12, 2010.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 12, 2010

Stamp No. 2407077 of the Puerto Rico
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was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified	FGM
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified	FGM
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant-Entitlement Grant
14.248	Community Development Block Grant-Section 108 Loan Guarantee
14.871	Section 8 Housing Choice Voucher
97.036	Disaster Grant – Public Assistance
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	Yes No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference 09-01

Requirement Operating deficit of general fund

Statement of Condition As of June 30, 2009, the Municipality closed with an accumulated deficit of \$8,173,608 in the general fund as presented in the balance sheet-governmental funds. The current year operation closed with a deficiency due to the excess of expenditures over the actual revenues by the amount of \$240,900. The deficit was caused by the overstatement of estimated revenues and/or the incurrence of obligations without credit available in the budgetary accounts.

Criteria Article 7.011, Section (a) of Autonomous Municipal Act (Law 81) establishes that if the Municipal close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year. Section (b) establishes among other things, that; Provides that accrued deficit in The Municipality, by public debt, will be amortized in a period of 40 years. The equivalent amortization amount will be established in an expense account in the annual budget known as accrued deficit which will be indicated in the chart of accounts.

Article 8.004 (b) establishes no amount shall be expended or obligated in a given fiscal year of if exceeds its budgeted or authorized amounts by the Municipal Legislation.

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.

Cause of Condition The overstatement of estimated revenues and/ or the incurrence of obligations without credit available in approved budgetary accounts caused the Municipality to operate with a deficit for several years.

Effect of Condition The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the revised regulation over basic Standard for Municipalities of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II - Financial Statements Findings

Finding Reference **09-01 (Continued)**

Recommendation We recommend it evaluates the adequacy of the provision for deficit reserve accounts in the next budget for the amortization of public debt as recommend by Law. Also, the Municipality's officers must evaluate the negative variances between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality of Yauco lacks enough economical- resources to cover its basics necessities. In addition, the operational expenses such. as gasoline and utilities have had a dramatic increase during the last years. However, for our people 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 eliminate regular positions, we eliminate overtime pay, and we also eliminate travel expenses including meals and cellular cost. We also limit the use of the official vehicles and reduced 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.

Implementation Date: April, 2010

Responsible Person: Mrs. Mayra Ortiz
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference 09-02

Requirement **Expenditures for Goods and Services and Accounts Payables-
Purchasing and receiving**

Statement of Condition We performed a cash disbursements test and examined thirty nine (39) payments which belonged to General Fund, four (4) which belonged to Disaster Grant- Public Assistance Grant Justice (FEMA), ten (10) which belonged to Community Development Block Grants – Section 108 Loan Grant and nineteen (19) which belonged to Community Development Block Grants – State’s Program (CDBG). The following will summarize the internal control exceptions noted:

- a. In five (5) payments which belonged to General Fund, four (4) which belonged to Disaster Grant- Public Assistance Grant Justice (FEMA), ten (10) which belonged to Community Development Block Grants – Section 108 Loan Grant and nineteen (19) which belonged to Community Development Block Grants – State’s Program (CDBG) disbursement vouchers did not include several documents were not marked as paid.
- b. In nineteen (19) payments which belonged to General Fund, two (2) which belonged to Disaster Grant- Public Assistance Grant Justice (FEMA), four (4) which belonged to Community Development Block Grants – Section 108 Loan Grant and one (1) which belonged to Community Development Block Grants – State’s Program (CDBG) the disbursement voucher did not include the date of the Mayor’s signature.
- c. In eight (8) payments which belonged to General Fund, and three (3) which belonged to Community Development Block Grants – State’s Program (CDBG) disbursement voucher did not include the original invoice;
- d. In one (1) payment which belonged to General Fund, one (1) which belonged to Disaster Grant- Public Assistance Grant Justice (FEMA), and two (2) which belonged to Community Development Block Grants – State’s Program (CDBG) the disbursement voucher the pre-intervention officer signature was before the Financial Director, and the Mayor.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference 09-02 (Continued)

e. In five (5) payments which belonged to General Fund and two (2) which belonged to Disaster Grant- Public Assistance Grant Justice (Fema) the disbursement voucher did not include the requisition.

Criteria The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in the Chapter Four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions.

Cause of Condition The Municipality internal control procedures failed to assure that all transactions include all the required documentation and approvals.

Effect of Condition The Municipality is not in compliance with Chapter Four (4) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.

Recommendation We recommend that the Municipality should improve its internal control and procedures in order to assure that the disbursement vouchers contain all the necessary supporting documents before making the payments and are available for examination.

Questioned Costs None

Management Response and Corrective Action Management will instruct the Finance Department staff (including the Official Payer, the Pre-Auditor, the Department Accountant, the Department Secretary, etc.) to strengthen the procedures established in the regulation, in order to assure that the disbursement vouchers contain all the necessary supporting documents and approvals before making the payments. Also, the Municipality instruct its personnel to assure that proper filing of documents are performed so that disbursement vouchers and their justificants are available for examination at any time.

Implementation Date: January, 2011

Responsible Person: Mrs. Mayra Ortiz
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-03
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development
Requirement	Reporting – Special Reporting
Statement of Condition	<p>During our verification of twenty (20) participant's files, related to Section 8 Housing Choice Vouchers, we noted the following situation:</p> <ul style="list-style-type: none">a. In eleven (11) participant's files, the Form HUD-50058, Family Report (OMB No. 2577-0083), applicable for the fiscal year audited was not available for inspection.b. In twenty (20) files the Municipality did not have evidence about the release forms to allow the PHA to obtain information from third parties.
Criteria	Code of Federal Regulations 24, part 908 and section 982.158, and the OMB Circular A-133 Compliance Supplements for Section 8 Moderate Rehabilitation and Section 8 Housing Choice Vouchers Program states that the PHA is required to submit HUD-50058, Family Report (OMB No. 2577-0083) form electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family.
Cause of Condition	The Municipality controls and procedures failed to provide evidence of the submissions of the HUD-50058, Family Report (OMB No. 2577-0083).
Effect of Condition	The Municipality is not in compliance with the Code of Federal Regulations 24, Part 908 and Section 982.158 and with the OMB Circular A-133 Compliance Supplements for Section 8 Moderate Rehabilitation and Section 8 Housing Choice Vouchers Program.
Recommendation	We recommend management to strengthen its controls and procedures in order to assure that the evidence of the submissions of the HUD-50058, Family Report (OMB No. 2577-0083) are included in the participant's files.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-03 (Continued)**

Questioned Costs None

Management Response The Municipality's Management establishes monitoring procedures to assure that the participant's files include all documentation required by federal agencies.

Implementation Date: April 2010

Responsible Person: Srta. Gisela Delgado
Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-04
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Reporting
Statement of Condition	We performed a Reporting Test and did not find evidence that the GAAP-based audited financial data were submitted electronically to HUD for the fiscal years 2007-2008 and 2008-2009.
Criteria	OMB No. 2535-0107, 24 CFR section 5.801, requires PHA to submit timely GAAP-based unaudited and audited financial information electronically to HUD through the Real Estate Assessment Center (REAC).
Cause of Condition	The Municipality did not maintain evidence of the Real Estate Assessment Center (REAC) audited information submission for the fiscal years 2007-2008 and 2008-2009.
Effect of Condition	The PHA did not comply with the OMB No. 2535-0107, 24 CFR section 5.801.
Recommendation	We recommend to the Municipality's management to instruct the program accountant to submit timely GAAP-based unaudited and audited financial information electronically to HUD.
Questioned Costs	None
Management Response and Corrective Action	<p>The Municipality's management instruct the program accountant to submit timely GAAP-based unaudited and audited financial information electronically to HUD.</p> <p>We designated a new accountant to the program. As of today, we are in compliance with the REAC submission.</p> <p>Implementation Date: April 2010</p> <p>Responsible Person: Srta. Gisela Delgado Federal Program Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-05
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Enforcement
Statement of Condition	<p>During our verification of twenty (20) participant's files, related to Section 8 Housing Choice Vouchers, we noted the following situation:</p> <ul style="list-style-type: none">a. Eight (8) participant's files did not contain evidence demonstrating that the Municipality followed-up the deficiencies noted on the unit inspection.b. One (1) participant's file did not contain evidence demonstrating that the owner failed to correct the cited HQS deficiencies identified in the inspection.
Criteria	<p>Code of Federal Regulations 24, Sections 982.158 (d) and 982.404 established that for units under contract that fail to meet HQS, the PHA must require the owner to correct any cited 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 extensions. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract. Also, for family-cause 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.</p> <p>Also, Code of Federal Regulations 24, sections 880.612 and 882.516, states that the Municipality must provide housing that is decent, safe and sanitary. To achieve this end, the Municipality must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to assure that the units are decent, safe and sanitary.</p>
Cause of Condition	<p>The Municipality controls and procedures failed to assure that the deficiencies noted in the unit's inspections are corrected in the period required in the Housing Quality Standards Enforcement.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-05 (Continued)**

Effect of Condition The Municipality is not in compliance with the Code of Federal Regulations 24, Sections 982.158 (d) and 982.404, and with the Code of Federal Regulations 24, sections 880.612 and 882.516.

Recommendation We recommend the PHA to strengthen it's monitoring procedures in order to assure that the deficiencies noted in the unit's inspections are duly corrected by the owner or the participant in the required period.

Questioned Costs None

Management Response and Corrective Action As part of our corrective action plan, the program's supervisor will strengthen her monitoring procedures. Also, the tenant's files will be reviewed in accordance with the recommendation received.

Implementation Date: April 2009

Responsible Person: Srta. Gisela Delgado
Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-06
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Selection from the Section 8 Waiting List
Statement of Condition	In our Waiting List test, we noted the following situation: In a sample of eighteen (18) applicants included in the Waiting List, we observed that the PHA did not maintain the required information to assure that the selection of new tenants admitted to the program were in accordance with the administrative plan.
Criteria	<p>Code of Federal Regulations 24, Sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family, whose names reaches the top of the waiting list, to come in to verify eligibility for admission.</p> <p>The PHA's administrative plan states that, except for special admissions, participant will be selected from the PHA waiting list. The PHA must select participants from the waiting list on a first-come, first-served basis, in accordance with this same plan, which includes equal opportunity. Also, the Municipality will maintain information that permits proper selection from the waiting list.</p>
Cause of Condition	The Municipality controls and procedures failed to assure that the participants were selected from the top of the waiting list according with the PHA's applicant selection policies.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, sections 982.54 (d), 982.201 through 982.207 and with the PHA's administrative plan.
Recommendation	We recommend management to improve monitoring procedures to assure that the participants are admitted to the program or are provided the opportunity to be admitted to the program according with the PHA administrative plan.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-06 (Continued)**

**Management Response
and Correction Action**

Selection from the approved "Waiting List" is based on first-come-first served basis, and/or under federal or local preferences as a results of a well-document emergency situation, such as fire, natural disaster, etc. Nevertheless, as part of our corrective action plan, we will document all vouchers given by emergency situations.

Implementation Date: April, 2010

Responsible Person: Srta. Gisela Delgado
Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-07
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Housing Quality Standards Inspections and HQS Enforcement
Statement of Condition	During our verification, the Municipality did not perform the required Housing Quality Control re-inspections during the fiscal year 2008-2009.
Criteria	Code of Federal Regulations 24, Subpart I, 982.404 and Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. Also the PHA must prepare a unit inspection report.
Cause of Condition	The Municipality did not maintain adequate monitoring procedures to assure that annual re-inspections Housing Quality Control re-inspections are properly performed.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.404 and 982.158 (d) and 982.405 (b).
Recommendation	We recommend management to implement internal control procedures to assure that annual inspections and quality control re-inspections are properly performed. The PHA supervisor or other qualified person must re-inspect a sample of units under contract during the last PHA fiscal year. Completed HQS inspections included in the sample must be no older than three months at the time of re-inspection. In addition, the quality control re-inspection should provide feedback on inspector's work, which can be used to determine if individual performance or general HQS training issues need to be addressed.
Questioned Costs	None
Management Response and Corrective Action	The Quality Control Re-inspections will be performed in accordance with our Administrative Plan, revised on March 2010 . Implementation Date: April 1, 2010 Responsible Person: Srta. Gisela Delgado Federal Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-08
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Housing Assistance Payment (HAP)
Statement of Condition	During our examination, the Municipality did not maintain record of Housing Assistance Payment Register (HAP Register) for the fiscal year ended June 30, 2009.
Criteria	Code of Federal Regulations 24, section 982.158 states that the PHA's are required to maintain a HAP contract register or similar record in which to record the PHA's obligation for monthly HAP's. This record must provide information as to: the name and address of the family, the name and address of the owner, dwelling unit size, the beginning date of the lease term, the monthly rent payable to the owner, monthly rent payable by the family to the owner, and the monthly HAP. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant, if any.
Cause of Condition	The PHA controls and procedures failed to assure that all HAP transactions will be recorded promptly in the HAP Register.
Effect of Condition	The PHA is not in compliance with Code of Federal Regulations 24, section 982.158.
Recommendation	We recommend to the Municipality management to strength controls procedures to assure that all HAP transactions will be recorded promptly in the HAP Register.
Questioned Costs	None
Management Response and Corrective Action	The Municipality management assigned a staff to the Program accountant in order to maintain updated records, including HAP Register.

Implementation Date: April 2010

Responsible Person: Srta. Gisela Delgado
Section 8 Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-09
Program	Community Development Block Grants - State's Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Cash Management
Statement of Condition	<p>During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. We selected a sample of twenty (20) fund requisitions (a total of \$888,932) and found the following exception:</p> <p>a. In nine (9) fund requisitions (a total of \$155,113), we observed that the Municipality made the disbursements between six (6) and thirty one (31) days after the deposits.</p>
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality's disbursements procedures failed to assure that funds requested and received from the Pass-through Grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and the disbursements made by the Municipality.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-09 (Continued)**

**Management Response
and Corrective Action**

To correct the condition reported by the external auditors, our Program accountant will plan with the Municipality's Finance Director to start the disbursement process when the requisitions of funds are submitted to the Office of the Commissioner of Municipal Affairs (OCAM) in order to assure that when the funds are transferred by the Pass-through Grantor, we will disburse it immediately.

Implementation Date: April, 2010

Responsible Person: Srta. Gisela Delgado
Federal Program Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO**

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
08-03	14.871	<p><u>The auditor noted the following exceptions: a) In six (6) cases the HQS Inspection failed and no evidence of re-inspection was identified; b) In four (4) cases, no documentation of reasonable rent determination were available; c) In one (1) case, no document of Privacy Act Notice was found; and d) In one (1) case, no evidence of eligibility for assistance based on citizen or eligible alien status was found.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 09-05.</p>
08-04	14.871	<p><u>The auditor noted that the waiting list was not prepared in accordance with the administrative plan. One (1) new admission to the program was not selected from the waiting list as required by the administrative plan. No documentation in the participant's file was found for this determination.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 09-03.</p>
07-01	97.036	<p><u>No supporting documents were available for examination of one (1) out of the 19 disbursements (5%) selected for testing.</u></p> <p>Corrective action was taken.</p>
07-02	97.036	<p><u>During the disbursements test, the certified payrolls amounting to \$176,688 and the related statements of compliance required to be submitted by the contractors were not available for examination.</u></p> <p>Corrective action was taken.</p>