

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

**MUNICIPIO DE YAUCO  
AUDITORÍA 2009-2010  
30 DE JUNIO DE 2010**

**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, 2010**

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, 2010

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

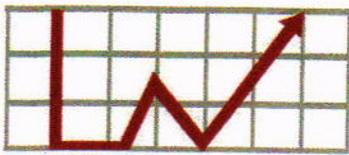
BASIC FINANCIAL STATEMENTS  
WITH THE ADDITIONAL REPORTS AND INFORMATION  
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YEAR ENDED JUNE 30, 2010

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

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- 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, 2010, 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 opinions.

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 for the primary government of the **Municipality of Yauco, Puerto Rico**, as of June 30, 2010, 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, 2010, 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)**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 44 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

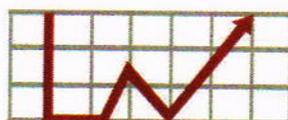
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Yauco's** financial statements, as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 29, 2010

Stamp No. 2575472 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, 2010**

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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, 2010. 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, 2009. 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 2009-2010 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 2010 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 \$69,612,897 which represents an increase of 20% compared to prior fiscal year, as restated.
2. At the end of fiscal year 2010, total liabilities amounted to \$52,483,588. Out of said amount, \$34,311,811 corresponded to long-term liabilities of which \$29,788,000 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 \$17,129,309 which represents an increase of 6% 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 \$29,275,110, derived from the following sources: \$324,943 from charges for services; \$5,368,102 from operating grants and contributions; \$4,628,926 from capital grants and contributions, and \$18,953,139 from general revenues.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

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**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 \$28,305,885.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$969,225.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of (\$5,041,846).
8. In the fund financial statements, the governmental activities revenue increased \$3,375,977 (or 13%), and the governmental activities expenditures increased \$5,575,642 (or 17%).
9. At the end of the current fiscal year, the Municipality's general fund balance decreased to (\$6,655,635) compared to a fund balance of (\$8,197,598) in the prior fiscal year.
10. The actual General Fund budgetary activities resulted in a favorable balance of \$1,522,284.

**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 2010. 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, 2010**

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**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, 2010**

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**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 an 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 \$17,129,309 at the end of 2010, as compared with \$16,160,084 which reflect an increase of \$969,225 over previous fiscal year, as restated. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$226,258 increase reflected in the Net Assets figure.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

Condensed Statement of Net Assets	2010	2009	Change	%
Current and other assets	\$ 13,178,678	\$ 9,697,841	\$ 3,480,837	36%
Capital assets	56,434,219	48,163,903	8,270,316	17%
<b>Total assets</b>	<b>69,612,897</b>	<b>57,861,744</b>	<b>11,751,153</b>	<b>20%</b>
Current and other liabilities	18,171,777	15,413,585	2,758,192	18%
Long-term liabilities	34,311,811	26,288,075	8,023,736	31%
<b>Total liabilities</b>	<b>52,483,588</b>	<b>41,701,660</b>	<b>10,781,928</b>	<b>26%</b>
Invested in capital assets, net of related debt	26,666,219	26,062,903	603,316	2%
Restricted	1,613,789	2,514,942	(901,153)	(36)%
Unrestricted	(11,150,699)	(12,417,761)	1,267,062	(10)%
<b>Total net assets</b>	<b>\$ 17,129,309</b>	<b>\$ 16,160,084</b>	<b>\$ 969,225</b>	<b>6%</b>



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Municipality's net assets increase by \$226,258. Approximately thirty eight percent (38%) of the Municipality's total revenue came from taxes, while sixty percent (60%) 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, 2010 and 2009. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

<b>Condensed Statement of Activities</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>%</b>
<b>Program revenues:</b>				
Charges for services	\$ 324,943	\$ 191,117	\$ 133,826	70%
Operating grants and contributions	5,368,102	7,681,925	(2,313,823)	(30)%
Capital grants and contributions	4,628,926		4,628,926	100%
<b>General revenues:</b>				
Property taxes	5,784,611	4,775,389	1,009,222	21%
Municipal license tax	2,313,073	2,563,400	(250,327)	(10)%
Municipal sales and use tax	2,934,092	2,821,049	113,043	4%
Rent				
Grants and contributions not restricted to specific programs	7,508,837	7,103,530	405,307	6%
Licenses and permits				
Interest and investment earnings	277,882	378,649	(100,767)	(27)%
Miscellaneous	134,644	335,327	(200,683)	(60)%
<b>Total revenues</b>	<b>29,275,110</b>	<b>25,850,386</b>	<b>3,424,724</b>	<b>13%</b>
<b>Expenses:</b>				
General government	6,015,393	4,720,241	(1,295,152)	(27)%
Public safety	3,144,821	2,251,966	(892,855)	(40)%
Public works and sanitation	11,262,818	9,988,310	(1,274,508)	(13)%
Health and welfare	2,424,370	1,191,754	(1,232,616)	(103)%
Culture and recreation	1,301,438	2,788,788	1,487,350	53%
Economic development	1,314,916	1,794	(1,313,122)	(73195)%
Community development	1,951,460	1,493,521	(457,939)	(31)%
Education	47,341	1,090,223	1,042,882	96%
Interest on long-term debt	843,328	1,058,088	214,760	20%
<b>Total expenses</b>	<b>28,305,885</b>	<b>24,584,685</b>	<b>(3,721,200)</b>	<b>(15)%</b>
<b>Change in net assets</b>	<b>969,225</b>	<b>1,265,701</b>	<b>(296,476)</b>	<b>(23)%</b>
<b>Net assets, beginning of year (as restated)</b>	<b>16,160,084</b>	<b>14,894,383</b>	<b>1,265,701</b>	<b>8%</b>
<b>Net assets, end of year</b>	<b>\$ 17,129,309</b>	<b>\$ 16,160,084</b>	<b>\$ 969,225</b>	<b>1%</b>

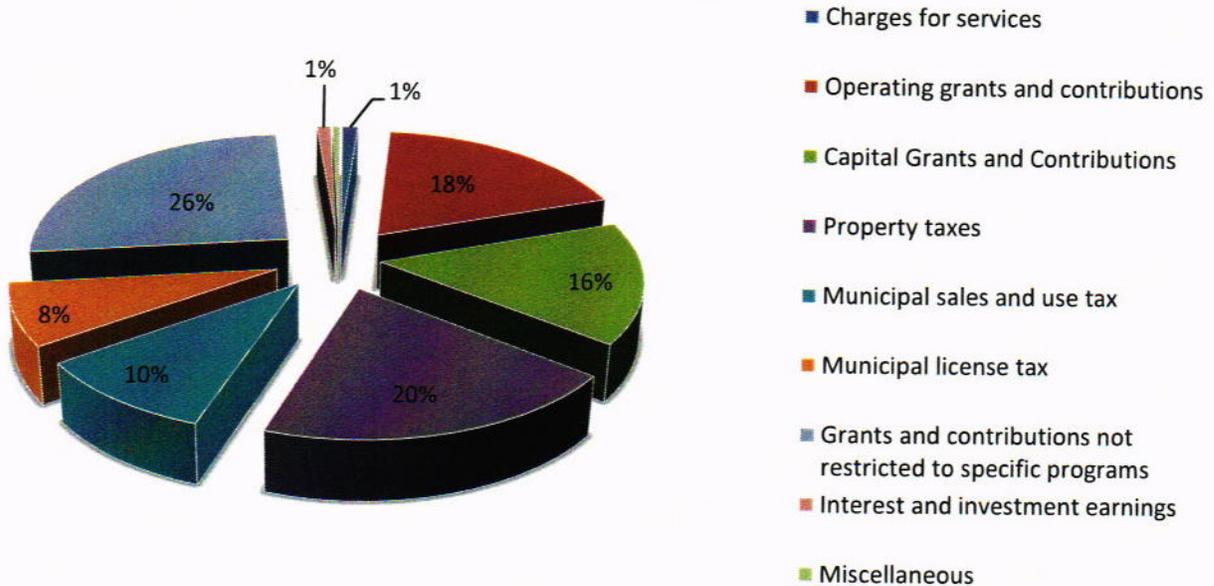
COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

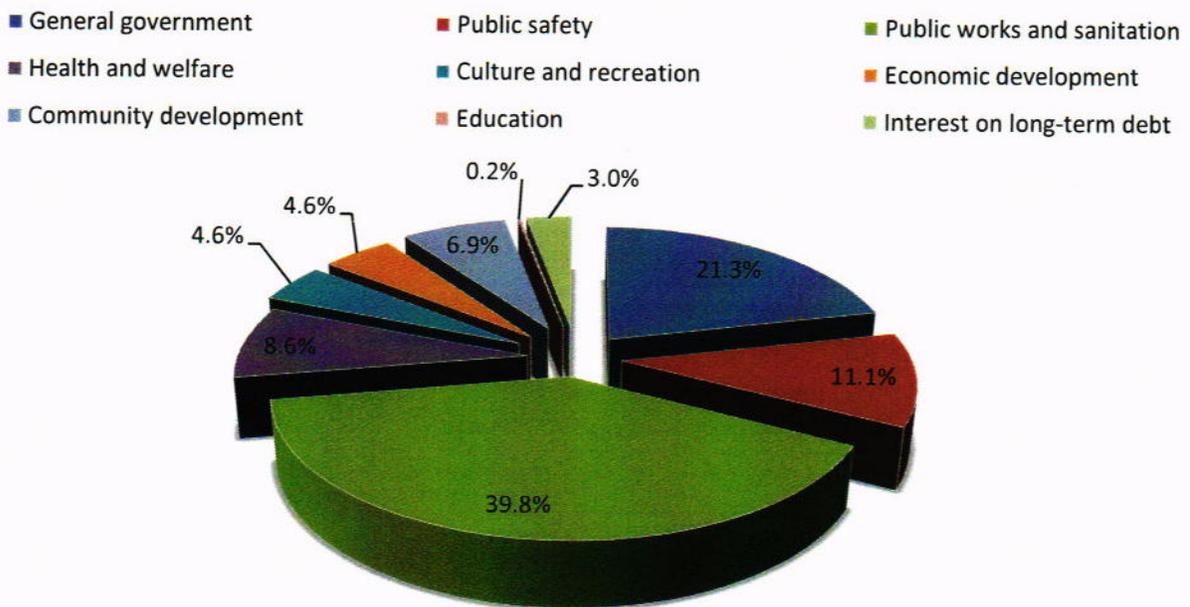
YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2010



Expenses 2010



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

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**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 (\$5,041,846), which represents a deficit decrease of \$673,898 when compared with the prior year, as restated. Of the indicated balance, \$1,613,789 were reserved or committed for the following purposes: (1) \$3,178,552 for debt service payments, and (2) a deficit \$(1,564,763) for other purposes.

As of June 30, 2010, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund deficit of (\$6,655,635).

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During fiscal year 2009-2010, 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 an excess of \$1,522,284 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, 2010, amounted to \$75,130,626 which upon deduction of accumulated depreciation in the amount of \$18,696,407 produced a net book value attributable to capital assets in the amount of \$56,434,219. 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, 2010**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately fifteen percent (15%) of net book value. Depreciation charges for the year totaled \$3,598,537.

**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 have 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 2010-2011.

**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, 2010

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 3,155,062
Cash with fiscal agent	6,723,575
Accounts receivable:	
Municipal license tax	222,419
Intergovernmental	887,127
Property tax	2,137,939
Others	52,556
Capital assets:	
Land, improvements and construction in progress	4,866,001
Buildings, infrastructure and other capital assets, net of depreciation	51,568,218
Total capital assets	56,434,219
<b>Total assets</b>	69,612,897
<b>Liabilities</b>	
Bank overdraft	202,695
Accounts payable and accrued liabilities	8,271,166
Due to other governmental entities	2,883,171
Deferred revenues:	
Municipal license tax	1,777,072
Property tax	2,938,365
Federal grant revenues	2,099,308
Noncurrent liabilities:	
Due within one year	1,932,532
Due in more than one year	32,379,279
<b>Total liabilities</b>	52,483,588
<b>Net Assets</b>	
Invested in capital assets, net of related debt	26,666,219
Restricted for:	
Capital Project	(2,099,308)
Debt service	3,178,552
Other purposes	534,545
Unrestricted (deficit)	(11,150,699)
<b>Total net assets</b>	\$ 17,129,309

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

**Commonwealth of Puerto Rico**  
**Municipality of Yauco**  
**Statement of Activities**  
**For the Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	6,015,393	\$ 2,800	\$ 1,291,852	\$ -	\$ (4,720,741)
Public safety	3,144,821	281,399	573,868		(2,289,554)
Public works	11,262,818		2,113,906	4,628,926	(4,519,986)
Health and welfare	2,424,370		1,147,040		(1,277,330)
Culture and recreation	1,301,438	40,744	121,675		(1,139,019)
Economic development	1,314,916		119,761		(1,195,155)
Community development	1,951,460				(1,951,460)
Education	47,341				(47,341)
Interest on long-term debt	843,328				(843,328)
<b>Total governmental activities</b>	<b>\$ 28,305,885</b>	<b>\$ 324,943</b>	<b>\$ 5,368,102</b>	<b>\$ 4,628,926</b>	<b>(17,983,914)</b>

General revenues:

Property taxes	5,784,611
Municipal sales and use tax	2,934,092
Municipal license tax	2,313,073
Grants and contributions not restricted to specific programs	7,508,837
Interest and investment earnings	277,882
Miscellaneous	134,644
<b>Total general revenues</b>	<b>18,953,139</b>
Change in net assets	969,225
Net assets - beginning as restated	16,160,084
Net assets - ending	<b>\$ 17,129,309</b>

**Commonwealth of Puerto Rico**  
**Municipality of Yauco**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	General Fund -(01)	Housing and Urban Development Grant	Debt Service Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ -	\$ 2,257,937	\$ -	\$ -	\$ 897,125	\$ 3,155,062
Cash with fiscal agent			3,157,762	2,271,592	1,294,221	6,723,575
Accounts receivable:						
Municipal sales and use tax					222,419	222,419
Intergovernmental			615,472		222,908	838,380
Property tax	2,137,939					2,137,939
Other	52,556					52,556
Due from other funds	155,647	16,000				171,647
<b>Total assets</b>	<b>2,346,142</b>	<b>2,273,937</b>	<b>3,773,234</b>	<b>2,271,592</b>	<b>2,636,673</b>	<b>13,301,578</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities :</b>						
Bank overdraft	202,695					202,695
Accounts payable and accrued liabilities	1,910,829	133,592		1,689,796	4,536,949	8,271,166
Due to other governmental entities	2,832,183	50,988				2,883,171
Due to other funds		36,151		3,343	132,153	171,647
Deferred revenues:						
Municipal license tax	1,777,072					1,777,072
Property taxes	2,278,998		594,682		64,685	2,938,365
Federal grant revenues		182,330			1,916,978	2,099,308
<b>Total liabilities</b>	<b>9,001,777</b>	<b>403,061</b>	<b>594,682</b>	<b>1,693,139</b>	<b>6,650,765</b>	<b>18,343,424</b>
<b>Fund balances:</b>						
<b>Reserved for:</b>						
Debt service fund			3,178,552			3,178,552
Other purposes		1,870,876		578,453	(4,014,092)	(1,564,763)
<b>Unreserved:</b>						
Undesignated	(6,655,635)					(6,655,635)
<b>Total fund balances</b>	<b>(6,655,635)</b>	<b>1,870,876</b>	<b>3,178,552</b>	<b>578,453</b>	<b>(4,014,092)</b>	<b>(5,041,846)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,346,142</b>	<b>\$ 2,273,937</b>	<b>\$ 3,773,234</b>	<b>\$ 2,271,592</b>	<b>\$ 2,636,673</b>	<b>\$ 13,301,578</b>

**Commonwealth of Puerto Rico**  
**Municipality of Yauco**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2010**

	General Fund -(01)	Housing & Urban Development Grant	Debt Service Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 3,379,588	\$ -	\$ 2,356,276	\$ -	\$ -	\$ 5,735,864
Sales tax municipal			616,786		2,317,306	2,934,092
Municipal license taxes	2,313,073					2,313,073
Licenses, permits and other local taxes	2,155,282					2,155,282
Charges for services	2,800					2,800
Intergovernmental	5,353,555				4,628,926	9,982,481
Fines and forfeitures	40,744					40,744
Rent of property	281,399					281,399
Interest	277,881					277,881
Federal grants		2,348,822			3,019,281	5,368,103
Miscellaneous	134,644					134,644
<b>Total revenues</b>	<b>13,938,966</b>	<b>2,348,822</b>	<b>2,973,062</b>	<b>-</b>	<b>9,965,513</b>	<b>29,226,363</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government	5,500,888	2,919			1,071,972	6,575,779
Public safety	2,724,673				549,569	3,274,242
Public works	1,605,676	1,165,217		2,297,198	12,631,054	17,699,145
Health and welfare	1,470,011	503,670			652,081	2,625,762
Culture and recreation	1,774,687				132,806	1,907,493
Economic development	1,269,458				45,457	1,314,915
Community development	95,500	1,855,960				1,951,460
Education	47,341					47,341
<b>Debt service:</b>						
Principal			843,328			843,328
Interest			1,280,000			1,280,000
<b>Total expenditures</b>	<b>14,488,234</b>	<b>3,527,766</b>	<b>2,123,328</b>	<b>2,297,198</b>	<b>15,082,939</b>	<b>37,519,465</b>
Excess (deficiency) of revenues over (under) expenditures	(549,268)	(1,178,944)	849,734	(2,297,198)	(5,117,426)	(8,293,102)
<b>Other financing sources (uses)</b>						
Transfers in	2,373,139		279,963		2,556	2,655,658
Transfers out	(281,908)				(2,373,750)	(2,655,658)
Long-term debt issued		3,000,000			5,967,000	8,967,000
<b>Total other financing sources (uses)</b>	<b>2,091,231</b>	<b>3,000,000</b>	<b>279,963</b>		<b>3,595,806</b>	<b>8,967,000</b>
<b>Net change in fund balances</b>	<b>1,541,963</b>	<b>1,821,056</b>	<b>1,129,697</b>	<b>(2,297,198)</b>	<b>(1,521,620)</b>	<b>673,898</b>
Fund balance, beginning as restated	(8,197,598)	49,820	2,048,855	2,875,651	(2,492,472)	(5,715,744)
Fund balance, ending	<u>\$ (6,655,635)</u>	<u>\$ 1,870,876</u>	<u>\$ 3,178,552</u>	<u>\$ 578,453</u>	<u>\$ (4,014,092)</u>	<u>\$ (5,041,846)</u>

23,990  
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 2/10/2010

Commonwealth of Puerto Rico  
Municipality of Yauco  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
For the Year Ended June 30, 2010

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<b>Total Fund Balances - Governmental Funds</b>	\$	(5,041,846)
<p>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</p> <p>Capital Assets used in Governmental Activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:</p>		
Non Depreciable Capital Assets	\$	4,866,001
Depreciable Capital Assets		70,264,625
Accumulated Depreciation		<u>(18,696,407)</u>
<b>Total Capital Assets</b>		<b>56,434,219</b>
<p>Some of the Municipality's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds:</p>		
Municipal Revenue Collection Center		48,747
<p>Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:</p>		
General Bonds and Notes Payable	29,788,000	
Compensated Absences	1,698,775	
Claims and Judgments	665,967	
Landfill Obligation	1,886,939	
State Insurance Fund Corporation	77,652	
Law 146	117,309	
LIMS Repayment Plan	<u>77,169</u>	
<b>Total Long-Term Liabilities</b>		<b><u>(34,311,811)</u></b>
<b>Total Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>17,129,309</u></b>

**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, 2010**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 673,898</b>
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. The following amount represents the change in this revenue from prior year.	48,747
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.	11,868,853
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.	(3,598,537)
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.	(7,687,000)
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.	47,803
Change in landfill accrual	(199,511)
Repayment of long term Department of labor and Human Resources is an expenditure in Governmental Funds, but the repayment reduces long term Department of labor and Human Resources debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	141,441
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.	(77,652)
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.	(183,240)
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.	(70,909)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 969,225</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2010**

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**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, 2010**

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**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:

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

**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.

**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.

**Capital Improvement Fund-** is the accounting entity in which revenues derived from local funds and state grants or other restricted revenue sources related to capital improvements, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or state statutes.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

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 federal 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 and state statutes.

**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 federal 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 federal 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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

**D. Measurement focus, basis of accounting and financial presentation**

Except for budgetary purposes, the basis of accounting used by the Municipality conforms 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.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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

**D. Measurement focus, basis of accounting and financial presentation**

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.

- 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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

**E. Assets, liabilities and net assets**

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.

**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:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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

<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 and landfill closure and post closure care costs..

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 in the general fund.

- 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:

- 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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

- 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. Net Assets-** In the government-wide statements, net assets are segregated into three categories:
- a. Invested in capital assets, net of related debt: Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
  - b. Restricted net assets: Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
  - c. Unrestricted net assets: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.
- 10. 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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

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.

**11. 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 fund

**12. 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, 2010 amounted to \$324,695. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$253,035 for workers compensation insurance covering all municipal employees.

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**2. CASH AND CASH EQUIVALENTS**

**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, 2010.

**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, 2010, (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, 2010, 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, 2010, 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 \$250,000 per depositor.

**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, 2010. Therefore, the Municipality's management has concluded that at June 30, 2010 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2010.

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 \$2,257,937 in the HUD Grant, and \$897,125 in the other governmental funds were fully collateralized at June 30, 2010.

The deposits at GDB of \$3,157,762 in the debt service fund, \$2,271,592 in capital improvements fund and \$1,294,221 in the other governmental fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**3. RECEIVABLES**

**A. *Municipal license tax and Sales and Used 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 Acts 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, 2010, 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 taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

Also, the Municipality is responsible to collect 1% from sales and used tax. As of June 30, 2010 the Municipality had an account receivable amounted to \$222,419 representing municipal sales and used returns filed pertaining to June 30, 2010.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

**3. RECEIVABLES (CONTINUED)**

**B. Intergovernmental-** Intergovernmental receivable in Debt Service Fund represents 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>
Debt Service Fund	\$ 615,472
Other Governmental Fund	<u>222,908</u>
<b>Total</b>	<b><u>\$ 838,380</u></b>

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2010, and interfund transfers during the fiscal year ended at June 30, 2010, 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	\$ 155,647	\$ -
HUD Grants	16,000	36,151
Capital Improvement		3,343
Other Governmental Fund	<u>-</u>	<u>132,153</u>
<b>Total</b>	<b><u>\$ 171,647</u></b>	<b><u>\$ 171,647</u></b>

**b. Transfer in/out to other fund**

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Other Governmental Fund	General Fund	Transfer out to cover General Fund payments	\$ 2,373,139
Other Governmental Fund	Other Governmental Fund	Transfer out to cover Other Governmental Fund payments	611
General Fund	Debt Service Fund	Transfer out to cover Debt Service Fund payments	279,963
General Fund	Other Governmental Fund	Transfer out to cover Other Governmental Fund payments	<u>1,945</u>
<b>Total</b>			<b><u>\$ 2,665,658</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

**5. CAPITAL ASSETS**

Capital assets those with an estimated useful live 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 2010, 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, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 3,953,679	\$ 756,322	\$ -	\$ 4,710,001
Construction in progress	<u>156,000</u>	<u>-</u>	<u>-</u>	<u>156,000</u>
<b>Total capital assets not being depreciated</b>	<u>4,109,679</u>	<u>756,322</u>	<u>-</u>	<u>4,866,001</u>
<b>Capital assets, being depreciated:</b>				
Land improvements	800,308			800,308
Buildings improvements	8,060,361	255,000		8,315,361
Infrastructure	43,987,770	10,256,400		54,244,170
Equipment	<u>6,303,655</u>	<u>601,131</u>	<u>-</u>	<u>6,904,786</u>
<b>Total capital assets being depreciated</b>	<u>59,152,094</u>	<u>11,112,531</u>	<u>-</u>	<u>70,264,625</u>
<b>Less accumulated depreciation for:</b>				
Land improvements	(564,919)	(8,732)		(573,651)
Buildings improvements	(2,218,889)	(153,322)		(2,372,211)
Infrastructure	(8,830,543)	(3,122,197)		(11,952,740)
Equipment	<u>(3,483,519)</u>	<u>(314,286)</u>	<u>-</u>	<u>(3,797,805)</u>
<b>Total accumulated depreciation</b>	<u>(15,097,870)</u>	<u>(3,598,537)</u>	<u>-</u>	<u>(18,696,407)</u>
<b>Total capital assets being depreciated, net</b>	<u>44,054,224</u>	<u>7,513,994</u>	<u>-</u>	<u>51,568,218</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 48,163,903</u>	<u>\$ 8,270,316</u>	<u>\$ -</u>	<u>\$ 56,434,219</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

**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	\$ 101,891
Public safety	80,050
Public works	3,267,807
Health and welfare	31,063
Education	<u>117,726</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 3,598,537</u></b>

**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 Municipal Revenue Collection Center (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, as modified by the quarterly revisions of estimates required law. The CRIM is required by law to prepare a liquidation 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 preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. 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.

The CRIM issued the liquidation noting that the collections exceeded advances by \$48,747. In the governmental funds, the entire receivable has been offset by deferred revenue since the excess was not available to pay liabilities of the current period. In the government-wide financial statements, the entire receivable is recognized as revenue.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**6. PROPERTY TAXES (CONTINUED)**

On January 26, 2000, Public Law No. 42 was enacted, which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000.

The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26 1997, Public Law No. 21 was enacted, which authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed 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. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable o 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**6. PROPERTY TAXES (CONTINUED)**

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 150,000 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 8.58% for real property and 6.58% 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) 5.8% and 3.8%, 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) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

**7. MUNICIPAL SALES AND USE 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 use tax of 1.5% at the Municipal Level. The Municipalities of Puerto Rico are 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 un-process 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 Improvements Fund (.1%) with the remaining 0.5%. The Municipality collected \$2,934,092 during the year ended June 30, 2010.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2010 are summarized as follows:

Description	General Fund	Housing & Urban development Grant	Capital Improvement	Other Governmental Funds	Total
Accounts payable	\$ 984,290	\$ 126,194	\$ 1,689,796	\$ 4,493,815	\$ 7,294,095
Accrued liabilities	926,539	7,398	-	43,134	977,071
<b>Total</b>	<b>\$ 1,910,829</b>	<b>\$ 133,592</b>	<b>\$ 1,689,796</b>	<b>\$ 4,536,949</b>	<b>\$ 8,271,166</b>

**9. 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>
Workmen's Compensation	\$ 2,326
US Internal Revenue Service	42,678
Retirement System Administration	1,115,327
PR Department of Treasury	1,520,531
Puerto Rico Aqueduct and Sewer Authority	<u>151,321</u>
<b>Total</b>	<b><u>\$2,832,183</u></b>

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

<u>Governmental Entity</u>	<u>Amount</u>
Section 8 Housing Choice Voucher Program	<u>\$50,988</u>
<b>Total</b>	<b><u>\$50,988</u></b>

**10. DEFERRED REVENUES**

**A. Municipal License Tax-** The deferred revenues of \$1,777,072 in the general fund relates to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

**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>
Community Development Block Program- Entitlement	\$ 23,680
Loan Guarantee Program (Section 108)	<u>158,650</u>
<b>Total</b>	<b><u>\$ 182,330</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

**10. DEFERRED REVENUES (CONTINUED)**

<u>Program Description</u>	<u>Amount</u>
Legislative and state grant	\$ 1,916,978
<b>Total</b>	<u>\$ 1,916,978</u>

The deferred revenues presented in the general fund, Other Governmental 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	\$ 2,278,998
Debt Service Fund	594,682
Other Governmental Fund	<u>64,685</u>
<b>Total</b>	<u>\$ 2,938,365</u>

**11. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2010, 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	\$19,971,000	\$ 5,640,000	\$ (970,000)	\$ 24,641,000	\$ 1,132,000
Notes Payable	2,130,000	3,327,000	(310,000)	5,147,000	445,000
Compensated Absences	1,627,866	165,889	(94,980)	1,698,775	100,000
Claims and Judgments	482,727	358,054	(174,814)	665,967	
Landfill Obligation	1,687,428	199,511		1,886,939	199,511
Property Tax Debt- Law 146	122,641		(5,332)	117,309	5,332
LIMS Repayment Plan	124,972		(47,803)	77,169	50,689
Department of Labor and Human Resources Debt	141,441		(141,441)		
State Insurance Fund Corp.		77,652		77,652	77,652
<b>Total</b>	<u>\$26,288,075</u>	<u>\$9,768,106</u>	<u>\$(1,744,370)</u>	<u>\$ 34,311,811</u>	<u>\$ 1,932,532</u>

- 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

**11. LONG-TERM LIABILITIES (CONTINUED)**

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.

- 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, 2010 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2010
2009 Series	7-1-2029	\$ 295,000	2.43% to 5.40%	\$ 290,000
2008 Series	7-1-2033	320,000	2.43% to 7.50%	310,000
2008 Series	7-1-2018	1,417,000	2.43% to 7.50%	1,210,000
2008 Series	7-1-2033	3,785,000	4.38% to 7.00%	3,725,000
2007 Series	7-1-2017	155,000	2.70% to 5.60%	120,000
2007 Series	7-1-2032	135,000	2.43% to 7.00%	120,000
2007 Series	7-1-2022	1,307,000	2.43% to 7.50%	1,139,000
2005 Series	7-1-2020	85,000	3.28% to 4.73%	60,000
2005 Series	7-1-2020	615,000	2.43% to 6.62%	450,000
2005 Series	7-1-2030	280,000	4.50%	258,000
2005 Series	7-1-2020	215,000	2.43% to 7.50%	170,000
2004 Series	7-1-2029	410,000	4.17% to 5.31%	350,000
2004 Series	7-1-2029	495,000	2.36% to 5.31%	435,000
2004 Series	7-1-2015	185,000	4.17% to 4.73%	105,000
2004 Series	7-1-2028	1,005,000	2.43% to 7.00%	850,000
2004 Series	7-1-2013	975,000	2.43% to 7.50%	345,000
2003 Series	7-1-2028	730,000	4.17% to 5.31%	625,000
2003 Series	7-1-2028	1,385,000	4.17% to 5.31%	1,190,000
2003 Series	7-1-2028	1,000,000	4.17% to 5.31%	845,000
2003 Series	7-1-2029	1,091,000	4.25%	922,000
2003 Series	7-1-2030	376,000	4.25% to 5.00%	329,000
2003 Series	7-1-2027	670,000	2.43% to 6.62%	560,000
2002 Series	7-1-2027	2,015,000	2.70% to 5.60%	1,690,000
2000 Series	7-1-2029	857,000	4.17% to 5.31%	733,000
1996 Series	7-1-2016	4,585,000	4.70% to 6.63%	2,170,000
2010 Series	7-1-2035	1,940,000	4.75% to 7.00%	1,940,000
2010 Series	7-1-2035	3,020,000	4.75% to 7.00%	3,020,000
2010 Series	7-1-2035	680,000	6.00% to 7.50%	<u>680,000</u>
<b>Total general obligation bonds</b>				<b><u>\$ 24,641,000</u></b>

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, 2010**

**11. 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>
2011	\$ 1,132,000	\$ 1,081,844
2012	1,211,000	1,361,906
2013	1,280,000	1,319,840
2014	1,248,000	1,258,204
2015	1,340,000	1,180,221
2016-2020	5,501,000	4,786,852
2021-2025	5,085,000	3,325,791
2026-2030	4,899,000	1,732,306
2031-2035	<u>2,945,000</u>	<u>474,225</u>
<b>Total</b>	<b><u>\$ 24,641,000</u></b>	<b><u>\$ 16,521,189</u></b>

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, 2010</u>
2008 Series	2015	\$35,000	2.43% to 7.50%	\$ 30,000
2008 Series	2015	300,000	2.43% to 7.50%	265,000
2008 Series	2013	605,000	2.43% to 7.50%	485,000
2005 Series	2012	130,000	3.28% to 4.62%	40,000
2010 Series	2010	327,000	6.00% to 7.50%	327,000
Section 108 Note	2028	4,000,000	.002%	<u>4,000,000</u>
<b>Total notes payable</b>				<b><u>\$ 5,147,000</u></b>

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, 2010**

**11. 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>
2011	\$ 445,000	\$ 39,620
2012	461,000	56,587
2013	527,000	42,462
2014	318,000	29,488
2015	369,000	21,275
2016-2020	1,222,000	48,474
2021-2025	1,135,000	40,000
2026-2028	<u>670,000</u>	<u>24,000</u>
<b>Total</b>	<b><u>\$ 5,147,000</u></b>	<b><u>\$ 301,906</u></b>

4. **State Insurance Fund Corporation-** This amount represents the balance owed to the "CFSE" at June 30, 2010 will be retained by the remittance during the next 12 months. The outstanding balance is \$ 77,652.
5. **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, 2010, the outstanding debt balance is \$77,169. This amount is presented in the government-wide financial statements.
6. **Property Taxes Debts Law 146-** These amount represent the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2010. The CRIM issued as settlement noting that the advance exceeded collection by \$117,309. In the Governmental-Wide financial Statement, the entire amount has been recognized as long-term debt.
7. **Compensated absences-** The government-wide statement of net assets includes \$1,156,175 of accrued sick leave benefits, and \$542,600 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
8. **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 \$ 1,886,939 as the

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**11. LONG-TERM LIABILITIES (CONTINUED)**

Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2010. The annual estimate of post closure costs has been assessed approximately to be \$199,511 for a period of approximately 1 year. 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.

9. The CRIM issued the liquidation noting that advances exceeded collections for years ended before June 30, 2009 and a monthly amount for \$13,873 is being withheld from monthly advances.

**12. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**12. PENSION PLAN (CONTINUED)**

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. 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, 2010 amounted to approximately \$579,646. This amount represented 100% of the required contribution.

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, 2010, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940-2003.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**13. 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.

**14. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements that have effective dates after June 30, 2010:

- a. GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for periods beginning after June 15, 2010, with early implementation encouraged.
- b. 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.

**15. 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, 2010, 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

**15. COMMITMENTS AND CONTINGENCIES**

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$665,967 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.

**16. 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	HUD Grants	Debt Service Fund	Capital Improvemnet Fund	Other Governmental Funds	Total
Fund balance, beginning	\$ (8,173,608)	\$ 105,003	\$ 2,048,855	\$ -	\$ 361,084	\$ (5,658,666)
Corrections in accounting transactions	<u>(23,990)</u>	<u>(55,183)</u>	<u>-</u>	<u>2,875,651</u>	<u>(2,853,556)</u>	<u>(57,078)</u>
<b>Fund balance, beginning as restated</b>	<b><u>\$ (8,197,598)</u></b>	<b><u>\$ 49,820</u></b>	<b><u>\$ 2,048,855</u></b>	<b><u>\$ 2,875,651</u></b>	<b><u>\$ (2,492,472)</u></b>	<b><u>\$ (5,715,744)</u></b>

**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	\$ 17,081,314
To adjust the long-term debt liability-compensated absences	(864,152)
Corrections in accounting transactions	<u>(57,078)</u>
<b>Net assets, beginning as, restated</b>	<b><u>\$ 16,160,084</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 3,932,604	\$3,932,604	\$ 3,379,588	\$ (553,016)
Municipal license tax	2,521,000	2,521,000	2,313,073	(207,927)
Fines and Forfeitures	47,000	47,000	40,743	(6,257)
Licenses, permits and other local taxes	2,661,766	2,661,266	2,155,282	(505,984)
Charges for Services	500	500	2,800	2,300
Intergovernmental	4,216,608	4,216,608	5,353,555	1,136,947
Rent of property	150,000	150,000	281,399	131,399
Interest	100,000	100,000	277,880	177,880
Miscellaneous	524,568	524,568	134,646	(389,922)
Operating transfer from other funds	-	-	<u>2,373,139</u>	<u>2,373,139</u>
<b>Total revenues</b>	<u>14,153,546</u>	<u>14,153,546</u>	<u>16,312,105</u>	<u>2,158,559</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	5,983,662	5,983,662	6,357,977	(374,315)
Public safety	2,877,818	2,877,818	2,724,672	153,146
Public works	1,821,815	1,821,815	1,701,177	120,638
Health and welfare	704,776	704,776	679,942	24,834
Culture and recreation	2,416,275	2,416,275	3,044,145	(627,870)
Operating transfer from other fund	<u>349,200</u>	<u>349,200</u>	<u>281,908</u>	<u>67,292</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>14,153,546</u>	<u>14,153,546</u>	<u>14,789,821</u>	<u>(636,275)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,522,284</u>	<u>\$ 1,522,284</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 16,312,105
Operating transfer in from other funds				<u>(2,373,139)</u>
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 13,938,966</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 14,789,821
Differences-budget to GAAP:				
Nonbudgeted expenditures				(19,679)
Operating transfer out to other funds				<u>(281,908)</u>
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 14,488,234</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2010

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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, 2010 representing original budget. There were no supplemental appropriations for the year ended June 30, 2010

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2010**

<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>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 32,354
<b>Total U.S. Department of Agriculture</b>			<b>32,354</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program:			
Community Development Block Grants/Entitlement Grants	14.218		1,858,879
Direct Program:			
Community Development Block Grants - Section 108 Loan Guarantee	14.248		1,165,216
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		490,446
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Homeless Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.262		105,704
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241		34,299

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

<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>
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>3,763,954</b></u>
<b>U.S DEPARTMENT OF JUSTICE:</b>			
Pass-through the Commonwealth of Puerto Rico Department of Justice:			
Community Oriented Policing Services	16.710	Not Available	110,158
ARRA-Edward Byrne Justice Assistance Grant (EBJAG) (Recovery Act Funded)	16.803	Not Available	<u>865,715</u>
<b>Total U.S Department of Justice:</b>			<u><b>975,873</b></u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Pass-through the Commonwealth of Puerto Rico - Department of Transportation:			
Federal Transit Investment Grant	20.500		1,298,536
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission:			
Incentive Grants	20.600		<u>50,957</u>
<b>Total U.S. Department of Transportation</b>			<u><b>1,349,493</b></u>
<b>US ENVIRONMENTAL PROTECTION AGENCY</b>			
<b>Office of Solid Waste and Emergency Response</b>			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements Recovery Act Fund	66.818		<u>109,410</u>
<b>Total U.S. Environmental Protection Agency</b>			<u><b>109,410</b></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

<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>
<b>U.S. DEPARTMENT OF ENERGY</b>			
Energy Efficiency and Conservation Block Grant Program (Recovery Act Funded)	81.128	Not Available	171,498
<b>Total U.S. Department of Energy</b>			<b>171,498</b>
<b>U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Child Care and Development Block Grant	93.575	Not Available	123,159
ARRA-Child Care and Development Block Grant (Recovery Act Funded)	93.713	Not Available	230,111
<b>Total U.S. Department of Health and Human Services</b>			<b>353,270</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Emergency Management Performance Grants	97.042	Not Available	10,375
Disaster Grants - Public Assistance	97.036	Not Available	487,249
<b>Total U.S. Department of Homeland Security</b>			<b>497,624</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 7,144,066</b>

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, 2010**

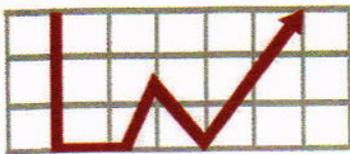
**1. BASIS OF PRESENTATION:**

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	\$ 3,658,250	\$ 3,485,816	\$ 7,144,066
Non federal programs expenditures	<u>(130,484)</u>	<u>11,597,123</u>	<u>11,466,639</u>
Total expenditures in the basic financial statements	<u>\$ 3,527,766</u>	<u>\$ 15,082,939</u>	<u>\$ 18,610,705</u>



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

**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, 2010, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 29, 2010. 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item **10-01** and **10-02**. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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)**

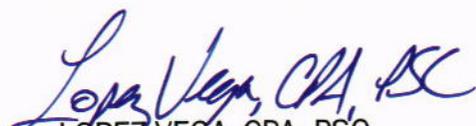
Compliance and Other Matters

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, 2010.

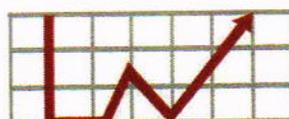
The **Municipality of Yauco's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Yauco's** response and, accordingly, we express no opinion on it.

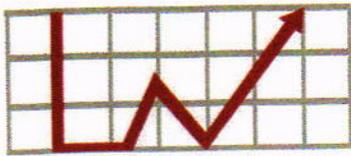
This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 29, 2010

Stamp No. 2575473 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

Member of:

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

**INDEPENDENT AUDITOR'S 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 **Municipality of Yauco's** compliance 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, 2010. 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 referred to above 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 identified in the accompanying schedule of findings and questioned costs 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 compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those compliance 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, **10-03** through **10-06**.

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

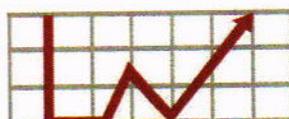
Internal Control Over Compliance

Management of the **Municipality of Yauco** is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in internal control over compliance and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and others that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items **10-03 through 10-06** to be significant deficiencies.



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

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.

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 18, 2011.

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 18, 2011

Stamp No. 2575474 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2010**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No <input checked="" type="checkbox"/>
Significant deficiencies identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes	No <input checked="" type="checkbox"/>

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes	No <input checked="" type="checkbox"/>
Significant deficiencies identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <input checked="" type="checkbox"/>	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
14.871	Section 8 Housing Choice Voucher
20.500	Federal Transit Investment Grant

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**Section II – Financial Statements Findings**

**Finding Reference**      **10-01**

**Requirement**            **Operating deficit of general fund**

**Statement of Condition** As of June 30, 2010, the Municipality closed with an accumulated deficit of \$6,655,635 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 \$549,268. 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, 2010**

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**Section II – Financial Statements Findings**

**Finding Reference**      **10-01 (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. Last year the accumulated deficit was \$8,173,608 and this year is 6,655,635, we will continue taking the necessary measures to correct this situation.

**Implementation Date:**      June 2011

**Responsible Person:**      Mayra Ortiz  
Finance Department Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>10-02</b>
<b>Requirement</b>	<b>Expenditures for Goods and Services and Accounts Payables- Purchasing and receiving</b>
<b>Statement of Condition</b>	<p>We performed a cash disbursements test and examined thirty nine (39) payments which belonged to General Fund, eleven (11) which belonged to Disaster Grant- Public Assistance Grant Justice (FEMA) and eight (8) which belonged to Community Development Block Grants – State’s Program (CDBG). The following will summarize the internal control exceptions noted:</p> <ul style="list-style-type: none"><li>a. In eleven (11) payments which belonged to General Fund, eleven (11) which belonged to Disaster Grant- Public Assistance Grant Justice (FEMA), and eight (8) which belonged to Community Development Block Grants – State’s Program (CDBG) disbursement vouchers include several documents that were not marked as paid.</li><li>b. In three (3) payments which belonged to General Fund and two (2) which belonged to Community Development Block Grants – State’s Program (CDBG) the disbursement voucher did not include the pre-interventor signature.</li><li>c. In three (3) payments which belonged to General Fund, and three (3) which belonged to Disaster Grant- Public Assistance Grant Justice (FEMA) the disbursement voucher did not include the certification of the municipality’s employee who have knowledge of the receiving of the goods or services.</li><li>d. In three (3) payments which belonged to General Fund the disbursement voucher did not include at least three quotations to evidence the Quotation Process.</li><li>e. In seven (7) payments which belonged to General Fund the disbursement voucher did not include the original invoice.</li><li>f. In seven (7) payments which belonged to General Fund the disbursement voucher was not available for our examination.</li></ul>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**Section II – Financial Statements Findings**

**Finding Reference**      **10-02 (Continued)**

**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: June, 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, 2010**

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**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>10-03</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Depository Agreements</b>
<b>Statement of Condition</b>	During our verification, we noted that the Municipality did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999)
<b>Criteria</b>	Code of Federal Regulations 24, Subpart D, 982.156 states. (c) The PHA must enter into an agreement with the depository in the form required by HUD. (d) If required under a written freeze notice from HUD to the depository: (i) The depository may not permit any withdrawal by the PHA of funds held under the depository agreement unless expressly authorized by written notice from HUD to the depository; and (ii) The depository must permit withdrawals of such funds by HUD. (2) HUD must send the PHA a copy of the freeze notice from HUD to the depository.
<b>Cause of Condition</b>	The program is not performing an effective review of compliance requirement that are required by HUD.
<b>Effect of Condition</b>	The PHA is not in compliance with laws and established regulation as prescribed by HUD.
<b>Recommendation</b>	Procedures should be implemented to ascertain that the PHA complies with the established Federal Regulation, as prescribed by HUD.
<b>Questioned Costs</b>	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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**Section III – Major Federal Award Program Findings and Questioned Costs**

Finding Reference      **10-03 (Continued)**

**Management Response  
and Corrective Action**

The Program will take procedure to comply with the preparation of Form HUD- 51999, Depository Agreement. The Municipality will submit a corrective action plan outlining this finding to be corrected in a detail manner no later than end the fiscal year 2011.

Implementation Date: June 2011

Responsible Person: Gisela Delgado  
Federal Programs Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>10-04</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Selection from the Section 8 Waiting List</b>
<b>Statement of Condition</b>	In our Waiting List test, we noted the following situation: In a sample of fifteen (15) 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.
<b>Criteria</b>	<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>
<b>Cause of Condition</b>	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.
<b>Effect of Condition</b>	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.
<b>Recommendation</b>	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.
<b>Questioned Costs</b>	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**        **10-04 (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-documented 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: June 2011

Responsible Person:    Gisela Delgado  
   Federal Programs Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>10-05</b>
<b>Program</b>	<b>Community Development Block Grants – Entitlement Program (CFDA No. 14.218); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>
<b>Requirement</b>	<b>Allowable Activities</b>
<b>Statement of Condition</b>	<p>We performed a housing rehabilitation test of ten (10) participant's files and found the following exceptions:</p> <ul style="list-style-type: none"><li>a) In ten (10) participant files, we noted that the eligibility approval document was not available for our examination.</li><li>b) In nine (9) participant files, the Program review of documentation that the grantee inspects the rehabilitation work upon completion to assure that it is carried out in accordance with contract specifications was not available for our examination.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24, Section 570.506 (b) state that at a minimum, the grantee should maintain records demonstrating that each activity undertaken meets one of the three national objectives of the CDBG Program, i.e., benefit low- and moderate-income persons, prevent or eliminate slums or blight, or meet community development needs having a particular urgency.</p> <p>Also, Code of Federal Regulations 24, Section 570.506 (b) (9) states that when CDBG- State Program funds are used for residential rehabilitation activity to aid in the prevention or elimination of slums or blight in a slum or blighted area, the grantee must maintain records to support the local definition of "substandard", must document a pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated, and must document the details and scope of CDBG assisted rehabilitation, by structure.</p>
<b>Cause of Condition</b>	<p>The Municipality's controls and procedures failed to assure that the participant's files include all the required documents to comply with the program requirements and to assure that inspections to monitor the rehabilitation activities were conducted, as established in the program's operational guide.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>10-05 (Continued)</b>
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 570.506 (b) and 570.506 (b) (9).
<b>Recommendation</b>	We recommend the Program to establish the following procedures: (a) ascertain that the participant housing unit deficiencies to be corrected are incorporated into the rehabilitation contract; (b) realize pre-rehabilitation inspections describing the participant housing unit deficiencies to be corrected; (c) assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contracts specifications; (d) assure that all participant files include all required documentation and; (e) ascertain eligibility determination and adequate evidence of family income.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>To remedy the transactions reported in the external auditors' condition, we assigned a Program staff with the responsibilities to maintain the participants' files in compliance with the Program regulations (to follow all the procedures and to use all forms specified in the procedures guide). The procedures guide titled in Spanish as "Guía Operacional para el Programa de Rehabilitación de Viviendas" was provided to and discussed with the Program staff and with the Director of the Municipal Housing Office.</p> <p>Also, we gave specific instructions to our Program staff and we are monitoring your performance closely (Program Director and/or Internal Auditor will conduct quality control files examination) in order to assure adherence to the procedures established by the Office of the Commissioner of Municipal Affairs (OCAM) in the procedures guide titled in Spanish as "Guía Operacional para el Programa de Rehabilitación de Viviendas".</p> <p>Implementation Date: June 2011</p> <p>Responsible Person: Gisela Delgado Federal Programs Director</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

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**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>10-06</b>
<b>Program</b>	<b>Community Development Block Grants – Entitlement Program (CFDA No. 14.218); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	<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 three (23) fund requisitions (a total of \$679,855) and found the following exception:</p> <p>a. In twelve (12) fund requisitions (a total of \$324,908), we observed that the Municipality did not made the disbursements in reasonable lapse of time.</p>
<b>Criteria</b>	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.
<b>Cause of Condition</b>	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.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
<b>Recommendation</b>	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.
<b>Questioned Costs</b>	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**        **10-06 (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. Also, the Mayor is going to appoint an official payer in the finance department that will work exclusively to process all federal payments, including CDBG.

Implementation Date: June 2011

Responsible Person: Gisela Delgado  
Federal Programs Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2010**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-03	14.871	<p><u>During our verification of twenty (20) participant's files, related to Section 8 Housing Choice Vouchers, we noted the following situation: 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; in twenty (20) files the Municipality did not have evidence about the release forms to allow the PHA to obtain information from third parties.</u></p> <p>Corrective action has been taken.</p>
09-04	14.871	<p><u>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.</u></p> <p>Corrective action has been taken.</p>
09-05	14.871	<p><u>During our verification of twenty (20) participant's files, related to Section 8 Housing Choice Vouchers, we noted the following situation: eight (8) participant's files did not contain evidence demonstrating that the Municipality followed-up the deficiencies noted on the unit inspection; one (1) participant's file did not contain evidence demonstrating that the owner failed to correct the cited HQS deficiencies identified in the inspection.</u></p> <p>Corrective action has been taken.</p>
09-06	14.871	<p><u>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.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 10-04.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-07	14.871	<p><u>During our verification, the Municipality did not perform the required Housing Quality Control re-inspections during the fiscal year 2008-2009.</u></p> <p>Corrective action has been taken.</p>
09-08	14.871	<p><u>During our examination, the Municipality did not maintain record of Housing Assistance Payment Register (HAP Register) for the fiscal year ended June 30, 2009.</u></p> <p>Corrective action has been taken.</p>
09-09	14.218	<p><u>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:</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 10-04.</p>
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>Corrective action has been taken.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF YAUCO**

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

**YEAR ENDED JUNE 30, 2010**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
08-04	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 10-04.</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>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</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>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>