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

MUNICIPIO DE YAUCO
AUDITORÍA 2010-2011

30 DE JUNIO DE 2011

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, 2011

Municipality of Yauco, P.O. Box 1, Yauco, Puerto Rico 00698
Hon. Abel Nazario Quiñones - Mayor

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, 2011

CONTENTS

	Pages
Independent Auditors' Report	1-2
Required Supplementary Information (Part I) Management's Discussion and Analysis	3-10
BASIC FINANCIAL STATEMENT	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Government Funds Financial Statements:	
Balance Sheet	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Assets	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Notes to Basic Financial Statements	17-42
Required Supplementary Information (Part II): Budgetary Comparison Schedule-General Fund	43
Notes to Budgetary Comparison Schedule-General Fund	44

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, 2011

TABLE OF CONTENTS

	Pages
Schedule of Expenditures of Federal Awards	45-47
Notes to the Schedule of Federal Awards	48
INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS	
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	49-50
Independent Auditor's Report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133	51-53
FINDINGS AND QUESTIONED COSTS	
Schedule of Findings and Questioned Costs	54-62
Summary Schedule of Prior Years Audit Findings	63-65

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 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 (Municipality)** as of and for the year ended June 30, 2011, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 of the **Municipality of Yauco, Puerto Rico**, as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows 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 March 16, 2012, 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.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

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 **51** 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** basic 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 not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and were derived from and related 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, 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.

López Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 16, 2012

Stamp No. 2632043 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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, 2011. 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, 2010. 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 2010-2011 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 2011 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 $76,151,799 which represents an increase of 20% compared to prior fiscal year, as restated.
2. At the end of fiscal year 2011, total liabilities amounted to $61,474,302. Out of said amount, $43,268,009 corresponded to long-term liabilities of which $39,202,000 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 $14,677,497 which represents a decrease of 24% compared to prior fiscal year, as restated.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to $28,989,651, derived from the following sources: $387,862 from charges for services; $6,495,106 from operating grants and contributions; $3,137,613 from capital grants and contributions, and $18,969,070 from general revenues.

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 $33,568,757.

6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the Net Assets figure by $(4,579,106).

7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund deficit of $(1,730,743).

8. In the fund financial statements, the governmental activities revenue decreased $1,047,323 (or 3%), and the governmental activities expenditures increased $1,697,496 (or 4%); as compare to the prior year operation.

9. At the end of the current fiscal year, the Municipality's general fund deficit decreased to ($5,481,866) compared to a fund deficit of ($6,655,635) in the prior fiscal year, as restated.

10. The actual General Fund budgetary activities resulted in a favorable balance of $2,674,402.

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 2011. 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.

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.

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.

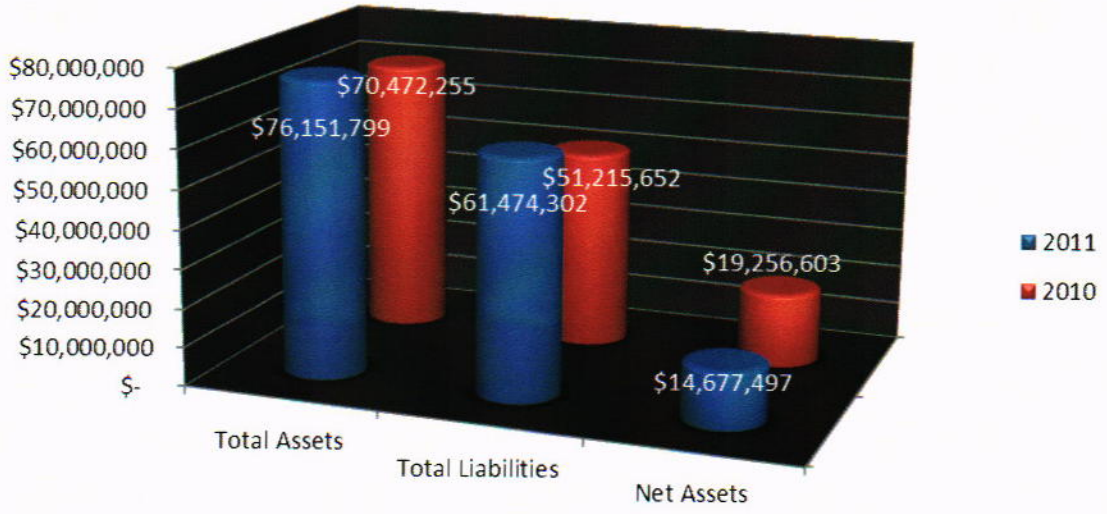
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management 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 $14,677,497 at the end of 2011, as compared with $19,256,603 which reflect a decrease of $(4,579,106) 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 $(4,579,106) decrease reflected in the Net Assets figure.

Condensed Statement of Net Assets	2011	2010	Change	%
Current and other assets	$ 16,475,550	$ 14,038,036	$ 2,437,514	17%
Capital assets	59,676,249	56,434,219	3,242,030	5%
Total assets	76,151,799	70,472,255	5,679,544	8%
Current and other liabilities	18,206,293	16,072,469	(2,133,824)	13%
Long-term liabilities	43,268,009	35,143,183	(8,124,826)	23%
Total liabilities	61,474,302	51,215,652	(10,258,650)	20%
Invested in capital assets, net of related debt	31,005,249	26,666,219	4,339,030	16%
Restricted	11,126,315	3,713,097	7,413,218	200%
Unrestricted	(27,454,067)	(11,122,713)	(16,331,354)	(147)%
Total net assets	$ 14,677,497	$ 19,256,603	$ (4,579,106)	(24)%



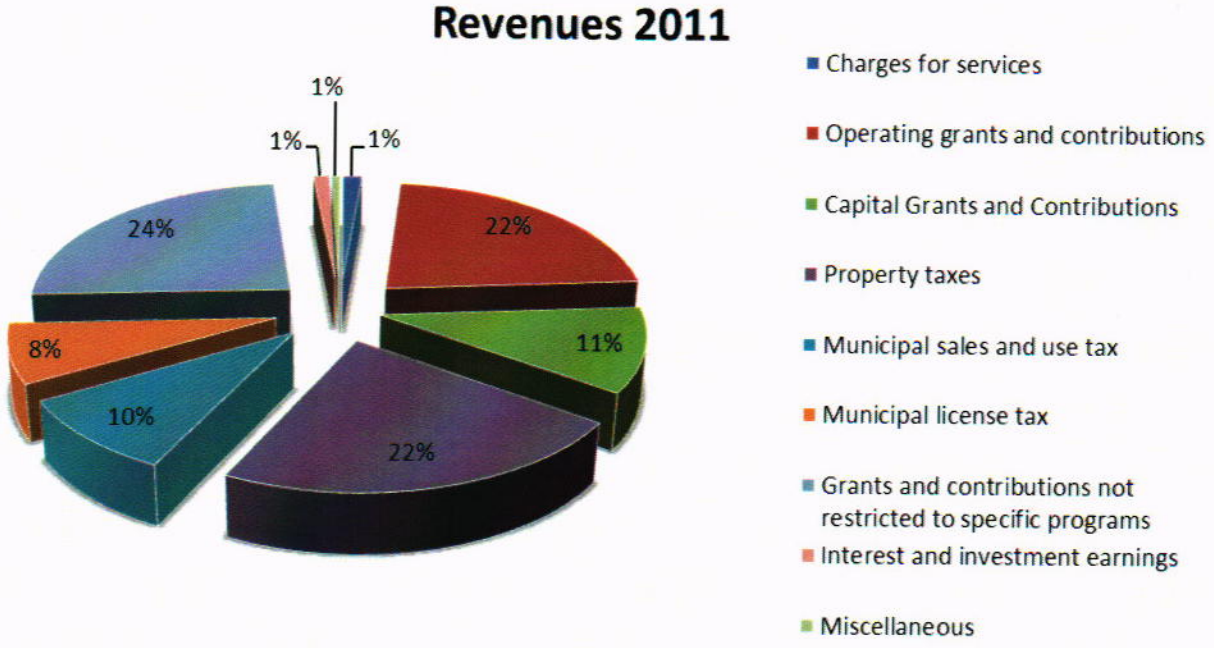
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

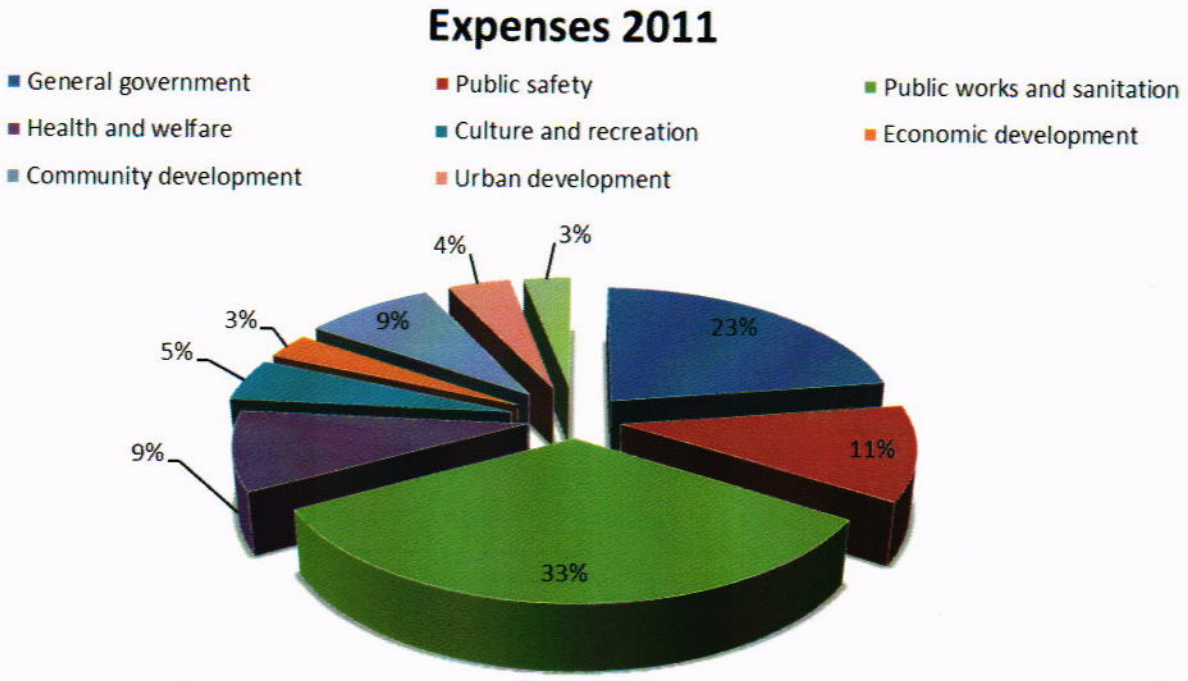
Changes in Net Assets

The Municipality's net assets decreased by $(4,579,106). Approximately forty percent (40%) of the Municipality's total revenue came from taxes, while fifty-seven percent (57%) 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, 2011 and 2010. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2011	2010	Change	%
Program revenues:				
Charges for services	$ 387,862	$ 324,943	$ 62,919	19%
Operating grants and contributions	6,495,106	6,227,460	267,646	4%
Capital grants and contributions	3,137,613	4,628,926	(1,491,313)	(32)%
General revenues:				
Property taxes	6,520,168	5,784,611	735,557	13%
Municipal license tax	2,182,368	2,313,073	(130,705)	(6)%
Municipal sales and use tax	2,754,349	2,934,092	(179,743)	(6)%
Grants and contributions not restricted to specific programs	7,028,313	7,508,837	(480,524)	(6)%
Interest and investments earnings	319,186	277,882	41,304	
Miscellaneous	164,686	134,644	30,042	22%
Total revenues	28,989,651	30,134,468	(1,144,817)	(4)%
Expenses:				
General government	7,542,006	6,846,765	(695,241)	(10)%
Public safety	3,783,303	3,144,821	(638,482)	(20)%
Public works and sanitation	11,151,485	11,262,818	111,333	1%
Health and welfare	3,151,363	2,424,370	(726,993)	30%
Culture and recreation	1,663,623	1,301,438	(362,185)	28%
Economic development	986,582	1,314,916	328,334	25%
Urban development	1,387,476	-	(1,387,476)	(100)%
Community development	2,853,266	1,951,460	(901,806)	(46)%
Education	550	47,341	46,791	98%
Interest on long-term debt	1,049,103	843,328	(205,775)	(24)%
Total expenses	33,568,757	29,137,257	(4,431,500)	(15)%
Change in net assets	(4,579,106)	997,211	(5,576,317)	(559)%
Net assets, beginning of year (as restated)	19,256,603	18,259,392	997,211	5%
Net assets, end year	$ 14,677,497	$ 19,256,603	$ (4,579,106)	(24)%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)





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 ($1,730,743), which represents a deficit decrease of $352,437 when compared with the prior year, as restated. Of the indicated balance, $9,325,937 was classified as restricted for the following purposes: (1) $4,468,999 for debt service payments, (2) $1,112,795 for capital project and (3) $3,744,143 for other purposes.

As of June 30, 2011, the General Fund, which is the main operating fund of the Municipality and the Other Governmental Funds, reflected an unassigned fund deficit of $(5,481,866) and $(11,056,680), respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2010-2011, the Municipal Legislature approved revisions to the operational budget that was prepared in accordance to the analysis of previous year's results. Despite of the balance budget, the expected amounts of revenues were not collected, as reflected in exhibit, Budgetary Comparison Schedule-General Fund attached here to. The Municipality of Yauco current year operation had a deficiency of revenues over expenses of ($ 1,730,869).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2011, amounted to $82,554,516 which upon deduction of accumulated depreciation in the amount of $22,878,267 produced a net book value attributable to capital assets in the amount of $59,676,249. 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.

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately five percent (5%) of net book value. Depreciation charges for the year totaled $4,181,860.

Debt Administration

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2011-2012.

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, 2011

	Governmental Activities
Assets	
Cash and cash equivalents	$ 2,572,397
Cash with fiscal agent	9,878,479
Accounts receivable:	
Municipal license tax	222,419
Intergovernmental	1,523,532
Property tax	2,152,650
Others	126,073
Capital assets:	
Land, improvements and construction in progress	5,168,951
Buildings, infrastruture and other capital assets, net of depreciation	54,507,298
Total capital assets	59,676,249
Total assets	76,151,799
Liabilities	
Bank overdraft	436,385
Accounts payable and accrued liabilities	12,221,452
Due to other governmental entities	856,883
Deferred revenues:	
Municipal license tax	1,817,893
Property tax	2,873,680
Noncurrent liabilities:	
Due within one year	2,635,091
Due in more than one year	40,632,918
Total liabilities	61,474,302
Net Assets	
Invested in capital assets, net of related debt	31,005,249
Restricted for:	
Capital Proyect	1,112,795
Debt service	4,468,999
Other purposes	5,544,521
Unrestricted (deficit)	(27,454,067)
Total net assets	$ 14,677,497

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, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities
General government	$ 7,542,006	$ 1,985	$ 1,269,539	$ -	$ (6,270,482)
Public safety	3,783,303	229,549	766,523		(2,787,231)
Public works	11,151,485		2,836,868	3,137,613	(5,177,004)
Health and welfare	3,151,363		1,339,290		(1,812,073)
Culture and recreation	1,663,623	156,328	217,936		(1,289,360)
Economic development	986,582		64,951		(921,631)
Community development	2,853,266				(2,853,266)
Urban Development	1,387,476				(1,387,476)
Education	550				(550)
Interest on long-term debt	1,049,103				(1,049,103)
Total governmental activities	$ 33,568,757	$ 387,862	$ 6,495,106	$ 3,137,613	$ (23,548,176)

General revenues:	
Property taxes	6,520,168
Municipal sales and use tax	2,754,349
Municipal license tax	2,182,368
Grants and contributions not restricted to specific programs	7,028,313
Interest and investment earnings	319,186
Miscellaneous	164,686
Total general revenues	18,969,070
Change in net assets	(4,579,106)
Net assets - beginning as restated	19,256,603
Net assets - ending	$ 14,677,497

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

Commonwealth of Puerto Rico
Municipality of Yauco
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund -(01)	Housing and Urban Development Grant	Debt Service Fund	Special Obligation Bond	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ -	$ 1,194,292	$ -	$ -	$ 1,378,105	$ 2,572,397
Cash with fiscal agent			4,448,208	4,366	5,425,905	9,878,479
Accounts receivable:						
Municipal sales and use tax					222,419	222,419
Intergovernmental			615,473		908,059	1,523,532
Property tax	2,152,650					2,152,650
Other	126,073					126,073
Due from other funds	505,026	6,000				511,026
Total assets	$ 2,783,749	$ 1,200,292	$ 5,063,681	$ 4,366	$ 7,934,488	$ 16,986,576
Liabilities and Fund Balances						
Liabilities :						
Bank overdraft	$ 436,385	$ -	$ -	$ -	$ -	$ 436,385
Accounts payable and accrued liabilities	2,958,216	245,995			9,017,241	12,221,452
Due to other governmental entities	774,123	82,760				856,883
Due to other funds		9,268		670	501,088	511,026
Deferred revenues:						
Municipal license tax	1,817,893					1,817,893
Property taxes	2,278,998		594,682			2,873,680
Total liabilities	8,265,615	338,023	594,682	670	9,518,329	18,717,319
Fund balances:						
Restricted		862,269	4,468,999	3,696	3,990,973	9,325,937
Unassigned	(5,481,866)				(5,574,814)	(11,056,680)
Total fund balances	(5,481,866)	862,269	4,468,999	3,696	(1,583,841)	(1,730,743)
Total liabilities and fund balances	$ 2,783,749	$ 1,200,292	$ 5,063,681	$ 4,366	$ 7,934,488	$ 16,986,576

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

Commonwealth of Puerto Rico
Municipality of Yauco
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
June 30,2011

	General Fund -(01)	Housing & Urban Development Grant	Debt Service Fund	Special Obligation Bond	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	$ 4,002,492	$ -	$ 2,566,423	$ -	$ -	$ 6,568,915
Sales tax municipal			647,555		2,106,794	2,754,349
Municipal license taxes	2,182,368					2,182,368
Licenses,permits and other local taxes	1,286,559					1,286,559
Charges for services	1,985					1,985
Intergovernmental	5,741,754				3,137,613	8,879,367
Fines and forfeitures	156,328					156,328
Rent of property	229,549					229,549
Interest	306,907	12,279				319,186
Federal grants		2,308,252			4,186,854	6,495,106
Miscellaneous	152,706				11,980	164,686
Total revenues	14,060,648	2,320,531	3,213,978	-	9,443,241	29,038,398
Expenditures						
Current:						
General government	8,192,480				939,881	9,132,361
Public safety	2,733,213				1,073,112	3,806,325
Public works	1,449,708			489,606	11,596,702	13,536,016
Health and welfare	1,400,741	572,078			1,285,203	3,258,022
Culture and recreation	1,973,611				116,649	2,090,260
Economic development	960,496				26,086	986,582
Community development	96,206	2,757,060				2,853,266
Urban Development					1,387,476	1,387,476
Education	550					550
Debt service:						
Principal			1,117,000			1,117,000
Interest			1,049,103			1,049,103
Total expenditures	16,807,005	3,329,138	2,166,103	489,606	16,425,109	39,216,961
Excess (deficiency) of revenues over (under) expenditures	(2,746,357)	(1,008,607)	1,047,875	(489,606)	(6,981,868)	(10,178,563)
Other financing sources (uses)						
Transfers in	4,162,698		242,572			4,405,270
Transfers out	(242,572)			(4,162,698)		(4,405,270)
Long-term debt issued				4,656,000	5,875,000	10,531,000
Total other financing sources (uses)	3,920,126	-	242,572	493,302	5,875,000	10,531,000
Net change in fund balances	1,173,769	(1,008,607)	1,290,447	3,696	(1,106,868)	352,437
Fund balance, beginning as restated	(6,655,635)	1,870,876	3,178,552		(476,973)	(2,083,180)
Fund balance, ending	$ (5,481,866)	$ 862,269	$ 4,468,999	$ 3,696	$ (1,583,841)	$ (1,730,743)

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

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, 2011

Total Fund Balances - Governmental Funds		$ (1,730,743)
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital Assets used in Governmental Activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 5,168,951	
Depreciable Capital Assets	77,385,565	
Accumulated Depreciation	(22,878,267)	
Total Capital Assets		59,676,249
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:		
General Bonds and Notes Payable	39,202,000	
Compensated Absences	1,787,382	
Claims and Judgments	655,701	
Landfill Obligation	1,124,864	
Interagency Agreement	359,605	
Law 146	111,976	
LIMS Repayment Plan	26,481	
Total Long-Term Liabilities		(43,268,009)
Total Net Assets of Governmental Activities		$ 14,677,497

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

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, 2011

Net Change in Fund Balances - Total Governmental Funds	$	352,437
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.		7,423,890
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.		(4,181,860)
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.		(9,414,000)
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current 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.		50,688
Change in landfill accrual		762,075
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.		549,419
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.		10,266
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.		(88,606)
Change in Net Assets of Governmental Activities	$	(4,579,106)

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

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.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (GASB No. 56).*

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

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

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. 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. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying GFFS:

   General Fund- is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

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

Special Revenue Fund – HUD Grants – is a major governmental fund used to account for and report the proceeds of specific revenue sources derived from federal grants. The uses and limitations of each special revenue fund are specified by federal statutes.

Debt Service Fund- is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

Special Obligation Bond- is a major governmental fund used to account for and report financial resources that are restricted to expenditure for payment of operational debt. The uses 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.

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.

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

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

D. Measurement focus, basis of accounting and financial presentation

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

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

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Government Fund Financial Statements – The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2011. At June 30, 2011, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

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

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.

   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.

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

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

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

Description	Useful Life	Capitalization threshold
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. **Deferred revenues**- In the GFFS, deferred revenues arises when one of the following situations occur:

   a. Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2011 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.

   b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

6. **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.

7. **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.

8. **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.

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

9. **Fund Balances**– In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

   Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned, and unassigned, based on the relative strength of the constrains that control how specific amounts can be spent, as described as follows:

   - *Restricted* – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

   - *Committed* – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.

   - *Assigned* – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

   - *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

     Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2011.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

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

10. Net Assets- Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

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.

11. 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

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

the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

12. **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

13. **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, 2011 amounted to $363,540. The current insurance policies have not been cancelled or terminated.

    The Municipality carries insurance coverage for death and bodily injuries caused by the automobile accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is $35 per licensed motor vehicle, which is paid directly to AACA.

    The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. 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, 2011 amounted to $317,796.

    The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

    Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

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

14. Use of Estimates

The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual amounts could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as it's 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, 2011.

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, 2011, (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, 2011, 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, 2011, 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.

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.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant.

Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2011.

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).

Deposits – The Municipality's bank balances in commercial banks of $1,194,292 in the HUD Grant, and $1,378,105 in the other governmental funds were fully collateralized at June 30, 2011.

The deposits at GDB of $4,448,208 in the debt service fund, in $4,366 special obligation fund and $5,425,905 in the other governmental fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. ***Property Tax***- Property tax receivable in the general fund represents the balance owed from the Municipal Revenue Collection Center (CRIM) at June 30, 2011, as described in Note 9. Also, part of this property tax receivable represents the amount due from the CRIM related to delinquent debts. Following is a detail of the property tax receivables:

Governmental Entity	Amount
Municipal Revenue Collection Center (CRIM)	$ 2,152,650
Total	$ 2,152,650

B. ***Municipal sales and use tax***- On July 29, 2007, an amended 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 (.2%), the Municipal Redemption Fund (.2%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%.

Municipal sales and use tax receivable of $ 222,419 in the other governmental funds represents filed municipal sales and use tax returns that were uncollected as of June 30, 2011, net of allowance for uncollectible accounts.

3. RECEIVABLES (CONTINUED)

C. ***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:

Program Description	Amount
Municipal Revenue Collection Center (Crim)	$ 615,473
Treasury Department	908,059
Total	$ 1,523,532

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2011, and interfund transfers during the fiscal year ended at June 30, 2011, are summarized as follows:

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

Fund	Receivable Fund	Payable Fund
General Fund	$ 505,026	$ -
HUD Grants	6,000	9,268
Special Obligation Bond		670
Other Governmental Fund	-	501,088
Total	$ 511,026	$ 511,026

b. Transfer in/out to other fund

Transfer out	Transfer in	Purpose	Amount
Special obligation bond fund	General Fund	Transfer out to cover General Fund payments	$ 4,162,698
General Fund	Debt Service Fund	Transfer out to cover Debt Service Fund payments	242,572
Total			$ 4,405,270

5. CAPITAL ASSETS

Capital assets those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of $25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Capital asset, not being depreciated:				
Land	$ 4,710,001	$ 302,950	$ -	$ 5,012,951
Construction in progress	156,000	-	-	156,000
Total capital assets not being depreciated	4,866,001	302,950	-	5,168,951
Capital assets, being depreciated:				
Land improvements	800,308			800,308
Buildings improvements	8,315,361			8,315,361
Infrastructure	54,244,170	6,507,046		60,751,216
Equipment	6,904,786	613,894	-	7,518,680
Total capital assets being depreciated	70,264,625	7,120,940	-	77,385,565
Less accumulated depreciation for:				
Land improvements	(573,651)	(8,133)		(581,784)
Buildings improvements	(2,372,211)	(153,323)		(2,525,534)
Infrastructure	(11,952,740)	(3,644,211)		(15,596,951)
Equipment	(3,797,805)	(376,193)	-	(4,173,998)
Total accumulated depreciation	(18,696,407)	(4,181,860)	-	(22,878,267)
Total capital assets being depreciated, net	51,568,218	2,939,080	-	54,507,298
Governmental activities capital assets, net	$ 56,434,219	$ 3,242,030	$ -	$ 59,676,249

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities	Amount
General government	$ 95,043
Public safety	85,215
Public works	3,840,452
Health and welfare	31,063
Education	130,087
Total depreciation expense-governmental activities	$ 4,181,860

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011 are summarized as follows:

Description	General Fund	Housing & Urban development Grant	Other Governmental Funds	Total
Bank overdraft	$ 436,385	$ -	$ -	$ 436,385
Accounts payable	974,654	238,597	8,974,107	10,187,358
Accrued liabilities	1,983,562	7,398	43,134	2,034,094
Total	$ 3,394,601	$ 245,995	$ 9,017,241	$ 12,657,837

7. DUE TO OTHER GOVERNMENTAL ENTITIES

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

Governmental Entity	Amount
US Internal Revenue Service	$ 62,341
Workmen's Compensation	6,372
Retirement System Administration	472,602
PR Treasury Department	65,702
Puerto Rico Aqueduct and Sewer Authority	167,106
Total	$ 774,123

The amounts due to other governmental entities in the Housing and Urban Development include the following:

Governmental Entity	Amount
Housing and Urban Development Department	$ 82,760
Total	$ 82,760

8. DEFERRED REVENUES

A. ***Municipal License Tax***- The deferred revenues of $1,817,893 in the general fund relates to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.

B. ***Property Tax***- The deferred revenues of approximately $2,278,998 in the general fund and $594,682 in the debt service fund relates to the balance due from the Municipal Revenue Collection Center (CRIM) at June 30, 2011, as describe in Note 9.

9. 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.

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

9. PROPERTY TAXES (CONTINUED)

economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. As of June 30 2011, the related unpaid property tax advances presented in the Statement of Net Assets amounted to $ 111,976.

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.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, was as follows:

Description	Beginning Balance as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	$24,641,000	$10,531,000	$(1,062,000)	$ 34,110,000	$ 1,371,000
Notes payable	5,147,000		(55,000)	5,092,000	450,000
Compensated absences	1,698,776	208,166	(119,560)	1,787,382	100,000
Claims and judgments	665,967		(10,266)	655,701	
Landfill obligation	1,886,939		(762,075)	1,124,864	199,511
Property tax debt- Law 146	117,308		(5,332)	111,976	5,332
LIMS repayment plan	77,169		(50,688)	26,481	26,481
State insurance fund corp	77,652		(77,652)		
Interagency agreement	831,372		(471,767)	359,605	471,767
Total	$35,143,183	$10,739,166	$(2,614,340)	$ 43,268,009	$ 2,624,091

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

10. LONG-TERM LIABILITIES (CONTINUED)

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, 2011 are as follows:

Description	Balance at June 30, 2011
1996 Serial bond for infrastructure improvement with an original amount of $4,585,000 due in installments of $100,000 to $435,000 through July 1, 2015, with interest ranging from 4.70% to 6.63%	$ 1,875,000
2000 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $857,000 due in installments of $19,000 to $57,000 through January 1, 2029, with interest ranging from 4.75%	708,000
2002 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $2,015,000 due in installments of $30,000 to $165,000 through July 2026, with interest ranging from 2.70% to 5.60%	1,635,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $670,000 due in installments of $5,000 to $50,000 through July 1, 2027, with interest ranging from 1.53% to 6.62%	540,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $376,000 due in installments of $9,000 to $24,000 through January 1, 2030, with interest ranging from 4.25%	318,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1.091,000 due in installments of $25,000 to $69,000 through January 1, 2029, with interest ranging from 4.25%	889,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,000,000 due in installments of $20,000 to $75,000 through July 2027, with interest ranging from 4.17% to 5.31%	820,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,385,000 due in installments of $20,000 to $105,000 through July 2027, with interest ranging from 4.17% to 5.31%	1,155,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $730,000 due in installments of 10,000 to $55,000 through July 2027, with interest ranging from 4.17% to 5.31%	605,000
2004 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $975,000 due in installments of $75,000 to $120,000 through July 1, 2013, with interest ranging from 2.43% to 7.50%	235,000
2004 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,005,000 due in installments of $20,000 to $75,000 through July 1, 2028, with interest ranging from 1.53% to 7.00%	820,000
2004 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $185,000 due in installments of $15,000 to $25,000 through July 1, 2014, with interest ranging from 4.17% to 4.73%	85,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2011
2004 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $495,000 due in installments of $10,000 to $35,000 through July 1, 2028, with interest ranging from 2.36% to 5.31%	420,000
2004 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $410,000 due in installments of $10,000 to $30,000 through July 1, 2028, with interest ranging from 4.17% to 5.31%	340,000
2005 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $215,000 due in installments of $5,000 to $25,000 through July 1, 2020, with interest ranging from 1.53% to 7.50%	160,000
2005 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $280,000 due in installments of $7,000 to $19,000 through January 1, 2030, with interest ranging from 4.50%	250,000
2005 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $615,000 due in installments of $30,000 to $60,000 through July 1, 2019, with interest ranging from 2.43% to 6.62%	415,000
2005 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $85,000 due in installments of $5,000 to $15,000 through July 2019, with interest ranging from 3.28% to 4.73%	55,000
2007 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,307,000 due in installments of $52,000 to $134,000 through July 1, 2021, with interest ranging from 1.53% to 7.00%	1,075,000
2007 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $135,000 due in installments of $5,000 to $10,000 through July 1, 2031, with interest ranging from 2.43% to 7.00%	115,000
2007 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $155,000 due in installments of $10,000 to $20,000 through July 1, 2027, with interest ranging from 1.53% to 7.00%	105,000
2008 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $3,785,000 due in installments of $60,000 to $305,000 through July 1, 2033, with interest ranging from 4.38% to 7.00%	3,725,000
2008 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,417,000 due in installments of $99,000 to $192,000 through July 1, 2017, with interest ranging from 1.53% to 7.50%	1,094,000
2008 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $320,000 due in installments of $5,000 to $30,000 through July 1, 2032, with interest ranging from 1.53% to 7.50%	305,000
2009 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $295,000 due in installments of $5,000 to $25,000 through July 1, 2028, with interest ranging from 1.53% to 5.40%	280,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2011
2010 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,940,000 due in installments of $25,000 to $155,000 through July 1, 2034, with interest ranging from 4.75% to 7.00%	1,915,000
2010 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $3,020,000 due in installments of $50,000,000 to $240,000 through July 1, 2034, with interest ranging from 4.75% to 7.00%	2,970,000
2010 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $680,000 due in installments of $10,000 to $60,000 through July 1. 2034, with interest ranging from 6.00% to 7.50%	670,000
2011 Special obligation bond for operational expenses with an original amount of $3,430,000 due in installments of $20,000 to $305,000 through July 1, 2033, with interest ranging from 6.00% to 7.50%	3,430,000
2011 Special obligation bond for operational expenses with an original amount of $4,656,000 due in installments of $31,000 to $391,000 through July 1, 2036, with interest ranging from 6.00% to 7.50%	4,656,000
2011 Special obligation bond for operational expenses with an original amount of $2,445,000 due in installments of $15,000 to $205,000 through July 1. 2034, with interest ranging from 6.00% to 7.50%	2,445,000
Total	**$ 34,110,000**

These bonds are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Series 2008, amounting 3,785,000, the Series 2011, amounting 4,656,000 and the Series 2011, amounting 2,445,000 are payable with the revenues generated from the collection of the .002% of the municipal sales and use taxes redemption fund.

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

Year Ending June 30,	Principal	Interest
2012	$ 1,371,000	$ 1,649,034
2013	1,460,000	2,138,531
2014	1,438,000	2,200,856
2015	1,545,000	2,118,229
2016	1,619,000	2,015,404
2017-2021	6,459,000	8,683,610
2022-2026	7,239,000	6,534,504
2027-2031	7,243,000	3,708,557
2032-2036	5,736,000	939,175
Total	$ 34,110,000	$ 29,987,900

10. LONG-TERM LIABILITIES (CONTINUED)

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:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2011
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%	20,000
2010 Series	2010	327,000	6.00% to 7.50%	292,000
Section 108 Note	2028	4,000,000	.002%	4,000,000
Total notes payable				$ 5,092,000

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 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

Year Ending June 30,	Principal	Interest
2012	$ 450,000	$ 36,326
2013	446,000	35,580
2014	527,000	38,170
2015	323,000	25,240
2016	374,000	16,915
2017-2021	1,167,000	41,995
2022-2026	1,135,000	40,000
2027-2029	670,000	24,000
Total	$ 5,092,000	$ 258,226

4. **State Insurance Fund Corporation-** This amount represents the balance owed to the "CFSE" that was retained by the remittance during the previous twelve (12) months. The outstanding balance owed was paid during fiscal year 2010-2011.

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, 2011, the outstanding debt balance is $26,481. This amount is presented in the government-wide financial statements.

6. **Compensated Absences-** The government-wide statement of net assets includes $1,230,574 of accrued sick leave benefits, and $556,808 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

10. LONG-TERM LIABILITIES (CONTINUED)

7. **Landfill Obligations**- State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized $1,124,864 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2011. The annual estimate of post closure costs has been assessed approximately to be $762,075 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.

8. **Claims and Judgments** – These amounts represent the balance related to legal claims at June 30, 2011, as described in Note 16.

9. **Interagency Agreement**- During fiscal year 2010-2011, the Municipality entered into an Interagency Agreement with Puerto Rico Aqueduct and Sewer Authority and Department of Labor and Human Resources, for the payment of the Municipality's debt for water and sewer services and unemployment benefits. The balance at June 30, 2011 of this agreement was $359,605.

11. PENSION PLAN

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

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

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

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

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

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

11. PENSION PLAN (CONTINUED)

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.

If at the time of retirement accumulated benefits amount to $10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state and municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to $6,600 8.275% of gross salary over $6,600
Hired on or before April 1, 1990	8.275% of gross salary

Annual Contribution

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

Fiscal year	Law No. 447	System 2000
2011	$ 145,700	$ 253,919
2010	$ 228,892	$ 350,754
2009	$ 82,307	$ 102,152

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and cost of living adjustments, led to a one-tine recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940.

12. FUND BALANCE (DEFICIT)

As of June 30 2011, fund balance (deficit) is comprised of the following:

Fund Balance (Deficit)	General Fund	Housing and Urban Development Grants	Debt Service Fund	Special Obligation Bond	Other Governmental Funds	Total
Restricted for:						
General Government	$ -	$ -	$ -	$ 3,696	$ 3,029,320	$ 3,033,016
Culture and Recreation					245	245
Health and Welfare					64,706	64,706
Public Safety					20,343	20,343
Public Work		862,269			876,359	1,738,628
Debt Service			4,468,999			4,468,999
Unassigned	(5,481,866)				(5,574,814)	(11,056,680)
Total Fund Balance (Deficit)	$ (5,481,866)	$ 862,269	$ 4,468,999	$ 3,696	$ (1,583,841)	$ (1,730,743)

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. 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, 2011, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

B. Claims and lawsuits:

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

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately $1,787,382 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.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2011:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this statement are effective for the fiscal year commencing on July 1, 2011.
- GASB Statement No. 61, *The Financial Reporting Entity* (GASB 61). The requirements of this statement are effective for the fiscal year commencing after June 15, 2012.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements* (GASB 62). The requirements of this statement are effective for the fiscal year commencing on July 1, 2012.
- GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision (amendment to GASB Statement No. 53)*. The requirements of this statement are effective for the fiscal year commencing on June 15, 2011.

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

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 Improvement Funds	Other Governmental Funds	Total
Fund balance, beginning	$ (6,655,635)	$ 1,870,876	$ 3,178,552	$ 578,453	$ (4,014,092)	$ (5,041,846)
Reclassification for major fund presentation				(578,453)	578,453	
Corrections in Accounting Transactions	-	-	-	-	2,958,666	2,958,666
Fund balance, beginning as restated	$ (6,655,635)	$ 1,870,876	$ 3,178,552	$ -	$ (476,973)	$ (2,083,180)

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:

Description	Total
Net assets, beginning	$ 17,129,309
To adjust the long-term debt liability-Interagency Agreement	(831,372)
Corrections in accounting transactions	2,958,666
Net assets, beginning as, restated	$ 19,256,603

17. SUBSEQUENT EVENTS

Act No. 94 issued on June 16, 2011 by the Legislature established an incentive plan for the payment of real and personal property tax dues, beginning on July 14, 2011. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interests of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit is for exactly ninety (90) days beginning on July 14 through October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal year 2009-2010 and earlier (for real property taxes) and for 2008 and earlier for personal property tax.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

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

YEAR ENDED JUNE 30, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
REVENUES:				
Property taxes	$ 3,963,373	$ 3,963,373	$ 3,379,588	$ (583,785)
Municipal license tax	3,067,224	3,067,224	2,313,073	(754,151)
Fines and Forfeitures	47,000	47,000	40,743	(6,257)
Licenses, permits and other local taxes	1,342,633	1,342,633	2,155,282	812,649
Charges for Services			2,800	2,800
Intergovernmental	5,572,942	5,572,942	5,353,555	(219,387)
Rent of property	201,500	201,500	281,399	79,899
Interest	30,000	30,000	277,880	247,880
Miscellaneous	521,677	521,677	134,646	(387,031)
Total revenues	14,746,349	14,746,349	13,938,966	(807,383)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	7,512,494	7,512,494	8,516,256	1,003,762
Public safety	2,832,187	2,832,187	2,780,063	(52,124)
Public works	1,562,129	1,562,129	1,546,896	(15,233)
Health and welfare	611,025	611,025	609,922	(1,103)
Culture and recreation	1,985,942	1,985,942	1,974,126	(11,816)
Operating transfer to other fund	242,572	242,572	242,572	-
Total expenditures, encumbrances and other financing uses	14,746,349	14,746,349	15,669,835	923,486
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	$ -	$ -	$ (1,730,869)	$(1,730,869)

Explanation of Differences:

Sources/inflows of resources:	
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	$ 13,938,966
Nonbudgeted revenues	121,682
Operating transfer in from other funds	4,162,698
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	$ 18,223,346
Uses/outflows of resources:	
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	$ 15,669,835
Differences-budget to GAAP:	
Nonbudgeted expenditures	1,379,742
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	$ 17,049,577

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2011

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, 2011 representing original budget. There were no supplemental appropriations for the year ended June 30, 2011.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	$ 28,908
Total U.S. Department of Agriculture			**28,908**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grants – Entitlement Grants	14.218		1,770,936
Emergency Shelter Grants Program	14.231		98,170
Community Development Block Grants – Section 108 Loan Guarantee	14.248		986,124
Neighborhood Stabilization Program	14.256		1,265,836
Section 8 Housing Choice Voucher Program	14.871		499,093
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	72,985
Pass-through the Commonwealth of Puerto Rico-Department of Family			
ARRA Homelessness Prevention and Rapid Re-Housing Program (HPRP)(Recovery Act Funded)	14.257	Not Available	399,885
Total U.S. Department of Housing and Urban Development			**5,093,029**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF JUSTICE			
Pass-through the Commonwealth of Puerto Rico Department of Justice:			
Community Oriented Policing Services	16.710	Not Available	205,017
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736		184,596
ARRA-Edward Byrne Justice Assistance Grant (EBJAG) (Recovery Act Funded)	16.803	Not Available	502,243
Total U.S Department of Justice:			**891,856**
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico – Department of Transportation:			
Federal Transit Investment Grant	20.500	Not Available	563,375
Pass-through the Commonwealth of Puerto Rico – Transit Safety Commission: Incentive Grants	20.600	Not Available	47,962
Total U.S. Department of Transportation			**611,337**
US ENVIRONMENTAL PROTECTION AGENCY Office of Solid Waste and Emergency Response			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements Recovery Act Fund	66.818		75,896
Total U.S. Environmental Protection Agency			**75,896**
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Child Care and Development Block Grant	93.575	Not Available	437,517

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES: (Continue)			
ARRA-Child Care and Development Block Grant (Recovery Act Funded)	93.713	Not Available	132,319
Total U.S. Department of Health and Human Services			**569,836**
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico-Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance	97.036	Not Available	2,026,164
Total U.S. Department of Homeland Security			**2,026,164**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 9,297,026**

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, 2011

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:

Description	HUD Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	$ 5,110,172	$ 4,186,854	$ 9,297,026
Non federal programs expenditures	(1,781,034)	12,238,255	10,457,221
Total expenditures in the basic financial statements	$ 3,329,138	$ 16,425,109	$ 19,754,247

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, 2011, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated March 16, 2012. 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, 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 **11-01** and **11-02**. 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.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

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 March 16, 2012.

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.

López Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 16, 2012

Stamp No. 2632044 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 THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Yauco's** major federal programs for the year ended June 30, 2011. The **Municipality of Yauco's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Yauco's** management. Our responsibility is to express an opinion on the **Municipality of Yauco's** compliance based on our audit.

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

In our opinion, the **Municipality of Yauco** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **11-03** and **11-04**.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Yauco's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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.

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.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items **11-03** and **11-04**. 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.

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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Yauco** in a separate letter dated March 16, 2012.

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.

López Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 16, 2011

Stamp No. 2632045 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, 2011

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 X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant-Entitlement Grant
14.256	Neigborhood Stabilization Program
14.257	Homeless Prevention & Rapid Rehousing Program
14.871	Section 8 Housing Choice Voucher
16.803	Edward Byrne Justice Assistance Grant
20.500	Federal Transit Investment Grant
	CCDF Cluster:
93.575	Child Care and Development Block Grant
93.713	ARRA- Child Care and Development Block Grant (Recovery Act funded)
97.036	Disaster Recovery

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

Section II – Financial Statements Findings

Finding Reference	**11-01**
Requirement	**Operating deficit of general fund**
Statement of Condition	As of June 30, 2011, the Municipality closed with an accumulated deficit of $5,481,866 in the general fund as presented in the balance sheet-governmental funds, decresase of $ 1,173,769 in the comparison with prior year. The current year operation closed with an excess of revenues and other financing sources over actual expenditures. Primarily, the decrease in the operating deficit was due to an operating loan taken by the Municipality for operational expenditures. The accumulated 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 credits available of this 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.

Section II – Financial Statements Findings

Finding Reference **11-01 (Continued)**

Recommendation We recommend the Municipality to evaluate the adequacy of the provision for deficit reserve accounts in the next fiscal budget. 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 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 fiscal years. However, for our people's pride, we have done the biggest monumental work projects in the history of this city. To control the Municipal operational expenses we reduced the employees working hours, we eliminated regular positions, we eliminated overtime pay, and we also eliminated travel expenses including meals and cellular cost. We also limited the use of the official vehicles and reduced 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 $6,655,635 and this year is $5,481,866 we will continue taking the necessary measures to correct this situation.

Implementation Date: June, 2012

Responsible Person: Mrs. Mayra Ortiz
Finance Department Director

Section II – Financial Statements Findings

Finding Reference 11-02

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

Statement of Condition We performed a cash disbursements test and examined eighteen (18) payments which belonged to General Fund, ten (10) which belonged to Community Development Entitlement Grants, ten (10) which belonged to Federal Transit Investment Grant (FTA), fourteen (14) which belonged to Municipal Sales and Use Tax, and nine (9) which belonged to Special Funds the following will summarize the internal control exceptions noted:

a. In sixteen (16) payments which belonged to General Fund, seven (7) which belonged to Special Funds and thirteen (13) which belonged to Municipal Sales and Use Tax, the disbursement vouchers included several documents that was not marked as paid.

b. In three (3) payments which belonged to General Fund, eight (8) which belonged to Special Funds and two (2) which belonged to Municipal Sales and Use Tax, the disbursement vouchers did not include the pre-interventor signature.

c. In one (1) payment which belonged to General Fund, one (1) which belonged to Special Funds and two (2) which belonged to Municipal Sales and Use Tax, the disbursement vouchers did not include the certification of the municipality's employee who had knowledge of the receiving of the goods or services.

Criteria "Reglamento para la Administración Municipal" 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 "Reglamento para la Administración Municipal".

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.

Section II – Financial Statements Findings

Finding Reference **11-02 (Continued)**

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, 2012

Responsible Person: Mrs. Mayra Ortiz
Finance Department Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**11-03**
Program	**Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development**
Requirement	**Special Test – Selection from the Section 8 Waiting List**
Statement of Condition	In our Waiting List test, we noted the following situation: In a sample of 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.
Criteria	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. 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.
Cause of Condition	The Municipality controls and procedures failed to assure that the participants were selected from the top of the waiting list according with the PHA's applicant selection policies.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, sections 982.54 (d), 982.201 through 982.207 and with the PHA's administrative plan.
Recommendation	We recommend management to improve monitoring procedures to assure that the participants are admitted to the program or are provided the opportunity to be admitted to the program according with the PHA administrative plan.
Questioned Costs	None

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-03 (Continued)**

Management Response and Correction Action

Selection from the approved "Waiting List" is based on first-come-first served basis, and 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 2012

Responsible Person: Mrs. Gisela Delgado
Federal Programs Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**11-04**
Program	**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)**
Requirement	**Cash Management**
Statement of Condition	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 eight (8) fund requisitions (a total of $443,813) and found the following exception: a. In five (5) fund requisitions (a total of $220,820), we observed that the Municipality did not make the disbursements in reasonable lapse of time.
Criteria	OMB Common Rules, Subpart C, Section .20 (b) (7), requires a cash management system; in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Municipality's disbursements procedures failed to assure that funds requested and received from the Federal agency be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Municipality is not in compliance with the OMB Common Rules, Subpart C, Section .20 (b) (7).
Recommendation	We recommend Management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the Federal agency and the disbursements made by the Municipality.
Questioned Costs	None

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-04 (Continued)**

Management Response and Corrective Action

As part of our corrective action plan, we will instruct Program accounting staff, in order to strengthen internal controls and procedures to assure that the conditions observed by the auditors does not occur again. We are going to start the disbursement process when the requisitions of funds are submitted to the U.S. Department of Housing and Urban Development (HUD), in order to assure that when the funds are transferred by this agency, the program will disburse them immediately.

Implementation Date: June, 2012

Responsible Person: Mrs. Gisela Delgado
Federal Programs Director

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF YAUCO

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
10-03	14.871	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 depositary agreement with their financial institutions in the form required by HUD. (Form HUD-51999) Corrective action has been taken.
10-04	14.871	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. No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 11-03.
10-05	14.218	We performed a housing rehabilitation test of ten (10) participant's files and found the following exceptions. In ten (10) participant files, we noted that the eligibility approval document was not available for our examination. 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. Corrective action has been taken.
10-06	14.218	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. 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. No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 11-04.

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF YAUCO

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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	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. Corrective action has been taken.
09-04	14.871	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. Corrective action has been taken.
09-05	14.871	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. Corrective action has been taken.
09-06	14.871	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. No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 11-03.
09-07	14.871	During our verification, the Municipality did not perform the required Housing Quality Control re-inspections during the fiscal year 2008-2009. Corrective action has been taken.
09-08	14.871	During our examination, the Municipality did not maintain record of Housing Assistance Payment Register (HAP Register) for the fiscal year ended June 30, 2009. Corrective action has been taken.

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF YAUCO

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-09	14.218	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: No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 11-04.
08-03	14.871	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. 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.
08-04	14.871	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. 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.