

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

**MUNICIPIO DE VEGA ALTA  
AUDITORÍA 2010-2011  
30 DE JUNIO DE 2011**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA**

**Independent Auditors' Report**

**Basic Financial Statements and  
Supplemental Schedules**

**Year Ended June 30, 2011**

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GENERAL Y FISCAL

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Financial Statements and Supplemental Schedules  
June 30, 2011

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**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members  
of the Municipal Legislature  
Municipality of Vega Alta  
Vega Alta, Puerto Rico

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Vega Alta of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2011, which collectively comprise the Municipality's 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 an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Vega Alta of the Commonwealth of Puerto Rico, as of June 30, 2011, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Audit Standards, I have also issued a report dated December 15, 2011 on my consideration of the Government internal control over financial reporting and my tests of its compliance with certain provisions of law, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this reporting in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the general purposes financial statement taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purpose of additional analysis as required by US Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non - Profit Organizations, and is not required part of the general purpose financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not a required part of the basic financial statements but are supplementary information required by the GASB. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Toa Baja, Puerto Rico  
December 15, 2011



  
CPA Marieli Vargas González  
License # 5922  
Expires December 1, 2012

Stamp No. 2633777 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Management's Discussion and Analysis  
June 30, 2011

Management of the Municipality of Vega Alta of the Commonwealth of Puerto Rico (the "Municipality") provides this *Management's Discussion and Analysis* of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

During fiscal year ended June 30, 2004, the Municipality implemented the new required financial reporting standards established by Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued by the Governmental Accounting Standards Board (commonly known as "GASB 34"). According to this statement, significant required changes in content and structure have been made in the accompanying Municipality's basic financial statements as of and for the fiscal year ended June 30, 2011, which make the accompanying basic financial statements not easily comparable to the Municipality's general purpose financial statements issued in prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Municipality's financial position and results of operations.

This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of GASB 34, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The Municipality's has reported assets and net assets amounting to \$80,487,782 and \$50,278,174 respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to \$48,532,944 (60 percent of total Municipality's assets).
- The Municipality has reported total liabilities amounting to \$30,209,608 in the accompanying statement of net assets, of which the most significant liabilities are: (1) account payables and accrued liabilities (\$753,837), (2) bonds payable (\$21,013,000) and (3) intergovernmental (\$2,101,948). These liabilities account for 79 percent of the Municipality's total liabilities at June 30, 2011.
- The Municipality has reported total revenues amounting to \$23,480,415 in the accompanying statement of activities, of which: (1) municipal license tax (\$3,294,375), (2) restricted capital and operating grants (\$2,687,704), (3) property taxes (\$6,161,208) and (4) intergovernmental contributions (\$3,287,663) were the most significant revenues amounting to \$15,430,950 (66 percent of total revenues).

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- The Municipality has reported a net change in net assets (excess of revenue over expenses) amounting to \$1,006,826 in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of \$24,463,187 of which \$11,941,092 represent the fund balances of the general fund, "Mantenimiento de Obras Municipales y Otras Necesidades" and the debt service fund combined (jointly known as the Municipality's major funds).
- The Municipality has reported unreserved fund balance for the general fund amounting to \$3,768,165.
- The Municipality has reported an excess of revenues and other financing sources over expenditures and other financing uses amounting to \$1,909,023 in the governmental funds.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of new financial statements with a change in the focus from the 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.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedule) in addition to the basic financial statements themselves. These components are described below:

**Government-Wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2011 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

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**Statement of Net Assets**

The statement of net *assets* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

**Statement of Activities**

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2011. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

**Fund Financial Statements**

The Municipality's fund financial statements, which consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental

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activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year (June 30, 2011). This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has three major funds: (1)the general fund, (2)the debt service fund and (3)"Mantenimiento de Obras Municipales y Otras Necesidades".

#### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

#### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

#### **INFRASTRUCTURE ASSETS**

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial 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 (modified approach), which periodically (at least every third year), by category, measures and demonstrates 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.

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As of July 1, 2003, the Municipality retroactively recorded the historical costs of infrastructure assets. Also the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, net assets (excess of assets over liabilities) amounted to \$50,278,174 at June 30, 2011.

The largest portions of the Municipality's net assets are invested in capital assets net of their related debt which amount to \$26,932,489. The Municipality's net assets are also composed of net assets amounting to \$20,503,425 that are restricted for (1) future debt service payments, (2) the future acquisition or construction of capital assets and (3) other purposes. In addition, the Municipality's net assets are reported net of an unrestricted net asset of \$2,842,260.

The portion of the Municipality's net assets invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, are used by the Municipality to provide services to its citizens. Consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the debt service fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

**Condensed Statement of Net Assets:**

Current and other assets	\$ 8,111,963
Noncurrent and other assets	<u>72,375,819</u>
Total assets	<u>80,487,782</u>
Long-term liabilities outstanding	21,369,236
Other liabilities	<u>8,840,372</u>
Total liabilities	<u>30,209,608</u>
Net assets/(deficit):	
Invested in capital assets, net of related debt	26,932,489
Restricted	20,503,425
Unrestricted	<u>2,842,260</u>
Total net assets	<u>\$ 50,278,174</u>

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**Changes in Net Assets**

The Municipality's net assets increased during the year. Approximately 14 percent of the Municipality's total revenues came from intergovernmental contributions, while 24 percent resulted from other municipal taxes and 26 percent from property taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government (53 percent), highway and urban development (14 percent), public safety (9 percent) and health and sanitation (11 percent).

The following is a condensed presentation of the Municipality's results of operations, as reported in the government-wide financial statements:

**Condensed Statement of Activities:**

Revenues:	
Program revenues:	
Operating grants and contributions	\$ 1,046,474
Capital grants and contributions	1,641,230
General revenues:	
Property taxes	6,161,208
Municipal license taxes	3,294,375
Municipal sales taxes	1,531,816
Licenses and permits	695,603
Intergovernmental contributions	3,287,663
Other	5,822,046
Total revenues	<u>23,480,415</u>
General government	11,861,028
Urban and economic development	
High way and development	3,228,035
Public safety	2,043,541
Health and sanitation	2,544,315
Culture, recreation and education	898,062
Public housing and welfare	908,845
Interest	989,763
Total expenses	<u>22,473,589</u>
Net increase in net assets	1,006,826
Net assets - at beginning of year	49,271,348
Net assets - at end of year	<u><u>\$ 50,278,174</u></u>

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS**

As discussed 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 balance of expendable *resources*. Such information is useful in assessing the Municipality's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

**Condensed Balance Sheet - Governmental funds:**

Total Assets - Major Funds	\$	18,771,516
Total Assets - Nonmajor Funds		13,368,640
Total assets		32,140,156
Total Liabilities - Major Funds		6,830,424
Total Liabilities - Nonmajor Funds		846,545
Total liabilities		7,676,969
Fund Balances - Major Funds		11,941,092
Fund Balances - Nonmajor Funds		12,522,095
Total net assets		24,463,187

**Condensed Statement of Operations - Governmental funds:**

Total Revenues - Major Funds		18,898,272
Total Revenues - Nonmajor Funds		4,582,145
Total revenues		23,480,417
Total expenditures - Major Funds		18,651,103
Total expenditures - Nonmajor Funds		5,425,291
Total expenditures		24,076,394
Other Financing Sources - Nonmajor Funds		2,505,000
Revenues Over Expenses - Major		247,500
Revenues Over Expenses - Nonmajor		1,661,523
Total net assets	\$	1,909,023

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Management's Discussion and Analysis  
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**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Municipality revised the Municipality's budget in order to include increases in budgeted expenditures amounting to \$1,762,811, since the law mandates using the beginning fund balances accumulated in the financial statements.

The accompanying Budgetary Comparison Schedule shows a total negative variance between budgeted revenues and actual revenue results of \$2,498,836, which was mainly caused by a reduction of collection in property taxes and governmental revenues.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$93,545,458 of which \$32,927,747 represents infrastructure assets at June 30, 2011. The related accumulated depreciation and amortization of capital assets amounted to \$45,012,514, of which \$23,059,463 is related to infrastructure assets at June 30, 2011. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Actual costs incurred to purchase or construct capital assets were \$3,282,135 for the year ended June 30, 2011. Depreciation and amortization charges for the year totaled \$3,312,453.

The Municipality finances a significant portion of its construction activities through bond issuances and state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

**Debt Administration**

The laws and regulations of the Commonwealth of Puerto Rico have 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 laws and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption fund and the annual amounts collected with respect to such municipality's Special Additional Tax, as projected by the Government Development Bank for Puerto Rico, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

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The Municipality is required under applicable laws and regulations to levy the 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. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

**ECONOMIC FACTORS AND NEXT BUDGETS AND RATES**

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

Those factors were considered when preparing the Municipality's budget for the 2010-2011 fiscal years. There were no significant changes between the budget for fiscal year 2010-2011 and the one for fiscal year 2009-2010.

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and demonstrate the Municipality's' accountability. If you have any questions about the report or need additional financial information, contact the Municipality's Director of Finance, Mr. Damián Pabón, at P.O. Box 1390, Vega Alta, Puerto Rico, 00692-1390.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Statement of Net Asset  
June 30, 2011

ASSETS		
<b>Current Assets:</b>		
Cash and cash equivalents (notes 1g and 3)		\$ 5,533,025
Receivables, net of allowance for doubtful accounts (note 1h):		
Taxes:		
Property taxes (note 5)	\$ 143,209	
Sales taxes (note 4b)	127,785	
Municipal license taxes (note 4 a)	<u>4,692</u>	
Total taxes receivable	275,686	
Intergovernmental (note 1h and 7)	2,268,634	
Other	<u>34,618</u>	
Total receivables	2,303,252	<u>2,578,938</u>
Total current assets		<u>8,111,963</u>
<b>Noncurrent Assets:</b>		
Temporarily restricted cash and cash equivalents (notes 1g and 3)		23,088,154
Investments		754,721
Capital assets, net of accumulated depreciation and amortization (notes 1m and 8)		<u>48,532,944</u>
Total noncurrent assets		<u>72,375,819</u>
Total assets		<u>\$ 80,487,782</u>
LIABILITIES		
<b>Current liabilities:</b>		
Accounts payable and other accrued liabilities (notes 1h)		753,837
Intergovernmental (note 1h and 7)		2,101,948
Leased payable -Current portion		
Interest Payable		587,455
Christmas Bonus		218,000
Legal Claims		82,927
Deposits		48,825
Deferred revenues (notes 1n and 4a)		2,365,319
Accrued compensated absences, excluding long-term portion (note 1o and 11)		938,616
Notes Payable Doral - current portion		137,083
Notes payable CRIM - current portion		52,362
Bonds payable (notes 1q and 11)		<u>1,554,000</u>
Total current liabilities		8,840,372
<b>Noncurrent liabilities:</b>		
Accrued compensated absences, excluding current portion (notes 1o)		1,131,569
Bonds and notes payable, excluding current portion (notes 1q and 11)		19,459,000
Capital Leasing - net of current portion		
Note Payable -Doral - net of current portion		568,796
Note Payable -CRIM - net of current portion		<u>209,871</u>
Total noncurrent liabilities		<u>21,369,236</u>
Total liabilities		<u>30,209,608</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	26,932,489	
Restricted for (1j):		
Debt service	5,350,652	
Federal and State Assistance	600,003	
Other Purposes	<u>14,552,770</u>	
Total restricted net assets	20,503,425	
Unrestricted net deficit	<u>2,842,260</u>	
Total net assets		<u>50,278,174</u>
Total Liabilities and Net Assets		<u>\$ 80,487,782</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Statement of Activities  
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		Expenses and Changes in Net Assets
		Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:				
General government	\$ 11,861,028	\$ 512,711	\$ 1,641,230	\$ (9,707,087)
Highway and development	3,228,035			(3,228,035)
Public safety	2,043,541			(2,043,541)
Sanitation and environmental control	2,089,136			(2,089,136)
Health	455,179			(455,179)
Culture, recreation and education	898,062			(898,062)
Public housing and welfare	908,845	533,763		(375,082)
Interest on bonds, notes, capital lease obligations and long-term debt (notes 11)	989,763			(989,763)
Total governmental activities	<u>\$ 22,473,589</u>	<u>\$ 1,046,474</u>	<u>\$ 1,641,230</u>	<u>\$ (19,785,885)</u>

General revenues:

Taxes:

Property taxes (note 5)	\$ 6,161,208
Municipal license taxes (note 4)	3,294,375
Municipal Sales Tax	1,531,816
Licenses and permits	695,603
Total taxes	<u>11,683,002</u>
Intergovernmental contributions and reimbursements	3,287,663
Investment Earnings	595,052
Other revenues	5,226,994
Total general revenues	<u>20,792,711</u>
Net change in net assets	1,006,826
Other Financial source	
Net assets-beginning of fiscal year, as restated	49,271,348
Net assets-end of fiscal year	<u>\$ 50,278,174</u>

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

**COMMONWEALTH OF PUERTO RICO**  
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 Balance Sheet  
 Governmental Funds  
 June 30, 2011

	Major Funds				Total Governmental Funds
	General Fund	Debt Service Fund	Mantenimiento Obras Municipales Fund	Other Governmental Funds	
<b>ASSETS</b>					
Unrestricted cash and cash equivalents (note 1g and 3)	\$ 5,533,025				\$ 5,533,025
Receivables, net of allowance for doubtful accounts:					-
Taxes:					-
Property taxes (note 5)	116,905	26,304			143,209
Municipal license tax (note 4 a)	4,692				4,692
Sales Tax Receivable (note 4 b)	127,785				127,785
Due from other funds (note 6)	294,318				294,318
Due from governmental entities (note 7)	1,738,058	56,564		365,012	2,159,634
Interest Receivable	20,011				20,011
Other Receivable				14,607	14,607
Investments	754,721				754,721
Temporarily restricted cash and cash equivalents (note 1g and 3)		7,409,239	2,689,894	12,989,021	23,088,154
Total assets	<u>8,589,515</u>	<u>7,492,107</u>	<u>2,689,894</u>	<u>13,368,640</u>	<u>32,140,156</u>
<b>LIABILITIES</b>					
Account payable and accrued liabilities (notes 1h)	-	320,798	59,216	373,824	753,839
Due to other funds (note 6)				294,318	294,318
Intergovernmental (note 7)	2,073,214				2,073,214
Escrow accounts				48,825	48,825
Bonds , notes and interests		2,141,455			2,141,455
Deferred revenues (notes 1n and 9)	2,235,741	-	-	129,578	2,365,319
Total liabilities	<u>4,629,753</u>	<u>2,141,455</u>	<u>59,216</u>	<u>846,545</u>	<u>7,676,969</u>
<b>FUND BALANCES</b>					
Nonspendable				169,811	169,811
Restricted					-
Debt Services Reserve		5,350,652			5,350,652
State and Federal assistance				600,003	600,003
Other Purposes				530,800	530,800
Committed			2,630,678	9,806,737	12,437,415
Assigned	191,597			1,414,744	1,606,341
Unassigned	3,768,165	-	-		3,768,165
Total fund balances	<u>3,959,762</u>	<u>5,350,652</u>	<u>2,630,678</u>	<u>12,522,095</u>	<u>24,463,187</u>
Total liabilities and fund balances	<u>\$ 8,589,515</u>	<u>\$ 7,492,107</u>	<u>\$ 2,689,894</u>	<u>\$ 13,368,640</u>	<u>\$ 32,140,156</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Statement of Revenue, Expenditure and  
Changes in Fund Balances- Governmental Funds  
Year ended June 30, 2011

	Major Funds				Total Governmental Funds
	General Fund	Debt Service Fund	Mantenimiento Obras Municipales Fund	Other Governmental Funds	
<b>REVENUES:</b>					
Taxes:					
Property taxes (note 5)	\$ 5,086,331	\$ 1,124,877			\$ 6,161,208
Municipal license taxes (note 4a)	3,294,375				3,294,375
Municipal Sales taxes (note 4b)	1,531,816				1,531,816
Licens, permit and fines	695,603				695,603
Intergovernmental Revenues	4,692,851	513,912		768,606	5,975,369
Investment Earnings	590,056	4,996			595,052
Federal grants and contributions				2,983,157	2,983,157
Rent	289,031			124,374	413,405
Other Revenues	1,124,424			706,008	1,830,432
<b>Total revenues</b>	<b>17,254,487</b>	<b>1,643,785</b>	-	<b>4,582,145</b>	<b>23,480,417</b>
<b>EXPENDITURES:</b>					
Current:					
General government	9,798,272			1,998,384	11,796,656
Highway and Urban Development	747,809		409,552	16,953	1,174,314
Public safety	1,236,059			78,742	1,314,801
Sanitation and Environmental control	2,083,689			5,447	2,089,136
Health	455,179				455,179
Culture and education	453,998			46,570	500,568
Public housing and welfare	76,555			799,166	875,721
Capital outlays	125,612		676,495	2,480,029	3,282,136
Debt service:					
Principal (notes 1q and 11)		1,598,121			1,598,121
Interest on bonds and notes (notes 11)	-	989,763	-	-	989,763
<b>Total expenditures</b>	<b>14,977,173</b>	<b>2,587,884</b>	<b>1,086,047</b>	<b>5,425,291</b>	<b>24,076,394</b>
Deficiency of revenues under expenditures	2,277,315	(944,099)	(1,086,047)	(843,146)	(595,977)
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from bonds (note 10)	750,000			1,755,000	2,505,000
Operating transfer-in from other funds (note 6)	5,327	467,519	1,329,524	750,000	2,552,370
Operating transfer-out to other funds (note 6)	(2,547,043)	(4,996)		(331)	(2,552,370)
<b>Total other financing sources (uses)</b>	<b>(1,791,716)</b>	<b>462,523</b>	<b>1,329,524</b>	<b>2,504,669</b>	<b>2,505,000</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER)</b>	<b>485,599</b>	<b>(481,576)</b>	<b>243,477</b>	<b>1,661,523</b>	<b>1,909,023</b>
<b>FUND BALANCES AT BEGINNING OF YEAR, RESTATED (note 13)</b>	<b>3,474,163</b>	<b>5,832,228</b>	<b>2,387,201</b>	<b>10,860,572</b>	<b>22,554,164</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>3,959,762</b>	<b>5,350,652</b>	<b>2,630,678</b>	<b>12,522,095</b>	<b>24,463,187</b>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
 Reconciliation of Statement of Revenues, Expenditures  
 and Changes in Fund Balances Governmental Funds to the Statement of Activities  
 Year ended June 30, 2011

Amounts reported for governmental activities in the accompanying statement are different because:

Net change in fund balances as reported in the accompanying statement of revenues, expenditures and changes in fund balances - governmental funds	\$ (1,909,023)
Governmental funds report capital outlays as expenditures. However, in the accompanying statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	(3,282,136)
Depreciation expense	3,312,453
Repayment of bond and notes principal is recorded as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of the three activities mentioned above.	1,554,000
Expenditures recorded for government-wide and not for governmental funds	<u>(682,120)</u>
Net change in net assets as reported in the accompanying statement of activities	<u>\$ (1,006,826)</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**1. GOVERNMENTAL ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Government Background Information**

The Municipality of Vega Alta of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1871 with full legislative, fiscal and administrative powers to operate as a government. The Municipality assumes responsibility for public safety, health and sanitation, public housing and welfare, culture and education, urban development and many other general and administrative duties.

The laws and regulations of the Commonwealth of Puerto Rico (the "Commonwealth") provide for separation of powers of the executive, legislative and judicial branches of the Commonwealth's and the Municipalities' governments. The executive power of the Municipality is exercised by a Mayor, who is elected every four years and is assisted by the Administrative Cabinet, which is appointed by the Mayor. The legislative power is exercised by the Municipal Legislature, which is also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality.

**B. Financial Reporting Entity**

The accounting policies and financial reporting practices of the Municipality conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to state and local governments.

According to GAAP, the financial reporting entity for the Municipality consists of: (1) the primary government, which is composed of all municipal departments and units under the legal and administrative control of the Mayor and the Municipal Legislature, and (2) all component units.

In evaluating how to define the Municipality for financial reporting purposes, the Municipality's management has addressed all potential entities and organizations that may be considered component units according to the criteria set forth by Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*, both issued by the Governmental Accounting Standards Board.

GAAP defines component units as those entities that: (1) are legally separate organizations for which the Municipality's elected officials are financially accountable, and (2) other organizations for which the nature and significance of their relationship with the Municipality are such that exclusion of their financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete. Financial accountability exists if the Municipality appoints a voting majority of the organization's governing body, and if either one of the following conditions exist: (1) the Municipality can impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**B. Financial Reporting Entity(cont.)**

GASB Statement No. 39, which was early adopted by the Municipality on July 1, 2003, amended the provisions of GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the Municipality is not financially accountable should be reported as component units based on the nature and significance of their relationship with the Municipality. Generally, GASB Statement No. 39 requires reporting, as a discretely presented component unit, an organization that raises and holds economic resources for the direct benefit of a governmental entity. Such organizations are legally separate, tax-exempt entities that meet all of the three specific criteria that address benefit, entitlement or access, and significance.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations considered component units of the Municipality according to GAAP as of June 30, 2011 nor for the year then ended.

**C. New Financial Reporting Model**

On July 1, 2003, the Municipality adopted the provisions of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (commonly known as "GASB 34"), issued by the Governmental Accounting Standards Board (GASB). This statement, as amended, established a new financial reporting model for state and local governments.

In addition, on July 1, 2001 the Municipality adopted the following required statements issued by GASB and the Financial Accounting Standards Board ("FASB"):

- i. **GASB Statement No. 33** – *Accounting and Financial Reporting for Nonexchange Transactions;*
- ii. **GASB Statement No. 36** – *Recipient Reporting for Certain Shared Nonexchange Revenues;*
- iii. **GASB Statement No. 37** – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus;*
- iv. **GASB Statement No. 39** – *Determining Whether Certain Organizations are Component Units;*
- v. **GASB Interpretation No. 6** – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*
- vi. **GASB Interpretation No. 54** – *Fund Balance Reporting and Governmental Fund Type Definitions*

Simultaneously to the adoption of GASB Statement No. 34, the Municipality adopted certain pronouncements issued by FASB and all of its predecessor bodies, such as the Accounting Principles Board (APB), for its governmental activities. In this respect, the Municipality adopted the pronouncements issued by these entities that were issued on or before November 30, 1989, and that do not conflict with GASB pronouncements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

C. New Financial Reporting Model(cont.)

Accordingly, on July 1, 2003 the Municipality adopted the provisions of APB Opinion No. 21, *Interest on Receivables and Payables*, to account for non-interest bearing receivables and payables reported in the accompanying basic financial statements.

The effects of implementing the aforementioned pronouncements have been reported as changes in accounting principles in the accompanying basic financial statements. Accordingly, the cumulative effects of such transactions have been reported retroactively as restatements of fund balances at July 1, 2003.

According to the new financial reporting model established by GASB 34, as amended, the minimum required presentation for financial reporting purposes of the Municipality is composed of the following elements:

1. **Management's Discussion and Analysis ("MD&A")** – MD&A is a required supplementary information used to introduce the basic financial statements and provide an analytical overview of the Municipality's financial activities for the year ended June 30, 2011 based on the Municipality's management knowledge of the transactions, events and conditions reflected in the basic financial statements and the fiscal policies that control the Municipality's operations.
2. **Government-Wide Financial Statements ("GWFS")** – GWFS is a set of financial statements composed of: (1) a statement of net assets and (2) a statement of activities.

The government-wide financial statements are aimed at presenting a broad overview of the Municipality's finances by focusing on operational accountability through reporting the financial position and results of operations of the Municipality as a whole using methods that are similar to those used by most private businesses.

The statement of net assets provides short-term and long-term information about the Municipality's financial position, which assist management to determine the Municipality's economic condition at June 30, 2011 by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Net assets are reported in the following three categories:

- **Invested in Capital Assets, Net of Related Debt** – This consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted Net Assets** – These result when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Municipality's policy to use restricted resources first, and then unrestricted resources as they are needed.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

C. New Financial Reporting Model(cont.)

- **Unrestricted Net Assets** – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designed to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities presents financial information showing how the Municipality's net assets changed during the year ended June 30, 2011. The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, segment or operational unit. Program revenues also include 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. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. The Municipality does not allocate general government (indirect) expenses to other functions.

Under the provisions of GASB 34, all activities carried out by the Municipality are considered governmental in nature for financial reporting purposes. As a result, no business-type activities are reported in the accompanying basic financial statements.

3. **Fund Financial Statements ("FFS")** – FFS is a set of financial statements composed of: (1) a balance sheet (financial position) and (2) a statement of revenues, expenditures and changes in fund balances (deficits) of the Municipality's governmental funds (results of operations).

The fund financial statements focus on: (1) financial accountability, (2) individual parts of the Municipality's government and (3) reporting the Municipality's operations in more detail than the government-wide financial statements.

Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

On March 2009, the Governmental Accounting Standards Board (GASB) issued GASB 54 in an effort to improve the consistency in reporting fund balance components, enhance fund balance presentation, improve the usefulness of fund balance information, and clarify the definitions of the governmental fund types.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**C. New Financial Reporting Model(cont.)**

In summary, GASB 54 introduces entirely new terminology and classification of fund balances in governmental funds. This new standard also establishes a hierarchy of fund classifications as follows:

1. Non-spendable Amounts: that is, the fund balance which cannot be spent as they are associated with assets such as inventory, prepaid expenses, long term receivables or permanent fund principal.

2. Spendable Amounts: these amounts can be spent, but are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, these classifications are:

- a. Restricted
- b. Committed
- c. Assigned and
- d. Unassigned

**How to classify spendable amounts:**

Restricted Fund Balance: this balance represents amounts that are constrained for a specific purpose through restrictions of external parties (i.e. creditors, grantors, contributors, or laws or regulations of other governments), or by constitutional provision or enabling legislation, pursuant to the definition of "restricted" in paragraph 34 of GASB 34, as amended by GASB 46.

Committed Fund Balance: this balance represents amounts that are constrained for specific purposes imposed by a formal action of the government's highest level of decision making authority (i.e. amounts that have been committed by a governing body legislation, ordinance or resolution for a specific purpose). Furthermore, fund balances cannot be sued for other purposes unless the government used the same acting it took to originally commit the amounts.

Assigned Fund Balance: this balance represents amounts that are constrained by the government's intent to be used for a specific purpose, but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself (2) a body (e.g. a budget committee) or official to whom the governing body has delegated authority to assign amounts to be used for specific purposes. The key distinction between committed and assigned is that committed monies are set by the highest authority (i.e. the board) and such restrictions can only be removed by this authority.

Unassigned Fund Balance: this balance represents the residual amounts for a government's General Fund; it includes all amounts that are not classified in the previous three categories (restricted, committed and assigned). Furthermore only the General Fund can report unrestricted fund balance.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

C. **New Financial Reporting Model(cont.)**

**Encumbrance** – Encumbrances should not be displayed as a separate classification of fund balance on the face of the balance sheet. For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and non-major funds in the aggregate in conjunction with required disclosures about other significant commitments.

The minimum number of funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its funds within the following governmental fund categories:

***General Fund*** – The general fund is the chief operating fund used to account for all financial resources and governmental activities of the Municipality, except for financial resources required to be accounted for in another fund type. It is presumed that the Municipality's 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) GAAP requirements or (3) the demands of sound financial administration requiring the use of a fund other than the general fund.

***Special Revenue Funds*** – The special revenue funds are used to account for and to report the proceeds of specific revenues derived from grants or other revenue sources that are restricted or committed to expenditures for specific purposes other than debt services or capital projects. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes.

***Debt Service Fund***– The debt service fund is used to account for and to report financial resources for that are restricted, committed or assigned to expenditure principal and interest for: (1) general long-term debt for which debt service payments are legally mandated to be accounted for in a debt service fund, and/or (2) general long-term debt for which the Municipality is being accumulating financial resources in advance, to pay principal and interest payments maturing in future years (such bonds payable and notes payable).

General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as capital leases, compensated absences, claims and judgments, advances from CRIM, and landfill closure and post closure maintenance costs) are accounted for in the general fund.

Long-term debt's principal and accrued interest due on July 1 of the following fiscal year are accounted for as liabilities in the debt service fund at June 30, if resources are available at June 30 for its payment.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**C. New Financial Reporting Model(cont.)**

**Capital Projects Funds** – Capital projects funds are used to account for and report the financial resources that are restricted, committed or assigned to expenditures for capital outlays including acquisition or construction of major capital facilities, other assets and permanent improvements. The use of the capital projects funds has been reserved for major capital acquisitions or construction activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities.

The routine purchase of capitalizable assets (such as vehicles and other minor capital assets) has been reported in the general fund.

The Municipality has no significant operations or activities that: (1) are financed and operated primarily in a manner similar to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges, or (2) are fiduciary in nature. As a result, the Municipality does not report proprietary nor fiduciary funds in the accompanying fund financial statements. All Municipalities' funds are classified as governmental for financial reporting purposes.

4. **Notes to the Basic Financial Statements** – A set of notes that provide information that is essential to a user's understanding of the basic financial statements.
5. **Required Supplementary Information (other than MD&A)** – A set of reports and information reported along with, but separate from, the basic financial statements of the Municipality, such as: (1) Budgetary Comparison Schedule – General Fund, (2) the Notes to Budgetary Comparison Schedule and (3) the Schedule of Funding Progress - Employees' Retirement System of the Commonwealth of Puerto Rico and Its Instrumentalities.

**D. Measurement Focus and Basis of Accounting**

The term measurement focus refers to what is being expressed in reporting financial position and performance, that is, which resources are being measured in the accompanying basic financial statements. Two different measurement focuses have been applied in the accompanying basic financial statements: (1) the flow of current financial resources and (2) the flow of economic resources. Basis of accounting refers to when transactions have been recognized in the accompanying basic financial statements. GAAP provides for the use of two different bases of accounting, which have been used in the accompanying basic financial statements: (1) the accrual basis and (2) the modified accrual basis.

The accompanying government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund activities have been eliminated from these government-wide financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**D. Measurement Focus and Basis of Accounting (cont.)**

The accompanying fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available (that is, earned and collected or expected to be collected within the next 90 days following the fiscal year-end) to pay liabilities of the current period, except property tax revenues, for which the availability period is 60 days.

In applying the susceptible to accrual concept to intergovernmental revenue in the accompanying fund financial statements, there are essentially two types of revenue. For the majority of grants, moneys must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, generally recognized as expenditures are incurred. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are generally reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

In the accompanying fund financial statements, expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred, except for: (1) principal payment and interest on long-term obligations, which are recorded when due, except for principal and interest due in July 1 of the following fiscal year which are recorded when resources are available in the debt service funds (generally June 30); and (2) vacation leave, sick leave, christmas bonuses, obligations under capital leases, amounts subject to judgments under litigation, and other long-term obligations, which are recorded under the accrual basis of accounting in the accompanying government-wide financial statements.

In December 1998, the Governmental Accounting Standards Board issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* ("GASB 33"), effective for financial statement for periods after June 15, 2000, which the Municipality adopted on July 1, 2003. This statement established accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The statement groups nonexchange transactions of governments into four classes, based on their principal characteristics: (a) derived tax revenue; (b) imposed nonexchange revenue; (c) government mandated nonexchange transactions; and (d) voluntary nonexchange transactions.

The adoption of this statement altered significantly the basis of accounting used by the Municipality for the recognition of revenue and expenditures and related assets and liabilities, as described above. The effect of the adoption of this pronouncement has been reported as changes in accounting principles in the accompanying basic financial statements. Accordingly, the cumulate effects of such transactions have been reported retroactively as restatements of fund balances at July 1, 2003.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Notes to Basic Financial Statements  
June 30, 2011

**E. Major and Nonmajor Funds**

Under the provisions of GASB 34, the Municipality is required to segregate funds among major and nonmajor categories within the fund financial statements. Major individual governmental funds are reported as separate columns in the accompanying fund financial statements, while data from all nonmajor governmental funds are aggregated into a single column, regardless of fund type. At minimum a fund is considered major if: (1) it is the primary operating fund of the Municipality (i.e. the general fund) or; (2) meets both of the following criteria:

- (a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and,
- (b) Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

Based on the above-mentioned criteria, the Municipality's general fund, the debt service fund and the "Mantenimiento de Obras Municipales y Otras Necesidades" are the only three funds that qualify as major funds for the fiscal year ended June 30, 2011, and accordingly, have been reported as major funds in the accompanying fund financial statements. All other governmental funds of the Municipality are considered nonmajor for financial reporting purposes.

**F. Statutory (Budgetary) Accounting**

The Municipality's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received.

Expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment.

In the governmental funds, encumbrance accounting is a under the statutory basis of accounting, the Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. significant aspect of budgetary control.

The accompanying budgetary comparison schedule – general fund, only presents the information for the general fund, which is the only Municipality's fund with a legally adopted budget, as required by GAAP.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**F. Statutory (Budgetary) Accounting(cont.)**

Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of differences in the deficiency of revenues and other financing sources under expenditures and other uses of financial sources for the year ended June 30, 2011 was presented for the general fund as part of the accompanying budgetary comparison schedule.

**G. Cash and Cash Equivalents**

The Municipality's cash and cash equivalents are composed of cash on hand, demand deposits, and short-term investments in certificates of deposit with original maturities of three months or less from the date of acquisition.

The Municipality follows the practice of pooling cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing deposits with private commercial banks.

Cash with fiscal agent in the debt service fund represents additional property tax collections retained by the Municipal Revenue Collection Center ("CRIM", by its Spanish Acronym), a municipal corporation (not a component unit of the Commonwealth or of the Municipality) and additional portion of sales taxes collected and distributed by P.R. Treasury Department and deposited in P.R. Governmental Bank. Such cash balances are restricted for the payment of the Municipality's debt service, as established by law.

**H. 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).

Tax receivables in the general fund represent amounts owed by taxpayers principally for individual and corporate property taxes, municipal license taxes and construction excise taxes. A portion of these tax receivables is recognized when they become measurable and available based on actual collections during the 90 days (60 days for property taxes) following the fiscal year-end related to tax returns due before year-end. Tax receivables also include amounts owed by taxpayers from taxable years prior to June 30, 2011, estimated to be collectible but not currently available, as a result of the adoption of GASB 33.

Accounts receivables are stated net of estimated allowances for doubtful accounts, which are determined based upon past collection experience and current economic conditions. Intergovernmental receivables mainly represent amounts owed to the Municipality by the Commonwealth and the federal government of the United States of America for: (1) intergovernmental charges, and (2) for reimbursement of expenditures incurred pursuant to federally funded programs, respectively. In the accompanying government-wide financial statements, receivables consist principally of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based upon historical trends and the periodic aging of accounts receivable.

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**H. Receivables and Payables (cont.)**

Major receivable balances for the governmental activities include municipal license taxes, property taxes and construction excise taxes, among others.

Nonexchange transactions collectible but not available are deferred in the accompanying fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the accompanying government-wide financial statements in accordance with the accrual basis of accounting. Interest income is recorded when earned only if collected within 90 days after year-end since they would be considered both measurable and available. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

**I. Inventories and Prepaid Expenses**

Inventories consist of materials and supplies held for consumption. Generally, inventories and prepaid expenses are valued at cost and predominantly on the first-in, first-out basis. Governmental fund inventories and prepaid expenses are recorded as expenditures (consumption method) when purchased rather than capitalized as an asset. Only significant amounts of inventory and prepaid expenses at the end of the year would be capitalized, if any, in the governmental funds. However, inventories are always capitalized (purchase method) in the statement of net assets.

**J. Temporarily Restricted Assets**

Certain cash and cash equivalents set aside by the general fund, the capital projects fund and the special revenue fund are classified as temporarily restricted assets since their use is limited for: (a) the compliance with debt service requirements of bonds and notes payable as established in the respective debt agreements, (b) the funding of construction and permanent improvement projects, and (c) the funding of federal and state sponsored programs.

**K. Deferred Charges**

Deferred charges in the accompanying statement of net assets consist of debt bond issuance costs, which are amortized over the term of the related debt using the straight-line method. In the fund financial statements, bond issuance costs are recognized in the current period as expenditure, whether or not withheld from the actual debt proceeds received.

**L. Interfund Transactions**

Permanent reallocations of resources between the Municipality's funds are classified as interfund transfers. The Municipality has the following types of transactions recorded among funds in the accompanying fund financial statements:

- ***Operating Transfers*** – Legally required transfers that are reported when incurred as “operating transfers-in” by the recipient fund and as “operating transfer-out” by the disbursing fund.

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L. Interfund Transactions (cont.)

- *Interfund Payments (Quasi-external Transactions)* – Charges or collections for services rendered by one fund to another that are recorded as revenue of the recipient fund and as expenditure of the disbursing fund.

For the purposes of the accompanying government-wide statement of activities, all interfund transfers between individual governmental funds have been eliminated.

M. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Municipality as a whole, such as land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, works, infrastructure and all other intangible assets that are used in the operations of the Municipality and that have initial useful lives extending beyond a single reporting period (fiscal year). Infrastructure assets are generally immovable in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets. In the accompanying government-wide statement of net assets, all individual capital assets over the threshold amount of \$500 have been capitalized and depreciated.

In the accompanying government-wide statement of net assets, all capital assets are valued at their historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2011. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

All capitalized assets are depreciated over their estimated useful lives under the straight-line method. All individual capital assets under the above mentioned capitalization threshold are charged directly to expense in the accompanying government-wide statement of activities.

The estimated useful lives of major capital asset categories are:

Land improvements	20 years
Buildings and building improvements	50 years
Infrastructure	20 to 50 years
Motor vehicles	7 to 10 years
Furniture and fixtures	5 to 20 years
Machinery and equipment	5 to 20 years

Equipment held under capital leases is depreciated under the shorter of its estimated useful life of the assets or the lease term. Capital assets are recorded as capital outlays expenditures in the acquiring fund for the purposes of the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds.

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**N. Deferred Revenues**

The Municipality reports deferred revenue on its basic financial statements. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Available is defined as due (or past due) at June 30, and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. Deferred revenues also arise when the Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Municipality has a legal claim to the resources, 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.

Deferred revenues at June 30, 2011 amounted to \$2,365,319 in the accompanying government-wide statement of net assets and balance sheet – governmental funds, respectively.

**O. Compensated Absences**

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by the Governmental Accounting Standards Board (GASB 16).

Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. According to GASB 16, the liability for compensated absences recorded in the accompanying government-wide statement of net assets is strictly limited to leave that: (1) is attributable to services already rendered on or before June 30, 2011, and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes, Medicare taxes, employer contributions to retirement system and others).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed. Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of services, such regular sick leave days are not paid to the employee. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time. At June 30, 2011, the Municipality has recorded a liability for compensated absences amounting to \$2,070,185 in the accompanying government-wide statement of net assets.

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**P. 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.

**Q. Long-Term Debt**

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statement of net assets, except for principal and interest payment on long-term obligations due in July 1 of the following fiscal year, which is recorded in the fund financial statements when resources are available in the debt service fund (generally at June 30). Bonds and notes premiums and discounts, as well as, issuance costs, are deferred and amortized over the life of the debt in the accompanying government-wide financial statements.

Long-term debt for governmental funds is generally not reported as liabilities in the fund financial statements. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

**R. Risk Financing**

The Municipality purchases commercial insurance covering casualty, theft, tort claims, and other losses. The Commonwealth, through its Department of Treasury, pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments. The current insurance policies have not been canceled or terminated. For workers' compensation and disability insurance, the Municipality obtains insurance coverage through the State Insurance Fund Corporation (a component unit of the Commonwealth) and the Occupational Disability Fund (which is a trust fund administered by the Department of Labor and Human Resources of the Commonwealth).

**S. Total Columns**

Total columns on the fund financial statements are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position or results of operations in conformity with GAAP. Such data is not comparable to a consolidation since interfund eliminations have not been made in the accompanying fund financial statements.

**T. Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the Municipality's management to make significant 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 basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

The Municipality's general fund is the only governmental fund for which an annual budget is legally adopted. The Municipality's elected Mayor is legally required to prepare and submit to the elected Municipal Legislature an annual balanced budget for the ensuing fiscal year. The annual budget is prepared by the Municipality's Department of Finance, and takes into consideration the advice provided by all municipal departments and divisions. The appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year, unless the imposition of taxes sufficient to cover said appropriations is provided by law.

The annual budget, which is developed utilizing elements of performance-based program budgeting and zero-based budgeting, includes an estimate of revenues and other financing resources of the ensuing fiscal year under: (1) laws existing at the time the budget is submitted; and (2) municipal legislative measures proposed by the Mayor and submitted with the proposed budget, as well as the Mayor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four-year governmental plan adopted by the Municipality.

The Municipal Legislature may amend the budget submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon approval by the Municipal Legislature, the budget is referred to the Mayor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve a new budget. This permits the Municipality to continue making payments for its operations and other purposes until the new budget is approved.

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP. Accordingly, for budgetary purposes the Municipality uses encumbrance accounting. The encumbrances (principally purchase orders and contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The encumbered balance of any appropriation of the general fund at the end of the fiscal year will lapse to the following fiscal year. In addition, the Municipal Legislature may direct that certain revenues be retained and made available for spending within a specific appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an individual department or division of the Municipality. However, the Municipality is statutorily required to satisfy the debt service requirements, regardless of whether such amounts are appropriated or not.

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**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY(cont.)**

Appropriations are enacted for certain departments and divisions. Appropriations for capital projects are made for each bond/note issue and the authorization continues for the expected construction period.

The Municipality's Finance Department has the responsibility to ensure that budgetary spending control is maintained on an individual department/division basis. The Finance Department may transfer part or all of any encumbered balance within a department to another department subject to approval. Budgetary control is exercised through the Municipality's accounting system. This system ensures that encumbrances or expenditures are not processed if they exceed the department/division's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for the general fund expenditures, principal and interest due for the year for the debt service fund, and by bond/note authorization for capital expenditures.

The annual budget as presented in the accompanying Budgetary Comparison Schedule – General Fund is the budget ordinance at June 30, 2011 representing the original budget, as amended. There were no supplemental appropriations for the year ended June 30, 2011.

**3. DEPOSITS AND INVESTMENTS**

The Municipality maintains its deposits of cash in the Government Development Bank for Puerto Rico ("GDB"), a governmental bank and component unit of the Commonwealth who serves as fiscal agent of the Municipality, and in various commercial banks located in Puerto Rico. The balances deposited in GDB are uninsured and uncollateralized. The balances deposited in commercial banks are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum of \$250,000 per depositor. However, under the laws and regulations of the Commonwealth, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance provided by the FDIC. All securities pledged as collateral are held by an agent of the Secretary of the Treasury of the Commonwealth in the name of the Municipality.

Cash, cash equivalents and investments at June 30, 2011 consist of the following:

	Included in :				Total
	General Fund	Debt Service Fund	Mantenimiento Obras Municipales Fund	Other Governmental Funds	
Unrestricted cash and cash equivalents in commercial bank	\$ 5,533,025	\$ -	-	\$ -	\$ 5,533,025
Investments	754,721				754,721
Temporarily restricted cash and cash equivalents		7,409,239	2,689,894	12,989,021	23,088,154
<b>Total</b>	<b>\$ 6,287,746</b>	<b>\$ 7,409,239</b>	<b>\$ 2,689,894</b>	<b>\$ 12,989,021</b>	<b>\$ 29,375,900</b>

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**3. DEPOSITS AND INVESTMENTS (cont.)**

The Municipality's bank balance of deposits and investments with financial institutions are categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2011. Risk categories are described as follows:

- Category 1:** Insured or collateralized with securities held by the Secretary of the Treasury' agents in the Municipality's name.
- Category 2:** Collateralized with securities held by pledging financial institution's trust department or agent in the Municipality's name.
- Category 3:** Uncollateralized; including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Municipality's name.

The carrying amount (book balance) and the bank balance of deposits and investments with financial institutions of the Municipality at June 30, 2011 consist of the following:

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Deposits in commercial banks	\$ 13,534,513	\$ 12,886,452
Deposits in governmental banks	15,841,388	15,841,388
Total	\$ 29,375,901	\$ 28,727,840
Bank balances of deposits and investments:		
Category 1		\$ 15,841,388
Category 2		8,005,046
Category 3		4,881,406
Total bank balances		\$ 28,727,840

**4. MUNICIPAL TAXES**

**(A) MUNICIPAL LICENSE TAXES**

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return. The declaration filing date is ten days after the State Income Tax is filed (the 15th day of April each year). Entities with sales volume of \$ 1 million or more must include rates established by the Municipality. At June 30, 2011, the municipal tax rates imposed by the Municipality were 1.50 percent for financing institutions and 0.50 percent for any other taxpayers. Any taxpayers, who have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth, ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

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**4. MUNICIPAL TAXES (cont.)**

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax form based on the actual volume of business generated in the preceding calendar year. The tax can be paid by the taxpayer in two equal installments: (1) the first payment due in July 15, and (2) January 15 subsequent to the filing of the declaration. The first installment of the tax covers the taxable period (six months) ended December 31 subsequent to the filing date of the declaration, while the second installment of the tax covers the taxable period (six months) ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration, a 5 percent discount is granted automatically on the tax amount due.

Any municipal license taxes collected in advance (that is, prior to June 30 but pertaining to the next fiscal year) are recorded as deferred revenues. As of June 30, 2011, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) was \$4,692 (base of subsequent or days collections).

**(B) MUNICIPAL SALES AND USE TAX**

On September 23, 2006 the Municipal legislature of the Municipality of Vega Alta approved the Ordinance No. 15 (Serie 2006-2007) based of State Public law No. 117 of July 4, 2006 establishing a local sales and use tax of 1.5% over the sale of goods and services made within the Municipalities boundaries. The Ordinance was effective ten days after public notice, and under this Ordinance, every business doing retail sales is required to register on the Municipality to obtain a retailer's Registration Certificate. The retails are required to file monthly sales tax returns by the 10<sup>th</sup> day following the month in which the tax was collected.

On July 29, 2007, the State Public Law No. 80 established that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico Treasury Department (PRTD) the other 0.5%. Resources collected would be use for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs by the Municipality.

The tax collected by PRTD will be distributed to the municipalities in three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund. The Municipal Development Fund will be based on 0.2 % of the 0.5 % collected but will be distributed within all municipalities by formula based on total amounts collected, operational budgets and population. Another 0.2% will be deposit on a Municipal Redemption Fund in the Government Development Bank for Puerto Rico (GDB) and use only for the repayment of future municipal loans to GDB. The other 0.1 % will be deposit in a Municipal Improvements Fund in GDB and assigned by the State Legislature for construction and permanent improvements projects to the municipalities. During year 2010-2011 the Municipality collected \$1,531,816 from sales taxes.

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**5. PROPERTY TAXES**

The Municipality is authorized by law to impose and collect personal and real property taxes. Personal property taxes can be imposed to any natural or legal person engaged in trade or business that at January 1 of each year is owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. At June 30, 2011, the total personal property tax rate in force was 6.38 percent (of which taxpayers pay 6.18 percent and .20 percent is reimbursed by the Department of Treasury of the Commonwealth. Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. At June 30, 2011, the total real property tax rate in force was 8.38 percent (of which 8.18 percent is paid by taxpayers).

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury of the Commonwealth assumes payment of the basic tax (4.00 and 6.00 percent for personal and real property, respectively) to the Municipality, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when collections are received from the CRIM.

CRIM is required to remit 1.03 percent of the personal and real property tax collected to the Municipality to be used for the partial funding of the debt service requirements on general obligations and notes payable of the Municipality. In addition, 1.35 percent of the total personal and real property taxes collected by CRIM is restricted for debt service requirements of the Municipality and is retained by GDB for such purposes. Accordingly, such amount is recorded as revenues in the debt service fund when collected and reported by the CRIM.

The Additional Lottery System of the Commonwealth (the "Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- i. Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.

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**5. PROPERTY TAXES (cont.)**

- ii. An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35 percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

Total property tax receivable, net of allowance for uncollectible accounts amounted to \$143,209 at June 30, 2011.

**6. INTERFUND BALANCES**

On July 1, 2001 the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures, issued by the Governmental Accounting Standards Board*. This statement requires the disclosure of the flow of resources between funds and to assess the collectibles of interfund balances. Interfund balances at June 30, 2011 consisted of the following:

	Major Funds			
	General Fund	Debt Service Fund	Mant. y obras municipales	Other Funds
Operating transfer to:				
Major funds				
Debt Service Fund	\$ (462,523)	\$ 462,523		
Mant. y obras municipales	(1,329,524)		1,329,524	
Other funds	(749,669)			749,669
Total	<u>(2,541,716)</u>	<u>462,523</u>	<u>1,329,524</u>	<u>749,669</u>

	Major Funds				Total
	General Fund	Debt Service Fund	Mant. y obras municipales	Other Funds	
Due to and Due From:					
Due to:					
Other governmental funds	294,318				294,318
Total	<u>294,318</u>				<u>294,318.00</u>
Due from:					
General fund				294,318	294,318
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>294,318</u>	<u>294,318.00</u>

At June 30, 2011 all amounts due among funds are considered collectible by the Municipality's management.

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**7. INTERGOVERNMENTAL RECEIVABLE AND PAYABLE**

Due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

	Mayor Fund	Other Governmental Fund	Total Governmental Fund	Statement of net assets
<b>Intergovernmental receivable:</b>				
PR Electric Power Authority	\$ 1,738,058		\$ 1,738,058	\$ 1,738,058
<b>Total</b>	<u>1,738,058</u>	<u>-</u>	<u>1,738,058</u>	<u>1,738,058</u>
<b>Intergovernmental payable:</b>				
PR Department of the Treasury	37,314		37,314	37,314
Internal Revenue Service	18,105		18,105	18,105
Employees Retirement System of the Government of Puerto Rico	197,324		197,324	197,324
PR Water and Sewer Authority	38,876		38,876	38,876
PR Electric Power Authority	1,738,058		1,738,058	1,738,058
Department of Labor	43,537		43,537	43,537
<b>Total</b>	<u>\$ 2,073,214</u>	<u>\$ -</u>	<u>\$ 2,073,214</u>	<u>\$ 2,073,214</u>

**8. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance at June 30, 2010	Additions	Reclassifications	Balance at June 30, 2011
<b><u>COST BASIS:</u></b>				
Cost basis of capital assets, not subject to depreciation and amortization:				
Infrastructure land	\$ 16,014,290	\$ 100,000	\$ -	\$ 16,114,290
Construction in progress	2,477,964	2,604,965	(2,886,561)	2,196,368
<b>Total cost basis of capital assets, not subject to depreciation and amortization</b>	<u>18,492,254</u>	<u>2,704,965</u>	<u>(2,886,561)</u>	<u>18,310,658</u>
Cost basis of capital assets, subject to depreciation and amortization:				
Buildings, structures and building improvements	28,635,400	120,200	-	28,755,600
Infrastructure	29,987,803	53,383	2,886,561	32,927,747
Vehicles under capital lease	681,324		-	681,324
Licensed vehicles	8,916,204	147,955	-	9,064,159
Machinery and equipment	3,550,338	255,632	-	3,805,970
<b>Total cost basis of capital assets subject to depreciation and amortization</b>	<u>71,771,069</u>	<u>577,170</u>	<u>2,886,561</u>	<u>75,234,800</u>
<b>Total cost basis of capital assets</b>	<u>90,263,323</u>	<u>3,282,135</u>	<u>-</u>	<u>93,545,458</u>
<b><u>LESS ACCUMULATED DEPRECIATION AND AMORTIZATION:</u></b>				
Buildings, structures and building improvements	9,092,699	604,930	-	9,697,629
Infrastructure	20,795,186	2,264,277	-	23,059,463
Land Improvements	681,324		-	681,324
Licensed vehicles	8,916,204	29,591	-	8,945,795
Machinery and equipment	2,214,648	413,655	-	2,628,303
<b>Total accumulated depreciation and amortization</b>	<u>41,700,061</u>	<u>3,312,453</u>	<u>-</u>	<u>45,012,514</u>
<b>CAPITAL ASSETS, NET</b>	<u>\$ 48,563,262</u>			<u>\$ 48,532,944</u>

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**8. CAPITAL ASSETS (cont.)**

Depreciation and amortization expense was charged by functions in the accompanying government wide statement of activities as follows:

General government	\$ 99,373
Public safety	728,740
High way and urban development	927,487
Public housing and welfare	33,124
Culture, recreation and education	397,494
Urban and economic development	<u>1,126,235</u>
Total depreciation and amortization expense	<u>\$ 3,312,453</u>

**9. DEFERRED REVENUES**

Deferred revenues recorded in the accompanying GWFS and the GFFS are as follows:

**a. General Fund:**

Deferred revenue of \$2,253,741 in the general fund is related to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.

**b. Other Governmental funds:**

**Federal Government \$129,528** – The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred.

<u>Program</u>	
FEMA	\$67,866
EECBG	41,871
JAG	11,984
HPRP	7,268
CSBG	535
ESG	<u>4</u>
<b>Total</b>	<b><u>\$129,528</u></b>

**10. EMPLOYEES RETIREMENT SYSTEM**

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System"). The System is the administrator of a multi-employer cost-sharing (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. The System was created under Act. No. 447 approved on May 15, 1951, as amended, and became effective on January 1, 1952. The System covers all regular employees of the Commonwealth and its instrumentalities, the Municipality and other municipalities of the Commonwealth.

The System is independent, thus assets may not be transferred to another system or used for any purpose other than to benefit each system's participants. The System issued publicly available financial reports that include its basic financial statements and required supplementary information for each of them, including required six-year trend information. Those reports may be obtained by writing to the administrator of the System.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**10. EMPLOYEES RETIREMENT SYSTEM(cont.)**

The System provides for retirement, death and disability benefits. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75 percent of the average compensation.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension system ("System 2000"). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, had the option to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, are required to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the System, together with those of the current defined benefit plan. Neither the Commonwealth nor the Municipality will guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275 percent of the employees' salary up to a maximum of 10.00 percent) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity U.S. Treasury Note; (2) earn a rate equal to 75 percent of the return of the System 2000's investment portfolio (net of management fees); or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

Disability pensions are not being granted under System 2000. The employer's contributions (9.275 percent of the employees' salary which is applicable to the Municipality) will be used to fund the current plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or later January 1, 2000.

**Funding Policy:**

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 after April 1, 1990	8.275% of gross salary

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**10. EMPLOYEES RETIREMENT SYSTEM(cont.)**

During the fiscal year ended June 30, 2011 the employer's contributions paid by the Municipality to both retirement systems amounted to \$395,318. On August 12, 2000, Act No. 174 was approved to allow certain participants of the ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001. Those who elected early retirement under this law will receive monthly benefits of 75 percent (if 25 or more years of service and age 55, or 30 or more years or services and age 50) or benefits of 65 percent (if 25 years of service by less than age 55) of their average compensation, which is computed based on the highest 36 months of compensation recognized by the System. In these cases, the employer (including the Municipality) is responsible for contributing to the System the amount needed to cover the benefit payments and employer contribution with respect to the participants covered until the participants reach the normal retirement age.

Historically, the Commonwealth has reported the System as a single-employer plan (as relates only to the financial reporting entity of the Commonwealth) in its comprehensive annual financial report. Accordingly, the Commonwealth will assume any actuarial deficiency that may exist or arise related to the Municipality's participating employees since the System does not allocate any actuarial deficiencies pertaining to municipal employees participating in the System. The Municipality is only required by law to make statutory contributions in the rates mentioned above. As a result, no net pension obligation nor net pension asset that may be allocable to the Municipality's participating employees, if any, has been recorded in the accompanying basic financial statements.

**11. LONG-TERM DEBT**

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the 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 or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2011, the Municipality is in compliance with the debt limitation requirements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Notes to Basic Financial Statements  
June 30, 2011

**11. LONG-TERM DEBT(cont.)**

The general long-term debt activity for the year ended June 30, 2011 was as follows:

	<u>Balance at June 30, 2010</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Balance at June 30, 2011</u>	<u>Due Within One Year</u>
Notes payable to the Government Development Bank	21,033,000	1,755,000	(1,775,000)	21,013,000	1,554,000
Notes payable to DORAL Bank		750,000	(44,121)	705,879	137,083
CRIM - Note	355,316		(93,083)	262,233	52,362
Compensated absences	2,011,736	58,449		2,070,185	938,616
<b>Total</b>	<u>\$ 23,400,052</u>	<u>\$ 2,563,449</u>	<u>\$ (1,912,204)</u>	<u>\$ 24,051,297</u>	<u>\$ 2,682,061</u>

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of major capital facilities and equipment, as well as, to cover certain operating needs.

Long-term debt at June 30, 2011 is composed of the following debts:

<u>General obligation bonds:</u>	<u>Outstanding Amount</u>
1995 serial bonds, original issues amount of \$990,000 due in annual principal installments ranging from \$15,000 to \$90,000; plus interest due in semiannually installments at rates 6% through July 1, 2019	595,000
1995 serial bonds original issues amount of \$3,425,000, due in annual principal installments ranging from \$40,000 to \$295,000; plus interest due in semiannually installments at rates 6.30% through July 1, 2020	2,150,000
1997 serial bonds, original issues amount of \$610,000, due in annual principal installments ranging from \$10,000 to \$60,000; plus interest due in semiannually installments at rates 5.86% through July 1, 2021	415,000
1999 serial bonds, original issues amount of \$940,000, due in annual principal installments ranging from \$30,000 to \$95,000; plus interest due in semiannual installments at variable rates 4.10% through July, 1, 2016	475,000
2000 serial bonds issues amount of \$135,000, due in annual principal installments ranging from \$5,000 to \$10,000, plus interest due in semiannual installments at variable rates 4.30% through July 1, 2024.	80,000
2000 serial bonds, original issues amount of \$230,000, due in annual principal installments ranging from \$5,000 to \$20,000; plus interest due in annual installments at variable rates 1.29% through July, 1, 2025.	180,000

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**11. LONG-TERM DEBT(cont.)**

	<b>Outstanding Amount</b>
2002 serial bonds, original issues amount of \$500,000, due in annual principal installments ranging from \$10,000 to \$50,000; plus interest due in annual installments at variable rates 4.30% through July, 1, 2021.	365,000
2007-08 serial bonds, original issues amount of \$380,000, due in annual principal installments ranging from \$65,000 to \$ 90,000; plus interest due in semiannually installments at variable rates 1.54% through July, 1, 2011.	90,000
2003 serial bonds, original issues amount of \$1,235,000, due in annual principal installments ranging from \$20,000 to \$95,000; plus interest due in semiannual installments at variable rates 4.50% through July, 1, 2028.	1,060,000
2003 Operational Bond – Serial bond issues amount of \$2,585,000 due in annual installments ranging from \$40,000 to \$200,000 plus interest due in semiannual installments at variable rates 1.54% through July 1, 2028.	2,145,000
2005 Serial Bonds issues amount of \$2,115,000, due in annual principal installments ranging from \$255,000 to \$355,000, plus interest due in semiannual installments at variable rates 4.50% through July 2012.	690,000
1995- Public Improvement Bonds issues amount of \$ 4,735,000 due in annual installments of principal ranging from \$50,000 to \$295,000; plus interest due in semiannual installments variable rate from 6.5 % through August 1, 2020.	2,133,000
2007 serial bonds, original issues amount of \$ 1,300,000, due in annual principal installments ranging from \$ 30,000 to \$ 120,000; plus interest due in semiannual installments at variable rates 1.54% through July 1, 2027.	1,205,000
2007 serial bond, original issues amount of \$ 1,270,000, due in annual principal installments ranging from \$ 145,000 to \$225,000; plus interest due in semiannual installments at variable rates 1.54% through July 1, 2014.	805,000
2008 serial bonds, original issues amount of \$ 995,000, due in annual principal installments ranging from \$ 15,000 to \$ 90,000; plus interest due in semiannually installments at variable rates 1.54% through July 1, 2032.	950,000
2010 serial bonds with original issues amount of \$3,930,000- due in annual installments ranging from \$150,000 to \$415,000; plus interests due in semiannually installments at rates from 6.0% through July 1, 2024.	3,780,000

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

11. LONG-TERM DEBT(cont.)

	Outstanding Amount
2010 serial bonds with original issues amount of \$2,225,000 due in annual installments ranging from \$85,000 to \$235,000; plus interests calculated from 6% through July 1, 2024	2,140,000
2011 serial bonds with original issues amount of \$1,755,00 due in annual installments ranging from \$65,000 to \$185,000; plus interests calculated from 6% started in July 1, 2011 through July 1, 2025	1,755,000
<b>Total general municipal obligation bonds</b>	<b>\$21,013,000</b>

**Note payable to Doral Bank**

On November 10, 2010 the Municipality borrowed 750,000 at 5.25 % fixed interest for the acquisition of equipment and improvements for the Accounting Division at the Municipality de Vega Alta. The collateral for this Note is a certificate of deposit for the amount of 1,377,467 and must be in the system for 20 years. The municipality is required to pay monthly payments of \$14,249.49.

705,879

**Notes payable to the Puerto Rico Treasury Department** (Payable to CRIM):

On March 19, 2002, the Resolution Num. 36 Series 2001-2002 was enacted which authorized the Municipality to obtain up to \$260,780, for a term not exceeding 25 years, for the repayment of bonds issued for the sale of delinquent accounts. The repayment agreement bears interest at variable rates (beginning in 6.22% at June 30, 2004).

219,055

On November 28, 2001 the Agency (CRIM), financed the Real Property Digitalization System that must be used in the Island. The total cost of this System was distributed among all Municipalities. The share of this cost assigned to the Municipality of Vega Alta amounted to \$ 663,027, financed for 10 years at a 5.95% interest rate, payable in semiannual installments.

43,178  
**262,233**

**Compensated Absences**

At June 30, 2011, the liability for compensated absences is composed as follows:

	Due within one year	Due after one year	Total	
Vacations	\$ 587,456	\$ 361,067	\$ 948,523	
Sick leave	351,160	770,502	1,121,662	
Total	\$ 938,616	\$ 1,131,569	\$ 2,070,185	<b><u>2,070,185</u></b>

**Total long-term debt (without short term reclassification)**

**24,051,297**

**Short term debt reclassification**

**2,682,061**

**Long term debt**

**\$21,369,236**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**11. LONG-TERM DEBT(cont.)**

The principal and interest maturities for the general obligation bonds of the Municipality of Vega Alta at June 30, 2011 are as follows:

Year Ending June 30	Bonds			
	(Debt Services Funds)		Operation Notes and Bonds	
	Principal	Interest	Principal	Interest
2012	1,330,000	845,635	224,000	202,352
2013	1,330,000	1,023,666	234,000	274,334
2014	1,045,000	946,534	250,000	258,564
2015	1,135,000	871,881	273,000	241,351
2016	980,000	800,057	291,000	222,529
2017-2021	5,560,000	2,911,137	1,846,000	769,855
2022-2026	4,380,000	1,059,062	775,000	257,562
2027-2031	810,000	161,083	385,000	25,513
2032-2036	165,000	12,938	-	-
<b>Total</b>	<b>\$16,735,000</b>	<b>\$8,631,993</b>	<b>\$4,278,000</b>	<b>\$2,252,060</b>

**12. COMMITMENTS AND CONTINGENCIES**

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

With respects to pending or threatened litigation, the Municipality has reported liabilities of \$82,927 or awarded and anticipated unfavorable judgments as of June 30, 2010. This amount was reported within claims and judgments liabilities in the government-wide statement of net assets. Management believes that the ultimately liability in excess of amounts provided, if any, would not be significant.

The Municipality had several outstanding or planned construction projects as of June 30, 2011. These projects are evidenced by contractual commitment with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amount to \$2,196,368.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Notes to Basic Financial Statements  
June 30, 2011

**13. PRIOR YEAR RECLASIFICACION OF FUNDS BALANCE**

The following schedule provides management and citizen with information of how beginning fund balances were reclassified in order to comply with requirements of GASB 54

FUND BALANCES AS OF 6/30/2010	MAJOR FUNDS					TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEBT SERVICE FUND	MANTENIMIENTO OBRAS MUNICIPALES FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	
ENCUMBRANCES	\$ 115,778	\$ -	\$ -	\$ -	\$ -	\$ 115,778
CAPITAL ASSETS						
DEBT SERVICES		5,832,228				5,832,228
RESERVE FOR SPECIAL PURPOSES			2,387,201		10,860,572	13,247,773
UN-RESERVED	3,358,385					3,358,385
<b>TOTAL FUND BALANCES</b>	<b>3,474,163</b>	<b>5,832,228</b>	<b>2,387,201</b>	<b>-</b>	<b>10,860,572</b>	<b>22,554,164</b>
<b>RECLASSIFICATION</b>						
NON-EXPANDABLE					172,881	172,881
RESTRICTED		5,832,228		242,971	298,923	6,374,122
COMMITTED			2,387,201	8,821,104		11,208,305
ASSIGNED	115,778			359,255	965,438	1,440,471
UNASSIGNED	3,358,385				-	3,358,385
<b>TOTAL FUND BALANCES</b>	<b>\$ 3,474,163</b>	<b>\$ 5,832,228</b>	<b>\$ 2,387,201</b>	<b>\$ 9,423,330</b>	<b>\$ 1,437,242</b>	<b>\$ 22,554,164</b>

**14. SUBSECUENTE EVENT**

No subsequent events were noted at the date of report.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
 Budgetary Comparison Schedule- General Fund  
 June 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 6,210,215	\$ 6,210,215	\$ 5,159,754.84	\$ (1,050,460.16)
Municipal license taxes	3,000,000	3,000,000	3,167,392	167,392
Licenses and Permits	1,120,000	1,120,000	667,578	(452,422)
Governmental Revenue	3,541,643	4,368,841	2,741,683	(1,627,158)
Interest, fines and penalties	531,051	531,051	657,932	126,881
Rent	300,000	300,000	289,030	(10,970)
Municipal sales taxes	1,675,000	1,675,000	1,554,766	(120,234)
Other	834,000	834,000	1,302,135	468,135
	<u>\$ 17,211,909</u>	<u>\$ 18,039,107</u>	<u>\$ 15,540,271</u>	<u>\$ (2,498,836)</u>
<b>Expenditures:</b>				
General government	\$ 10,353,750	12,915,108	\$ 11,860,350	\$ 1,054,758
Highway and Urban	1,263,704	1,263,804	971,839	291,965
Public Safety	1,599,335	1,611,585	1,236,059	375,526
Sanitation & Environmental Control	2,621,566	2,621,566	2,083,689	537,877
Culture, Recreation and Education	1,073,359	1,089,659	909,177	180,482
Public, Housing Welfare	300,195	300,195	207,933	92,262
	<u>\$ 17,211,909</u>	<u>\$ 19,801,917</u>	<u>17,269,047</u>	<u>2,532,870</u>
Revenue (expenditure)	\$ -	\$ (1,762,810)	\$ (1,728,776)	\$ 34,034

**Explanation of Differences:**

**Sources/inflows of financial resources:**

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 15,540,271
Differences - budget basis to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	5,327
Timing difference in revenue recognition in budget basis vs actual in Statements of Revenues	<u>1,708,889</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 17,254,487</u>

**Uses/outflows of financial resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 17,269,047
Differences - budget basis to GAAP:	
Prior year receivable adjustment	
Transfer out to special project fund (not expenditure)	(2,136,992)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(467,519)
Resources considered expenditures for financial reporting purposes but are not expenditures for budgetary purposes	330,987
Encumbrances of prior year considered as expenditures this year	115,778
Encumbrances recorded as current year expenditures for Budgetr basi	<u>(191,597)</u>
Total expenditures as reported on the statement of revenues, expenditui and changes in fund balances - governmental funds	<u>\$ 14,919,704</u>

The accompanying notes to the basic financial statements are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Notes to Budgetary Comparison Schedule- General Fund  
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 GAAP, 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 GAAP 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 budgeted deficiency of \$1,762,810 considered the utilization of prior years' surplus.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2011

<b>FEDERAL GRANTOR / PASS THROUGH GRANTOR</b>	<b>PASS- THROUGH</b>	<b>FEDERAL</b>	
<b><u>PROGRAM TITLE</u></b>	<b><u>CODE</u></b>	<b><u>CFDA</u></b>	<b><u>NUMBER</u> <u>EXPENDITURES</u></b>
<b>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<i>Direct Programs:</i>			
Section 8 Housing Voucher (HV)		14.871	\$ 474,376
Supportive Housing Program (SHP)		14.235	71,218
 <i>Pass- through:</i>			
<i>PR Office of Municipal Affairs</i>			
Community Development Block Grants(CDBG) (State-Administered Small Cities Program)		14.228	1,582,027
Community Development Block Grants(CDBG) (State-Administered Small Cities Program) (Recovery Act Funded)		14.255	94,975
			<u>1,677,002</u>
 <i>PR Health Department</i>			
Homeless Prevention Rapid Re-housing Program (HPRP) (Recovery Act Funded)	S09-MY-72-002	14.257	83,194
Emergency Shelter Grant Program (ESG)	S06 & S09 DC720001	14.231	24,586
 <i>Municipality of San Juan</i>			
Housing Opportunities for persons with AIDS (HOPWA)		14.241	<u>62,649</u>
Subtotal US Department Of Housing and Urban Development			2,393,025
 <b>US DEPARTMENT OF HUMAN AND HEALTH SERVICES</b>			
<i>Pass- through PR Health Department:</i>			
Community Services Block Grant (CSBG)	G-08B1PRCOSR	93.569	35,000
Subtotal US Department Of Human And Health Services			<u>35,000</u>
 <b>US DEPARTMENT OF ENERGY</b>			
<i>Direct Program</i>			
Energy Efficiency and Conservation Block Grant(EECBG) ( Recovery Act Funded)		81.128	50,582
Subtotal US Department Of Energy			<u>50,582</u>
 <b>US DEPARTMENT OF JUSTICE</b>			
<i>Pass- through PR Department of Justice:</i>			
Eduard Byrne Justice Assistance Grant (EBJAG) (Recovery Act Funded)	209-SU-UFVA-01	16.803	159,820
Subtotal US Department Of Justice			<u>159,820</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 2,638,427</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF VEGA ALTA**  
Notes to Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2011

**1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents balance expended of all Federal Financial Assistance Programs of the Municipality of Vega Alta, Puerto Rico. The reporting entity is defined in Note 1 to the general-purpose financial statements.

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and capital project fund.

**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's Catalog of Federal Domestic Assistance.

**4. BASIS OF PRESENTATION**

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basis financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Federal expenditures per basic financial statements  
Included within:

Non federal expenditures included within other governmental funds	\$ 2,786,864
Expenditures per Schedule of Expenditures of Federal Awards	<u>2,638,427</u>
Total expenditures with other governmental funds	<u>\$ 5,425,291</u>



**Marieli Vargas González**  
Certified Public Accountant

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INDEPENDENT AUDITOR'S 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 Assembly  
Municipality of Vega Alta  
Vega Alta, Puerto Rico

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Vega Alta as of and for the year ended June 30, 2011, which collectively comprise the Municipality of Vega Alta, basic financial statements and have issued my report thereon dated December 15, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a

misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. I did not identify any deficiencies in internal control that I consider to be a material weakness, as define above.

#### Compliance and Other Matters

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

This report is intended solely for the information and use of management, audit committee, the Municipality Management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Toa Baja, Puerto Rico  
December 15, 2011



*Marieli Vargas González*  
CPA Marieli Vargas González  
License # 5922  
Expires December 1, 2012

Stamp No. **2633778** of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



**Marieli Vargas González**  
Certified Public Accountant

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

To the Honorable Mayor and  
the Municipal Assembly  
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, 2011. The Municipality of Vega Alta'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 Vega Alta's management. My responsibility is to express an opinion on Municipality of Vega Alta compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of 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 of Municipality of Vega Alta compliance with those requirements.

As described in item conditions 11-1 and 11-2 in the accompanying schedule of findings and questioned costs, Municipality of Vega Alta, did not comply with requirements Housing Rehabilitation and Depository Agreement, respectively, which are applicable to CDBG and Housing Voucher Programs. Compliance with such requirements is necessary, in my opinion, for of Municipality of Vega Alta, to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, Municipality of 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, 2011.

Internal Control Over Compliance

The management of the Municipality of Vega Alta 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 my audit, I considered the Municipality of Vega Alta's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Municipality of Vega Alta internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items conditions 11-1, and 11-2 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, audit committee, the Municipality Management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Toa Baja, Puerto Rico  
December 15, 2011



  
CPA Marieli Vargas González  
License # 5922  
Expires December 1, 2012

Stamp No. 2633779 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

Section I – Summary of Auditor’s Results

**Financial Statements**

Type of auditor’s report issued: Unqualified Opinion

Internal Control over financial reporting:  
Material weakness (es) identified? Yes \_\_\_\_\_ No   x  

Significant Deficiency (ies) identified not  
considered to be material weakness? Yes \_\_\_\_\_ No   x  

Noncompliance material to financial  
Statements noted? Yes \_\_\_\_\_ No   x  

**Federal Awards**

Internal Control over mayor programs:  
Material weakness (es) identified? Yes \_\_\_\_\_ No   x  

Significant Deficiency (ies) identified not  
considered to be material weakness? Yes   x   No \_\_\_\_\_

Type of auditor’s report issued on compliance  
for major programs: Qualified Opinion

Any audit findings disclosed that are required  
to be reported in accordance with section 510 (a)  
of Circular A-133? Yes   x   No \_\_\_\_\_

Identification of Major Programs:

<u>CFDA Number</u>	<u>Federal Program Name</u>
81.128	Energy Efficiency and Conservation Block Grant (Recovery Act Funded)
14.257	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)
14.255	Community Development Block Grants (Recovery Act Funded) (State-Administered Small Cities Program)
14.228	Community Development Block Grants (State-Administered Small Cities Program)
14.871	Section 8 Housing Choice Vouchers
16.803	Edward Byrne Justice Assistance Grant (Recovery Act Funded)

Dollar threshold used to distinguish  
Between type A and B programs: \$ 300,000

Audited qualified as low-risk audit Yes   x   No \_\_\_\_\_

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

Section II. Federal Awards Findings and Questioned Costs

COMMUNITY DEVELOPMENT BLOCK GRANTS (STATE-ADMINISTERED SMALL CITIES PROGRAM)-CFDA 14.228

FINDING NUMBER 11-1

***N. Special Test and Provision- Rehabilitation***

**Condition**

The following deficiencies were noted in a test of housing rehabilitation from a sample of 15 files selected:

- The applications were filled incompletely and without their required signatures. 2/15
- The inspections were filled incompletely and without their required signatures. 3/15

**Criteria**

*Code of Federal Regulation 24 §570.506* states each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part.

**Cause**

The Federal Program Office hasn't established internal controls to follow procedures necessary to obtain sufficient information and properly document the assistance offered under Housing Rehabilitation Program.

**Effect**

The Federal Program Office beneficiary files lack of documentation necessary for a reliable record of the assistance program.

**Recommendation**

The Federal Program Office should establish internal controls that increase supervision of the personnel and follow the program Guidelines.

**Questioned Cost**

None

**Auditee Response**

The Director of the Office of Federal Program immediately established the internal control that will increase supervision of the personnel and follow the program guidelines. We adopted a checklist that includes all the related documents and inspections and it will be reviewed for completeness by the Director.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

SECTION 8 HOUSING CHOICE VOUCHERS- CFDA 14.871

FINDING NUMBER 11-2

***N. Special Test and Provision-Depository Agreements***

**Condition**

All the program's bank accounts where funds are deposited are not in interest bearing accounts.

**Criteria**

*Code of Federal Regulation 24 §982.156 (c) states "The PHA must enter into an agreement with the depository in the form required by HUD".*

*Code of Federal Regulation 24 §982.153 states "The PHA must comply with the consolidated ACC, the application, HUD regulations and other requirements, and the PHA administrative plan"*

**Cause**

The PHA has not signed a depository agreement with the financial institution where has its bank accounts.

**Effect**

The PHA is not in compliance with the depository agreement in accordance with HUD requirements and regulations.

**Recommendation**

Complete the form HUD-51999 (OMB No. 2577-0270) with the depository institution.

**Questioned Cost**

None

**Auditee Response**

The Finance Director completed the form HUD-51999 (OMB No. 2577-0270) and sends it to the Depository Institution to be completed by the responsible officer.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Schedule of Prior Year Findings and Questioned Costs  
For the Year Ended June 30, 2011

**PRIOR YEAR FINDING 10-1**

**PROGRAM/ CFDA** - Homelessness Prevention And Rapid  
Re-housing Program (Recovery Act Funded)- 14.257

**Condition**

From the review of 4 cases we observed lack of verification to confirm the trueness of information in the employment termination letter presented by the participants (income verification). Also, I observed that the program staff does not associate the dates between the unemployment benefit application and the employment termination letter.

**Criteria**

*HPRP Eligibility Determination and Documentation Guide, part V Documentation, Page 8, Documentation Standards* states "Grantees and subgrantees are responsible for verifying and documenting the eligibility of all HPRP applicants prior to providing HPRP assistance. They are also responsible for maintaining this documentation in the HPRP participant case file once approved for assistance. Grantees with insufficient case file documentation may be found out of compliance with HPRP program regulations during a HUD monitoring. It is important for grantees to develop policies and procedures to ensure appropriate documentation is obtained and included in HPRP participants' files."

**Effect**

The Municipality may mistakenly give assistance to those who didn't qualify under HPRP Program.

**Recommendation**

The Municipality should follow the HPRP's Guidelines, establish effective internal control of eligibility process and increase the staff supervision.

**Questioned Cost**

None

**Finding Status**

The finding is corrected.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Schedule of Prior Year Findings and Questioned Costs  
For the Year Ended June 30, 2011

**PRIOR YEAR FINDING 10-2**

**PROGRAM/ CFDA** - Community Development Block Grants  
(State-Administered Small Cities Program)- 14.228

**Condition**

Out of the selected samples for the housing rehabilitation, the following deficiencies were noted:

- The applications were filled incompletely and without the appropriate signatures
- The rehabilitation agreements didn't have signatures
- The preliminary inspections don't coincide with the information on file
- The final inspections were not carried out

**Criteria**

*Code of Federal Regulation 24 §570.506* states each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part.

**Effect**

The Federal Program Office beneficiary files lack documentation necessary for a reliable record of the assistance program to be trustworthy.

**Recommendation**

The Federal Program Office should establish internal control that increase supervision of the personnel and follow the program Guidelines.

**Questioned Cost**

None

**Finding Status**

The finding is partially corrected.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF VEGA ALTA  
Schedule of Prior Year Findings and Questioned Costs  
For the Year Ended June 30, 2011

**PRIOR YEAR FINDING 10-3**

**PROGRAM/ CFDA - Section 8 Housing Choice Vouchers- 14.871**

**Condition**

Two of seven tenant files (29%) reviewed have inconclusive initial inspections. Tenants were required to connect the utility services in the property, however I observed that PHA didn't give a follow up of the service connection within 24 hours; neither a proper communication to tenants was made. In one of the cases the family did an illegal and dangerous connection of the utility service.

**Criteria**

*Code of Federal Regulation 24 §982.401 (a) (3)* states "All program housing must meet the HQS performance requirements both at commencement of assisted occupancy, and throughout the assisted tenancy", including illumination and electricity and water supply requirement.

*Code of Federal Regulation 24 §982.404 (b) (2)* states "If an HQS breach caused by the family is life threatening, the family must correct the defect within no more than 24 hours. For other family-caused defects, the family must correct the defect within no more than 30 calendar days (or any PHA-approved extension)."

**Effect**

The properties are not complying with Housing Quality Standards that are required by law. Also, as a result of not having the essential public services to live, tenants will engage in illegal transactions that will endanger their lives and of those nearby residents.

**Recommendation**

The PHA inspector must follow up with dwelling deficiencies and ensured they are up to housing Quality Standards and be corrected within the allotted time.

**Questioned Cost**

None

**Finding Status**

The finding is corrected.