

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**  
**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**  
**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE VEGA ALTA**  
**AUDITORIA 2002-2003**  
**30 DE JUNIO DE 2003**

OFICIO DEL COMISIONADO  
ASUNTOS MUNICIPALES

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**MUNICIPALITY OF VEGA ALTA, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2003  
(INDEPENDENT AUDITOR'S REPORT)**

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**MUNICIPALITY OF VEGA ALTA, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2003**

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**INDEPENDENT AUDITOR'S REPORT**

Mayor of the Municipality of Vega Alta  
Vega Alta, Puerto Rico

I have audited the accompanying financial statements of the Governmental Activities, each major fund and the remaining fund information of the **Municipality of Vega Alta**, Puerto Rico, as of and for the year ended June 30, 2003, which collectively comprise the **Municipality of Vega Alta** basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit.

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

The financial statements referred to above present fairly, in all material respects, the respective financial position of the general and capital projects fund and governmental activities of the Municipality of Vega Alta, Puerto Rico, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the business type activities, debt service and the aggregate remaining fund information of the **Municipality of Vega Alta**, Puerto Rico, as of June 30, 2003, and the respective budgetary comparison for the General Fund and Debt Service Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the business type activities, debt service and the aggregate remaining fund information of the **Municipality of Vega Alta**, Puerto Rico, as of June 30, 2003, and the respective budgetary comparison for the General Fund and Debt Service Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the **Municipality of Vega Alta** adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – And Management’s Discussion and analysis-For State and Local Governments*; as of and for the year ended June 30, 2003. This result in a change in the format and content of the basic financial statements.

The Management’s Discussion and Analysis information, on pages 3 through 7, and the Budgetary Comparison Schedule – General Fund on page 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audited the information and express no opinion on it.

San Juan, Puerto Rico  
December 19, 2003

The stamp number 1942629  
was affixed to the  
original of this report.



  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2004

*Estado Libre Asociado de Puerto Rico*  
*Gobierno Municipal del Pueblo de Vega Alta*

*Benjamin Declet Salgado*  
*Director de Finanzas*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Municipality of Vega Alta (the "Municipality"), we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2002-2003 operations sustain the Municipality's track of solvency and sound fiscal condition. The Governmental Wide financial statement also supports our statement. This condition is achieved in a time of economy constrains and low revenues growth rates.

**FINANCIAL HIGHLIGHTS**

- The assets of the Municipality Government exceeded its liabilities at the close of the current fiscal year by \$ 34,196,775 (net assets). Of this amount \$ 9,764,251 are unrestricted. Net assets may be used to meet the Municipality's current operations.
- As June 30, 2003 the Municipality's General Fund reported a fund balance of \$ 370,378 an increase of \$                      in comparison with the prior year.
- Loans principal payments were \$ 500,000 during fiscal year 2002-03. Loan proceeds from new debt issued amounted to \$ 2,585,000 during the same fiscal year.

## **New Requirements for the Financial Reporting**

The new approach on the preparation of the Municipality's financial statements emphasizes on a government wide (consolidated) view of its financial operations. Nevertheless major individual funds are presented and evaluated in all of its details. Simultaneous implementation of both of these perspectives allows user to address relevant questions about municipality's performance and provides a basis for comparisons and evaluation of services quality.

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior year data. However, in future years, comparisons will be more meaningful and will provide a better understanding of the municipality's financial position and results of its operations.

### **Financial Statements Components**

The basic financial statement consist of government wide financial statements, the major individual funds financial statement, and notes to the financial statements that provides more details.

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most privet sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of Activities is focused on both the gross and net cost of various activities, which are supported by the Municipality's property tax, municipal licenses tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including police, public works, solid waste disposal, community services, and general administration. Property tax, municipal license tax, state and federal appropriations finance most of the services.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The Major Governmental Funds presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using a accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental funds statement provides a detailed short-term view of the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality's programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements.

The notes provides additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement.

### **Infrastructure Assets**

The Municipality implemented the major model portions of GASB statement 34 during the current fiscal year. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statement. The new statement required that this assets be valuated and reported within the Governmental column of the Governmental Wide Statement. Additionally, the government must elect to either depreciate these assets over theirs estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets managements system, which periodically, by category, measures and demonstrate its maintenance system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services 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 statements users in evaluating a local government and its performance over time.

## Government-Wide Statement

### Statement of Net Assets

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$170.7 millions at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

### Statement of Net Assets As of June 30, 2003

Current and other assets	\$ 16,789,833
Capital assets	34,142,160
<b>Total assets</b>	<b>50,931,833</b>
Current and other liabilities	6,661,766
Long-term liabilities	10,073,452
<b>Total liabilities</b>	<b>16,735,218</b>
Net assets:	
Invested in capital assets, net related debt	23,095,030
Restricted	1,337,494
Unrestricted	9,764,251
<b>Total net assets</b>	<b>34,196,775</b>

The principal increase of the net assets was due mainly to the inclusion of the capital assets of the municipality. Such amount will increase as the infrastructure assets are identified and included in the financial statements.

## Statement of Activities

The following reflects the condensed Statement of Activities of the Primary Government:

**For the year ended June 30, 2003**

General revenue	\$7,394,296
Program revenue	3,051,883
Enterprise	
Total revenue	10,446,179
Expenses	3,051,883
Governmental activities	15,349,298
Enterprise	
Total expenses	18,401,181
Change in net assets	(7,394,296)

### Economic Factors and Next Year Budget

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central governmental of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 16 members.

The Municipality provides a full range of services including public works, education Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

The municipality has a wide industrial base which included the International Airport, hotels, large pharmaceuticals, wholesalers, retail stores, financial institutions, restaurants, among others. This industrial base has increased substantially during the most recent years.

## **Contacting the Municipality's Financial Management**

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance.



**Benjamin Declet  
Finance Director**

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2003**

<b>ASSETS</b>	<b>General Fund</b>	<b>2003 Bond Issue Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Other Funds</b>	<b>Total Governmental Funds</b>
Cash and investments	\$ 2,991,890	\$ 2,575,000	\$ 15,132	\$ 2,796,724	\$ 3,506,751	\$ 11,885,497
Cash with fiscal agent and other	3,420,673	-	-	-	-	3,420,673
Receivable volume business	81,380	-	-	-	-	81,380
Accounts receivable federal government	92,082	-	741,407	-	66,901	900,390
Due from general fund and other funds	-	-	-	-	1,292,858	1,292,858
Accounts receivable government	501,893	-	-	-	-	501,893
<b>Total assets and other debits</b>	<b>\$ 7,087,918</b>	<b>\$ 2,575,000</b>	<b>\$ 756,539</b>	<b>\$ 2,796,724</b>	<b>\$ 4,866,510</b>	<b>\$ 18,082,691</b>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 1,040,955	\$ -	\$ 742,193	\$ -	\$ 60,836	\$ 1,843,984
Due to special revenue funds and other	1,292,858	-	-	-	-	1,292,858
Matured bond and interest payable	-	-	-	1,441,932	-	1,441,932
Due to government entity	196,398	-	-	-	-	196,398
Deferred revenue	2,349,175	-	-	-	-	2,349,175
<b>Total liabilities</b>	<b>\$ 4,879,386</b>	<b>\$ -</b>	<b>\$ 742,193</b>	<b>\$ 1,441,932</b>	<b>\$ 60,836</b>	<b>\$ 7,124,347</b>
<b>Fund balances</b>						
Reserve for debt services	\$ -	\$ 2,575,000	\$ -	\$ 1,354,792	\$ -	\$ 3,929,792
Encumbrances	115,732	-	-	-	-	115,732
General Fund	2,092,800	-	-	-	-	2,092,800
Special revenue fund	-	-	14,346	-	4,805,674	4,820,020
Capital Project fund	-	-	-	-	-	-
<b>Total fund balances</b>	<b>2,208,532</b>	<b>2,575,000</b>	<b>14,346</b>	<b>1,354,792</b>	<b>4,805,674</b>	<b>10,958,344</b>
<b>Total liabilities and fund balance</b>	<b>\$ 7,087,918</b>	<b>\$ 2,575,000</b>	<b>\$ 756,539</b>	<b>\$ 2,796,724</b>	<b>\$ 4,866,510</b>	

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	\$ 34,142,160
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued compensated absence	\$ 686,876
Other liabilities	
Bonds payable	10,216,853
Advances from CRIM	
Obligations under capital leases	943,247
<b>Total long-term liabilities</b>	<b>(10,903,729)</b>
<b>Total net assets of governmental activities</b>	<b>\$ 34,196,775</b>

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2003**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 11,885,497
Cash with fiscal agent and other	3,420,673
Accounts receivable:	
Receivable volume business	81,380
Accounts receivable federal government	900,390
Accounts receivable government	501,893
Capital Assets	34,142,160
<b>Total assets</b>	<b><u>\$ 50,931,993</u></b>
<b>LIABILITIES AND FUND EQUITY</b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 1,843,984
Matured bond and interest payable	1,441,932
Due to government entity	196,398
Deferred revenue	2,349,175
Noncurrent liabilities:	
Due within one year	830,277
Due in more than one year	10,073,452
<b>Total liabilities</b>	<b><u>16,735,218</u></b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	23,095,030
Restricted for debt service	1,337,494
Unrestricted	9,764,251
<b>Total net assets</b>	<b><u>\$ 34,196,775</u></b>

See notes to financial statement.

MUNICIPALITY OF VEQA ALTA, PUERTO RICO  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	2003 Bond issue Fund	Capital Project Fund	Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 473,268	\$ -	\$ -	\$ 1,169,332	\$ -	\$ 1,642,600
Municipal license tax	1,990,543	-	-	-	-	1,990,543
Licenses, permits and fines	1,135,727	-	-	-	-	1,135,727
Intergovernmental revenues	3,983,633	-	-	-	2,000,933	5,984,566
Rent of properties	289,755	-	-	-	-	289,755
Interest income	198,882	-	-	23,385	-	222,267
Other revenues	1,400,020	-	-	-	-	1,400,020
Federal financial award	-	-	864,433	-	580,375	1,444,808
<b>Total revenues</b>	<b>9,471,828</b>	<b>-</b>	<b>864,433</b>	<b>1,192,717</b>	<b>2,581,308</b>	<b>14,110,286</b>
<b>EXPENDITURES:</b>						
<b>Current:</b>						
General government	5,828,490	-	74,441	-	872,930	6,775,861
Public safety	1,275,192	-	-	-	-	1,275,192
Public works	3,436,009	-	-	-	-	3,436,009
Health	689,324	-	-	-	-	689,324
Capital projects	-	-	773,134	-	2,070,007	2,843,141
Culture and recreation	909,910	-	-	-	-	909,910
Debt service:						
Principal retirement	-	-	-	500,000	-	500,000
Interest and fiscal charges	-	-	-	436,743	-	436,743
<b>Total expenditures</b>	<b>12,138,925</b>	<b>-</b>	<b>847,575</b>	<b>936,743</b>	<b>2,942,937</b>	<b>16,866,180</b>
Excess of revenues over (under) expenditures	(2,667,097)	-	16,858	255,974	(361,629)	(2,755,894)
<b>Other financing source (uses):</b>						
Net advance of property taxes	3,011,851	-	-	116,000	-	3,127,851
Transfer in (out) to debt service fund	(116,000)	-	-	(22,321)	-	(138,321)
Net bond issued debt	-	2,575,000	-	-	-	2,575,000
<b>Total other financing source (uses)</b>	<b>2,895,851</b>	<b>2,575,000</b>	<b>-</b>	<b>93,679</b>	<b>-</b>	<b>5,564,530</b>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>228,754</b>	<b>2,575,000</b>	<b>16,858</b>	<b>349,653</b>	<b>(361,629)</b>	<b>2,808,636</b>
Fund balance June 30, 2002	1,832,154	-	(2,512)	2,447,071	5,257,303	9,534,016
Prior period adjustment	147,624	-	-	1,441,932	-	(1,294,308)
<b>Fund balance June 30, 2003</b>	<b>\$ 2,208,532</b>	<b>\$ 2,575,000</b>	<b>\$ 14,346</b>	<b>\$ 1,354,792</b>	<b>\$ 4,895,674</b>	<b>\$ 11,048,344</b>

See notes to financial statements.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Functions/Programs	Expenses	Program Revenues		Net (expense) revenue and change in Net Assets Governmental Activities	
		Charges for Services	Capital Grants and Contributions		Operating Grants and Contributions
<b>EXPENDITURES:</b>					
Current:					
General government	\$ 6,847,290	\$ (2,104,512)	\$ (74,441)	\$ (872,930)	\$ (3,795,407)
Public safety	1,345,400	-	-	-	(1,345,400)
Public work	3,550,173	-	-	-	(3,550,173)
Health	1,033,646	-	-	-	(1,033,646)
Capital projects	2,843,141	-	-	-	(2,843,141)
Culture and recreation	2,344,788	-	-	-	(2,344,788)
Interest on long-term debt	436,743	-	-	-	(436,743)
<b>Total governmental activities</b>	<b>\$ 18,401,181</b>	<b>\$ (2,104,512)</b>	<b>\$ (74,441)</b>	<b>\$ (872,930)</b>	<b>\$ (15,349,298)</b>
<b>GENERAL REVENUES</b>					
Property taxes					\$ 473,268
Municipal licenses tax					1,990,543
Intergovernmental revenues					3,983,633
Interest income					198,862
Other Revenues					747,990
<b>Total general revenues</b>					<b>7,394,296</b>
Changes in net assets					(7,955,002)
Net assets at beginning of year					42,151,777
Net assets at end of year					<b>\$ 34,196,775</b>

See notes to financial statements.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**GENERAL ORGANIZATION**

The **Municipality of Vega Alta (the Municipality)** was founded in 1881. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of fourteen assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of the **Municipality of Vega Alta (the Municipality)** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The following summarizes the **Municipality** significant accounting policies:

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The **Municipality's** financial statements include the operations of all departments for which the **Municipality** is financially accountable.

The financial statements present the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the Municipality. This includes the organizational units governed by the Executive Officers and Members of the Municipal Assembly of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units, which may or may not fall within the Municipality's financial statements. The basic criterion for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

In evaluating the Municipality as a reporting entity, management has addressed all potential component units, which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statement. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
**(Continued)**

**Manifestations of Oversight Responsibility**

Selection of Governing Authority  
Designation of Management  
Ability to Influence Operations Significantly

**Accountability for Fiscal Matters**

Budget Authority  
Surplus/Deficit  
Responsibility for Debt  
Fiscal Management  
Revenue Characteristics

Factors other than oversight, which may significantly influence the entity relationship, are:

**Scope of Public Service**

**Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to be Municipality of Vega Alta indicate that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the informatio that governments have reported in the past. Coparability with reports issued in prior years is affected. In June 2001, The GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

**Basic Financial Statements-GASB Statement No. 34** (Continuation)

The government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the substantiality of **the Municipality** the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund statements into the governmental wide statements.

**Basis of Presentation**

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. **The Municipality** reports the following major funds on **Fund Financial Statements**:

*Major Funds*

**General Fund** – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in other funds.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

**Basis of Presentation** (Continuation)

*Major Funds* (Continuation)

Economic Development Fund – Accounts for the proceeds of Federal Grants and loans and Local Special Assignments to develop specific purpose on the Economy of the Municipality.

Debt Service Fund – Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Fund – Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements which are not financed by other funds.

*Business Type Activities*

Enterprise Fund - The Enterprise fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned and their expenses are recognized when they are incurred. Most of the fund transactions are made through a financing institution.

**Basis of Accounting**

The accounts of the **Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

**Basis of Accounting** (Continuation)

***Measurement Focus, Basis of Accounting***

**Government-wide Financial Statements** – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental Funds Financial Statement** – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or 60 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

**Governmental Fund Types / Governmental Activities** – Governmental funds are those through which most governmental functions of **the Municipality** are financed. The acquisition, use, and balances of **the Municipality's** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

**Encumbrances**

Governmental funds employ encumbrances accounting. Under the encumbrance system, all purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and they constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and accordingly, are reported with expenditures in all budgetary basis statements.

**Budgetary Data**

**The Municipality** follows these procedures, which are in accordance with the municipal law; in establishing the budgetary date reflected in the basic financial statements.

- (1) On or prior to may 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st., the annual budget is legally enacted through passage of the annual appropriation ordinance.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances as described below.

The actual results of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

**Budgetary Data** (Continuation)

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

The necessary adjustments to convert the result of operations of the general and debt service funds from the modified accrual of accounting to the budgetary basis are as follows:

**Deposits**

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

Investments consist of short-term certificates and are stated at cost, which approximates fair value.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**Inventories**

The general fund purchases office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as an expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

**Capital Assets**

**Fund Financial Statements**

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

**Government Wide Financial Statement**

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value a the time they are received by **the Municipality** and is capitalized in the Statement of net Assets. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

**Vacation and Sick Leave and Other Compensated Absences**

Municipal employees are granted 30 days of vacacion and 18 days of sick leave annually. Vacation may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of prior year.

Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, are accounted in the Statement of Net Assets.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

Insurance

**The Municipality** has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. Also, principal officials of **the Municipality** are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance coverage for **the Municipality**.

Restricted Assets

*Investments and Certificates of Deposit-Enterprise Fund*

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account". For description of collateral, see Deposits Note.

*Cash with fiscal agent*

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

### **Reservations of Fund Balance**

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

- *Encumbrances* – Represent future expenditures under purchase order, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *Debt Service* – Represents net assets available to finance future debt service payments.
- *Capital Projects* – Represent net assets available to finance future capital outlays.

### **Claims and Judgements**

The estimated amount of the liability for claims and judgements, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net Assets.

### **Use of Estimates**

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

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**2. PROPERTY TAXES**

The "Centro de Recaudación de Ingresos Municipales"(CRIM) is responsible for the assessment of all real and personal property located within the **Municipality of Vega Alta** and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The tax rate per annum is 8.08% for real property and 6.08% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.5% of both percents belong to the **Municipality**. From the portion belonging to the **Municipality**, 3% represents the **Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to the **Municipality** of 1.3% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service which is accounted for through the debt service fund (See note 11). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer becomes the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the det service, which will be collected in the fiscal year. The basic tax is advanced to the Municipality during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded i the gneral fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Since the collection of property taxes from the taxpayers is under the administration f the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$ 149,101 during 2003.

The following is a summaryof the property tax advances, which resulted as an account receivable, for the year ended June 30, 2003 and outstanding debt from 2003. The resulting receivable is presented as a deferred revenue in the general fund for Fund Financial Statement and as a revenue in the Government Wide Financial Statements. The debt has been presented in the Statement of Net Assets as a non-current libility since payment is not anticipated to be paid in near future.

Accounts Payable:

<b>Amortization through collections of property taxes by the CRIM</b>	
07-01-02 – 06-30-03	<b>\$ 5,824,359</b>
Advance received, 07-01-01 – 06-30-02	<b>6,143,228</b>
Total assets	
Due from CRIM – 2003	<b>318,899</b>

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**3. DEPOSITS**

Deposits include certificates of deposits amounting to \$ 3,450,674. The Municipality's cash and investments at June 30, 2003, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest-bearing bank accounts, and short-term certificates of deposit.

**4. CONCENTRATION OF CREDIT RISK**

The Municipality maintains its cash account in local commercial banks, whose accounts are warranted by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits in excess of \$100,000 are collateralized by the bank securities to properly safeguard such funds. Nevertheless, Management believes that concentration of credit risks is limited because balances are deposited with high standing financial institutions.

**5. MUNICIPAL LICENSE TAXES**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this under the industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declarations by April 15 of each year.

The tax rates are as follow:

- 1% for financial institutions
- for all other organizations 0.5%

Taxes are payable in two equal semiannual installments on July 1 and January 1 following the levy date. If they are paid before their maturity, the taxpayer is granted certain discounts.

The Municipality recognized as account receivable the amount estimated to be collected based on the volume business tax declaration during the next year that pertaining to this year and prior years included interest receivable of \$ 6,390. (Net of allowance for un-collectable). The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**6. INTERFUND TRANSACTIONS**

Due From/To Other Funds (Fund Financial Statement)

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balance are as follows:

<b>Funds</b>	<b>Due From</b>	<b>Due To</b>
General		\$ 1,292,858
Other Funds	\$ 1,292,858	

The interfund receivables and payables on Fund Financial Statement are eliminated on Statement of Net Assets (Government Wide Financial Statement).

**7. INTERGOVERNMENTAL REVENUES**

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain "quasipublic" corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**8. CAPITAL ASSETS**

**Fund Financial Statements**

The Municipality charged costs of capitalizable outlays as expenditures categories in the Governmental Fund Financial Statements.

	Balance 6/30/02	Additions	Retire- ments	Balance 6/30/03
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,056,718		\$ -	\$ 3,056,718
Construction in progress	\$ 1,576,037	\$ 2,843,411	\$ 1,576,037	\$ 2,843,411
Total capital assets not being depreciated	<u>\$ 4,632,755</u>	<u>\$ 2,843,411</u>	<u>\$ 1,576,037</u>	<u>\$ 5,900,129</u>
Capital assets, being depreciated				
Buildings and building improvements	21,566,965	-	-	\$ 21,566,965
Infraestructure	5,856,275	-	-	\$ 5,856,275
Equipment	7,484,597	100,949	-	\$ 7,585,546
Vehicles	4,654,459	436,958	-	\$ 5,091,417
Lease Vehicles	1,004,126	-	-	\$ 1,004,126
Total capital assets being depreciated	<u>40,566,422</u>	<u>537,907</u>	<u>-</u>	<u>41,104,329</u>
Less accumulated depreciation for:				
Buildings and building improvements	(4,473,576)	(339,070)	-	(4,812,646)
Infraestructure	(903,529)	(102,676)	-	(1,006,205)
Equipment	(4,051,800)	(624,244)	-	(4,676,044)
Vehicles	(1,396,378)	(930,891)	-	(2,327,269)
Lease Vehicles	(2,014)	(38,120)	-	(40,134)
Total accumulated depreciation	<u>(10,827,297)</u>	<u>(2,035,001)</u>	<u>-</u>	<u>(12,862,298)</u>
Total capital assets being depreciated, net	<u>29,739,125</u>	<u>(1,497,094)</u>	<u>-</u>	<u>28,242,031</u>
Governmental activities capital assets, net	<u>\$ 34,371,880</u>	<u>\$ 1,346,317</u>	<u>\$ 1,576,037</u>	<u>\$ 34,142,160</u>

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

<b>Governmental activities:</b>	
General government	\$71,429
Public safety	70,208
Public works	114,164
Culture and recreation	1,434,878
Health and education	344,322
<b>Total depreciation expense- governmental activities</b>	<b>\$2,035,001</b>

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**Government Wide Financial Statements**

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

Vehicles, Heavy Equipment	4-10	\$300
Furniture and Fixture	10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	50	\$1
Infrastructure	60	\$1
Improvements	20-40	\$1

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

**9. CHANGES IN GENERAL LONG-TERM DEBT**

Description	Payale at July 1, 2002	Additions	Reductions	Balance June 30, 2003
General Obligations Bonds	\$17,177,093	\$3,250,000	\$1,292,895	\$19,134,798

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**9. GENERAL LONG-TERM DEBT**

General in General Long – Term Debt

The principal long-term obligation of the Municipality are obligation bonds issue to finance permanent improvements and purchases of equipment. The Municipality 's long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund.

The following is a summary of bonds of the Municipality of Vega Alta for year ended June 30, 2003

Description	Payable at July 1, 2002	Additions	Reductions	Balance 2003
General Obligations Bonds	\$7,671,000	\$ 2,585,000	\$500,000	\$ 10,030,000

General Obligation Bonds:

Description	Original Amount	Interest Rate	Balance 06-30-03	Due Date
Bonds Series 1987-88	\$ 355,000	8.20	\$ 0	07-01-2002
Bonds Series 1995-96	990,000	5.5	860,000	07-01-2019
Bonds Series 1995-96	3,425,000	5.50	3,010,000	07-01-2020
Bonds Series 1996-97	610,000	5.32	560,000	07-01-2021
Bonds Series 1999-00	340,000	5.00	155,000	07-01-2004
Bonds Series 1999-00	995,000	5.00	770,000	07-01-2002
Bonds Series 1999-00	940,000	5.00	850,000	07-01-2016
Bonds Series 1999-00	135,000	5.00	120,000	07-01-2024
Bonds Series 2000-01	230,000	5.00	220,000	07-01-2025
Bonds Series 2001-02	230,000	5.00	190,000	07-01-2025

Bonds Series 2001-02	500,000	5.00	490,000	07-01-2021
Bonds Series 1999-00	490,000	5.00	115,000	07-01-2004
Bonds Series 2002-03	2,585,000	5.00	2,585,000	07-01-2027
<b>TOTAL</b>	<b>\$ 11,825,000</b>		<b>\$ 10,030,000</b>	

The annual requirements to amortize all bonded debt outstanding as June 30, 2003 follows:

Year Ending	Principal	Interest	Total
2004	\$ 673,461	\$ 611,655	\$ 1,285,116
2005	756,374	645,494	1,401,868
2006	609,822	599,320	1,209,142
2007	660,096	555,869	1,215,965
2008	657,377	508,748	1,166,125
Subsequent years	7,690,000	0	6,672,870
<b>Total</b>	<b>\$ 10,030,000</b>	<b>\$ 2,921,086</b>	<b>\$ 13,968,2169</b>

Other long term debt

LEASE- Lehigh Leasing Inc.

Year Ending	Payment Amount	Principal	Interest	Balance
				\$ 1,017,130
2004	\$ 260,253	\$ 153,460	\$ 106,796	\$ 863,669
2005	260,257	186,374	73,883	677,295
2006	260,257	204,822	55,435	472,473
2007	260,257	225,096	35,161	247,376
2008	260,257	247,378	12,880	
<b>Total</b>	<b>\$ 1,301,281</b>	<b>\$ 1,017,130</b>	<b>\$ 284,155</b>	<b>0</b>

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**10. DEBT SERVICE FUND**

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. Interest income is for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the genera obligations bonds and notes.

Principal and interest on these obligations are paid by the Government Development Bank for Puerto Rico from funds obtained fro the Following:

Property taxes	1,192,717
General funds	116,000

Expenditures for the year 2002-2003 were as follows:

Principal (Note	\$ 500,000
Interest	438,743
	-----
	<u>\$ 938,743</u>

**11. RETIREMENT SYSTEM**

**Plan Description**

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P.O. Box 42003, San Juan Puerto Rico. 00940.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

**OLD PLAN**

**Eligibility**

Age 55 and 30 years  
Of service

Under 55 and 30 ears  
Of service

**Pension Benefits**

75% of average highest compensation  
during any years of credited service

65% of average highest compensation  
during any 3 years of credit service

Participant in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

**NEW PLAN**

**Eligibility**

Age 65 with 10 years  
of servie

**Pension Benefits**

1.5% of average compensation during  
the final 5 years of credited services  
multiples by the numbers of years  
credited service

For both plants, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased evry three years by 3% subject to the approval by the Legislature of Puerto Rico.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**Funding Policy**

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The Municipality's total payroll for the fiscal year 2003 amounted approximately \$ 5,058,681 respectively. Members' contributions are 5.775% for gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary.

**Federal Programs**

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, during the year ended June 30, 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse to the grantor agency. Accordingly, the Administrations's compliance with applicable grant requirements will be established at some future date. Nevertheless, **the Municipality's** management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, to be immaterial.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

*Comptroller's Office Audits*

The Municipality of Vega Alta , Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office issued a final report related to the financial operations of the Municipality dated November 2, 2001. The report covers municipal operations from July 1, 1997 through June 30, 2000. Such report includes findings regarding to certain alleged irregularities in the operations and administration of the Municipality of Vega Alta, Puerto Rico, during the stated period. The Comptroller's opinion in the report stated that the operations of the Municipality were conducted substantially in accordance with laws and regulations, except for some findings disclosed in specific municipal operations.

**13. PRIOR PERIOD ADJUSTMENTS**

**General Fund**

The current bank account includes certain non-budgeted fund cash balances, which have not been naluzed. Therefore, when differences are determined, they are recorded as an adjustments to the beginning fund balance. This year's difference amounted to \$ 147,824 and the amount, if any, that would have been recorded in the current year revenues or expenditures of the general fund, was not practicable to determine.

**MUNICIPALITY OF VEGA ALTA, PUERTO RICO  
 NOTES TO THE SCHEDULE  
 OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS  
 FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2003**

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Vega Alta, Puerto Rico and is presented on the accrual basis of accounting. The reporting entity is define in Note 1 to the financial statements of the Municipality. 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) MAJOR FEDERAL AWARDS

The Community Development Block grants, Housing Assistance Payments Programs, Health and Human Services Programs and Federal Emergency Management Agency represents the major federal financial awards of the Municipality. Major federal awards represent 89% of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Vega Alta, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follow:

<u>Description</u>	<u>Capital Project</u>	<u>Other Funds</u>	<u>Total</u>
Federal Programs Expenditures	847,575	435,141	\$ 1,282,716
State & Municipal Expenditures		2,507,796	2,507,796
Total Expenditures	\$ 847,575	\$2,942,937	\$ 3790,512

MUNICIPALITY OF VEQA ALTA, PUERTO RICO  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS) GENERAL FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 473,269	\$ 473,269	\$ 473,269	\$ -
Municipal License tax	1,800,000	1,800,000	1,990,544	190,544
Intergovernmental revenues	3,489,321	3,489,321	3,403,166	(86,155)
Licenses, Permits and F.	2,417,000	2,417,000	1,135,728	(1,281,272)
Rent of properties	500,000	500,000	289,755	(210,245)
Interest income	225,000	225,000	198,882	(26,118)
Other revenues	658,000	658,000	1,400,020	742,020
Other sources	3,011,851	3,011,851	3,011,851	0
<b>Total revenues</b>	<b>\$ 12,574,441</b>	<b>\$ 12,574,441</b>	<b>\$ 11,903,215</b>	<b>\$ (671,226)</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	\$ 6,397,268	\$ 6,527,586	\$ 5,847,486	\$ 680,100
Public safety	1,481,154	1,420,311	1,275,192	145,119
Public Work	3,754,545	3,638,998	3,338,269	300,729
Health	689,325	689,325	689,325	0
Culture and Recreation	1,027,901	1,073,973	909,911	164,062
Transfer to debt service	419,248	419,248	116,000	303,248
<b>Total expenditures</b>	<b>\$ 13,769,441</b>	<b>\$ 13,769,441</b>	<b>\$ 12,176,182</b>	<b>\$ 1,593,259</b>
<b>Excess of revenues over (under) expenditures</b>			<b>\$ (272,967)</b>	<b>\$ 922,033</b>

**Explanation of Differences:**

**Sources/inflows of resources:**

Actual amounts(budgetary basis) "available for appropriation" from the budgetary comparison schedule

**Differences - budget to GAAP:**

Transfer from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes

Proceeds from reimbursement from CRIM are inflows of budgetary resources but are not revenues for financial reporting purposes

The proceeds from the issuance of long-term debt are budgetary resources but are regarded as Other Financing Sources for financial reporting purposes

Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances

**Uses/outflow of resources**

Actual amounts(budgetary basis) "total charges to appropriations" from the budgetary comparison schedule

**Differences - budget to GAAP:**

Nonbudgeted expenditures

Prior year encumbrance recorded as current year expenditures for GAAP basis

Current year encumbrances recorded as expenditures for budgetary purposes

Total expenditures as reported on the statement of revenue, expenditures and change in fund balances

See notes to budgetary comparison schedule.

Juan A. Feliciano Chameco \* Certified Public Accountant

*Juan A. Feliciano Charneco*  
CERTIFIED PUBLIC ACCOUNTANT

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Hato Rey, PR 00919

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

To the Mayor and Municipal Council  
Municipality of Vega Alta, Puerto Rico

I have audited the financial statements of the Municipality of Vega Alta; Puerto Rico, as of and for the year ended June 30, 2003, and has issued a qualified (for its general fixed assets) report thereon dated December 19, 2003. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtain reasonable assurance about whether the Municipality of Vega Alta financial statements are free of material misstatement, I performed tests of its compliance with certain provision of law, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Municipality of Vega Alta, Puerto Rico, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purposes financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I consider being material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Municipality of Utuado, in a separate dated December 19, 2003.

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

San Juan, Puerto Rico  
December 19, 2003

The stamp number 1942634  
Was affixed to the  
original of this report.



*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2004

*Juan A. Feliciano Charneco*  
CERTIFIED PUBLIC ACCOUNTANT

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

Mayor of the Municipality of Vega Alta  
Vega Alta, Puerto Rico

Compliance

I have audited the compliance of the Municipality of Vega Alta, Puerto Rico, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The Municipality of Vega Alta major federal programs is identified in the summary of auditor's result 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 Municipality of Vega Alta Management. My responsibility is to express an opinion on Municipality of Vega Alta compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, 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 and Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Vega Alta, compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Vega Alta compliance with those requirements.

In my opinion, Municipality of Vega Alta, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2003-01, 2003-02, 2003-03, 2003-04, 2003-05 and 2003-06.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the business type activities, debt-service and the aggregate remaining fund information of the **Municipality of Vega Alta, Puerto Rico**, as of June 30, 2003, and the respective budgetary comparison for the General Fund and Debt Service Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the **Municipality of Vega Alta** adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – And Management’s Discussion and analysis-For State and Local Governments*; as of and for the year ended June 30, 2003. This result in a change in the format and content of the basic financial statements.

The Management’s Discussion and Analysis information, on pages 3 through 7, and the Budgetary Comparison Schedule – General Fund on page 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audited the information and express no opinion on it.

San Juan, Puerto Rico  
December 19, 2003

The stamp number 1942629  
was affixed to the  
original of this report.



*Juan A. Feliciano Charneco*  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2004

**MUNICIPALITY OF VEGA ALTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

**A. Summary of Audit results**

**Financial Statements**

Type of auditor's issued:

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_ Yes \_\_ X \_\_\_ No

Reportable condition(s) identified not considered  
to be material weaknesses?  
reported

\_\_\_ Yes \_\_ X \_\_\_ No None

Noncompliance material to financial statements noted?

\_\_\_ Yes \_\_ X \_\_\_ No

**Federal Awards**

Internal control over mayor programs:

Material weakness(es) identified?

\_\_\_ Yes \_\_ X \_\_\_ No

Reportable condition(s) identified not

Considered being material weaknesses?

\_\_\_ Yes \_\_ X \_\_\_ No

Type of auditor's report issued on compliance considered  
For mayor programs

Unqualified

Any audit findings disclosed that are required to be  
Reported in accordance with Circular A-133,  
Section .510(a) are reported on part C, of this schedule

\_\_ X \_\_\_ Yes \_\_\_ No

**Identification of Major Programs**

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
14.855, 14.857	Section 8 – Voucher
14-228	CDBG

Dollar threshold used to distinguish  
Between type A and type B Programs

300,000

Auditee qualified as low-risk auditee

Yes  No

**B - Financial Statements Findings**

No matters were reported regarding reportable conditions, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of Governmental Auditing Standards.

**C - Federal Award Findings and Questioned Cost**

Federal Program Information

**MUNICIPALITY OF VEGA ALTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003  
(continued)**

**U.S. Department of Housing and Urban Development  
Public and Indian Housing  
CFDA No. 14-855  
Grant No. RQ-56V056001/004  
Year ended June 30, 2003**

Ref. No.	Finding / Noncompliance	Questioned Cost
2003-01	<p><u>Statement of Condition and Criteria</u> During my test of compliance I noted that the Municipality is not Complying with the criteria established by Standards of Financial management Systems, Sub-part C, Section 21,b.</p> <ol style="list-style-type: none"> <li>1. Accurate, current and complete disclosure of the financial results of federally sponsored projects of programs.</li> <li>2. Records that identify adequately the source and application of funds. The records shall contain information pertaining to federal awards, authorization, obligations, un-obligated balances, assets, outlays, income and interest.</li> <li>3. Effective controls and accountability for funds, property and other assets.</li> <li>4. Comparisons of outlays with budget amount for award.</li> <li>5. Accounting records including cost accounting records that are supported by source documentation.</li> </ol> <p>To established procedures to comply with Financial and Program Management Standards of funds from the Office of Public and Indian Housing voucher program. It was noted during my audit that Municipality does not maintain proper accounting records.</p> <p><u>Cause</u> The Municipality does not comply with the Financial and Program Management System Standards.</p> <p><u>Effect</u> The Municipality does not maintain adequate procedures for the administration of funds from the Public and Indian Housing Voucher.</p>	-0-

**Auditor's Recommendation**

The Municipality must establish adequate procedures in order to control in a more effective manner the financial and Program management system standards.

**Municipality Response:**

We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedures followed to establish a procedure, to comply with proper financial and program management system standards.

**MUNICIPALITY OF VEGA ALTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003  
(continued)**

**U.S. Department of Housing and Urban Development  
Public and Indian Housing  
CFDA No. 14-855  
Grant No. RQ56V056001/004  
Year Ended June 30, 2003**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2003-02	<p><u>Statement of Condition and Criteria</u> It was noted in my test of compliance is not complying with the criteria established by Treasury Circular letter 1075. The Municipalities financial management system.</p> <p>To established procedures to minimize the time elapsing between the transfer of funds from Public and Indian Housing Voucher Program and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.</p> <p><u>Cause</u> The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.</p> <p><u>Effect</u> The Municipality does not maintained an adequate procedures for the Administration of cash that determine properly their use needed.</p> <p><u>Auditors Recommendation</u> The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.</p> <p><u>Municipality Response:</u> We concur with auditor's recommendations. The Municipality evaluate the actual administrative procedures followed to establish procedures to minimize the time between the funds revenue and the expenditure.</p>	-0-

**MUNICIPALITY OF VEGA ALTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003  
(continued)**

**Department of Housing and Urban Development  
Public and Indian Housing  
CFDA No. 14-241  
Grant No. Housing Opportunities for Persons with Aids  
Year ended June 30, 2003**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2003-03	<p><u>Statement of Condition and Criteria</u> It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial management Systems, Sub-part C, Section 21, b.</p> <ol style="list-style-type: none"> <li>1. Accurate, current and complete disclosure of the financial results of federally sponsored projects of programs.</li> <li>2. Records that identify adequately the source and application of funds. The records shall contain information pertaining to federal awards, authorization, obligations, un-obligated balances, assets, outlays, income and interest.</li> <li>3. Effective controls and accountability for funds, property and other assets.</li> <li>4. Comparisons of outlays with budget amount for award.</li> <li>5. Accounting records including cost accounting records that are supported by source documentation.</li> </ol> <p>To established procedures to comply with Financial and Program Management Standards of funds from the Office of the Public and Indian Housing/Hopwa Program. It was noted during my audit that Municipality does not maintain proper accounting records.</p> <p><u>Cause</u> The Municipality does not comply with the Financial and Program Management System Standards.</p>	-0-

**Effect**

The Municipality does not maintain and adequate procedures for the Administration of funds from Public and Indian Housing /Hopwa Program.

**Auditors Recommendation**

The Municipality must establish adequate procedures in order to control in a more effective manner the financial and Program Management System Standards

**Municipality Response:**

We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedures followed to establish a procedure, to comply with proper financial and program management system standards.

**MUNICIPALITY OF VEGA ALTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003  
(continued)**

**U.S. Department of Housing and Urban Development  
Public and Indian Housing  
CFDA No. 14-241  
Grant No. Housing Opportunities for Persons with Aids  
Year ended June 30, 2003**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2003-04	<p><u>Statement of Condition and Criteria</u> It was noted in my test of compliance is not complying the criteria Established by Treasury Circular letter 1075. The Municipalities financial management system.</p> <p>To established procedures to minimize the time elapsing between the transfer of funds from the Office of Public and Indian Housing, Voucher Program and the disbursements by the Municipality. It was noted during my audit that the Municipality held cash balances over \$5,000 for periods longer than 3 days.</p> <p><u>Cause</u> The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.</p> <p><u>Effect</u> The Municipality does not maintain adequate procedures for the administration of cash that determine properly their use needed.</p> <p><u>Auditor's Recommendation</u> The Municipality must establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.</p> <p><u>Municipality Response:</u> We concur with auditor's recommendations. The Municipality evaluate the actual administrative procedures followed to establish a procedure to minimize the time between the funds revenue and the expenditures.</p>	<p style="text-align: center;">-0-</p>

**MUNICIPALITY OF VEGA ALTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003  
(continued)**

**U.S. Department of Federal Emergency Management Agent  
Passed-through Commonwealth of Puerto Rico  
Governors Authorized Representative (GAR)  
CFDA No. 83-544  
Grant FEMA – Lluvias/Noviembre  
Year ended June 30, 2003**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2003-05	<p><u>Statement of Condition and Criteria</u> It was noted in my test of compliance is not complying the criteria established by Treasury Circular letter 1075. The Municipalities financial management system.</p> <p>To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Representative and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.</p> <p><u>Cause</u> The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.</p> <p><u>Effect</u> The Municipality does not maintained adequate procedures for the administration of cash that determine properly their use needed.</p> <p><u>Auditor's Recommendation</u> The Municipality must establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.</p> <p><u>Municipality Response:</u> We concur with auditor's recommendations. The Municipality evaluate the actual administrative procedures followed to establish a procedure to minimize the time between the funds revenue and the expenditures.</p>	<p style="text-align: center;">-0-</p>

**MUNICIPALITY OF VEGA ALTA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2003  
 (continued)**

**U.S. Department of Housing and Urban Development  
 Passed-through the Office of Commissioner of Municipal Affairs  
 CFDA No. 14-228  
 Grant – SBGP - 2002  
 Year ended June 30, 2003**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2003-06	<p><u>Statement of Condition and Criteria</u>            It was noted in my test of compliance is not complying the criteria established established by Treasury Circular letter 1075. The Municipality's financial management system.</p> <p>To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Commissioner of Municipal Affairs and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.</p> <p><u>Cause</u>            The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.</p> <p><u>Effect</u>            The Municipality does not maintained adequate procedures for the administration of cash that determine properly their use needed.</p> <p><u>Auditor's Recommendation</u>            The Municipality must establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.</p> <p><u>Municipality Response:</u>            We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds revenue and the expenditures.</p>	<p style="text-align: center;">-0-</p>

**MUNICIPALITY OF VEGA ALTA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2003**

- 2002 – Finding No. 1: Section 8 Housing  
Section 8 Rental Program  
CFDA No. 14.855  
Year ended June 30, 2002  
**Finding Reported Again**
- 2002 – Finding No. 2: Section 8 Housing  
Section 8 Rental Voucher Program  
CFDA No. 14.855  
Year ended June 30, 2002  
**Finding Reported Again**
- 2002 – Finding No. 3: Section 8 Housing  
HOPUA  
CFDA No. 14.241  
Year ended June 30, 2002  
**Finding Reported Again**
- 2002 – Finding No. 4: Section 8 Housing  
HOPUA  
CFDA No. 14.241  
Year ended June 30, 2002  
**Finding Reported Again**
- 2002 – Finding No.5: FEMA  
FEMA – 1247 DR-PR – George  
CFDA No. 83.544  
Year ended June 30, 2002  
**Finding was Corrected**

**MUNICIPALITY OF VEGA ALTA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2003**

2002 – Finding No. 6: FEMA  
FEMA – 1136 DR-PR Hortence  
CFDA No. 83.544  
Year ended June 30, 2002  
**Finding was Corrected**

2002 – Finding No. 7: FEMA  
FEMA Lluvias/noviembre  
CFDA No. 53.544  
Year ended June 30, 2002  
**Finding Reported Again**

2002 – Finding No. 8: Department of Labor  
Walfare to Work  
CFDA No. 17.253  
Year ended June 30, 2002  
**Finding was Corrected**

*Estado Libre Asociado de Puerto Rico*  
*Gobierno Municipal del Pueblo de Vega Alta*

*Benjamín Declet Salgado*  
*Director de Finanzas*

**CORRECTIVE ACTION PLAN**  
**YEAR ENDED JUNE 30, 2003**  
**(continue)**

<b>Ref. No.</b>	<b><u>Finding /Corrective Action</u></b>	<b><u>Anticipated</u></b>
<b>2003-01</b>	<b><u>Planned/Person Responsible:</u></b>	<b><u>Completion Date</u></b>
	<b><u>Statement of Condition:</u></b> The Section 8 – Voucher Program Standard for financial Management System.	On or before end of 2003-04 fiscal year
	<b><u>Corrective Action Planned:</u></b> The Section 8 – Voucher Administration will evaluate and Implement adequate procedure to control and use in effective Manner federal funds. Standards for financial management system.	
	<b><u>Person Responsible:</u></b> Benjamín Declet, Finance Director.	
<b>Ref. No.</b>	<b><u>Finding /Corrective Action</u></b>	<b><u>Anticipated</u></b>
<b>2003-02</b>	<b><u>Planned/Person Responsible:</u></b>	<b><u>Completion Date</u></b>
	<b><u>Statement of Condition:</u></b> The Section 8 – Voucher Program cash balance over \$5,000 for Periods end longer than 3 days.	On or before end of 2003-04 fiscal year
	<b><u>Corrective Action Planned:</u></b> The Municipality Section – 8 Voucher administrator established Adequate procedures to control and use in a effective manner, Federal Funds.	
	<b><u>Person Responsible:</u></b> Benjamin Declet, Finance Director 	

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2003  
(continue)**

<b>Ref. No.</b>	<b><u>Finding /Corrective Action</u></b>	<b><u>Anticipated</u></b>
<b>2003-03</b>	<b><u>Planned/Person Responsible:</u></b>	<b><u>Completion Date</u></b>
	<p><b><u>Statement of Condition:</u></b> The Housing Opportunities for Persons with Aids Program Standards for financial management system.</p> <p><b><u>Corrective Action Planned:</u></b> The HOPUA Administration will evaluate and implement adequate Procedures to control and use in a effective manner, federal funds. Standards for financial management system.</p> <p><b><u>Person Responsible:</u></b> Benjamín Deplet, Finance Director</p>	<p>On or before end of 2003-04 fiscal year.</p>
<b>Ref. No.</b>	<b><u>Finding /Corrective Action</u></b>	<b><u>Anticipated</u></b>
<b>2003-04</b>	<b><u>Planned/Person Responsible:</u></b>	<b><u>Completion Date</u></b>
	<p><b><u>Statement of Condition:</u></b> The Housing Opportunities for Persons with Aids Program Cash balance over \$5,000 for periods end longer than 3 days</p> <p><b><u>Corrective Action Planned:</u></b> The Housing Opportunities for persons with aids administrator established adequate procedures to control and use in a effective manner federal funds.</p> <p><b><u>Person Responsible:</u></b> Benjamin Deplet, Finance Director</p>	<p>On or before end of 2003-04 fiscal year</p>

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2003  
(continue)**

<b>Ref. No.</b>	<b><u>Finding /Corrective Action</u></b>	<b><u>Anticipated</u></b>
<b>2003-05</b>	<b><u>Planned/Person Responsible:</u></b>	<b><u>Completion Date</u></b>
	<p><b><u>Statement of Condition:</u></b> The Federal Emergency Management Agent Program , Lluvia/Nov. Cash balance over \$5,000 for periods end longer than 3 days.</p>	<p>On or before end of 2003-04 fiscal year</p>
	<p><b><u>Corrective Action Planned:</u></b> The Finance Department of the Federal Emergency Management Agent administrator established adequate procedures to control and use in a effective manner Federal Funds.</p>	
	<p><b><u>Person Responsible:</u></b> Benjamin Declat, Finance Director</p>	
<b>Ref. No.</b>	<b><u>Finding /Corrective Action</u></b>	<b><u>Anticipated</u></b>
<b>2003-06</b>	<b><u>Planned/Person Responsible:</u></b>	<b><u>Completion Date</u></b>
	<p><b><u>Statement of Condition:</u></b> The SBGP – 2002 Program, cash balance over \$5,000 for periods end longer than 3 days.</p>	<p>On or before end of 2003-04 fiscal year</p>
	<p><b><u>Corrective Action Planned:</u></b> The Finance Department of the SBGP program administrator established adequate procedures to control and use in a effective manner, federal funds.</p>	
	<p><b><u>Person Responsible:</u></b> Benjamin Declat, Finance Director</p>	