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MUNICIPIO DE VEGA BAJA
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

Casillas - 9756

MUNICIPALITY OF VEGA BAJA
VEGA BAJA, PUERTO RICO

FINANCIAL STATEMENTS WITH THE
INDEPENDENT AUDITOR'S REPORT THEREON

JUNE 30, 2004

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

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MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**SINGLE AUDIT REPORT
JUNE 30, 2004**

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OMB CIRCULAR A-133**

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MUNICIPALITY OF VEGA BAJA MANAGEMENT DISCUSSION AND ANALYSIS

As management of the Municipality of Vega Baja (the "Municipality"), we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2003-2004 operations except, for the general fund sustain the Municipality's track of solvency and sound fiscal condition. The Governmental Wide Financial Statements also support our statement. This condition is achieved in a time of economic constraints and low revenue growth rates.

FINANCIAL HIGHLIGHTS

- The net assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$ 27.5 millions (net assets).
- All governmental funds, except, the general fund ended with a favorable fund balance amounting to \$18.8 millions.
- The adjusted actual of the General Fund operations resulted in an unfavorable variance of (\$1,257,846) as compared to the revised budget.
- As June 30,2004 the Municipality's General Fund (the primary operating fund) reported a fund balance deficiency of (\$823,574) a decrease of \$1,178,186 in comparison with the prior year surplus of \$354,612.
- Of the total unrestricted cash of \$16,567,905 there was investment in certificates of deposit amounting to \$9.9 millions.
- Long Term Debt loans principal payments were \$1.3 millions during fiscal year 2003-04. Loan proceeds from new debt issued amounted to \$1.76 millions during the same fiscal year.
- The net operating changes resulted with a loss of \$334,739 of the Debt Service Fund however, the fund balance amounts to \$1.8 millions and are available for borrowing by the Municipality.

MUNICIPALITY OF VEGA BAJA MANAGEMENT DISCUSSION AND ANALYSIS

New Requirements for the Financial Reporting

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

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

Financial Statements Components

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

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

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

MUNICIPALITY OF VEGA BAJA MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Infrastructure Assets

The Municipality implemented the major model portions of GASB statement 34 during the current fiscal year. The infrastructure portion was deferred to be implemented when ready to address the modified approach, but no later than the 2006-07 dead line. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statements. The new statement requires that this assets be valued and reported within the Governmental column of the Governmental-Wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets management system, which periodically, by category, measures and demonstrate its maintenance of locally established level 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 statements users in evaluating a local government and its performance over time.

The Municipality has only recorded the current year acquisition of infrastructure assets and will comply with the GASB Statement 34 by including prior years additions before 2006-07.

**MUNICIPALITY OF VEGA BAJA
MANAGEMENT DISCUSSION AND ANALYSIS**

Government -Wide Statement

Statement of Net Assets

The Statement of Net Assets report information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether the municipality's financial position is improving or deteriorating. In the case of the Municipality, the net assets exceeded liabilities by \$27.5 millions at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets.

The deficiency of \$14.3 millions in the unrestricted net assets is due principally to the recognition of the compensated absences, landfill obligations and claims and judgment for \$2.8, \$3.1 and \$0.3 millions, respectively in this statement. Such amount will decrease as old infrastructure assets are recorded in this financial statement as discussed in the Infrastructure Assets section of this report.

**Statement of Net Assets
As of June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Current assets	\$18,422,814	16,682,363
Restricted and other assets	13,722,907	12,208,832
Capital assets	<u>43,185,205</u>	<u>41,405,804</u>
Total assets	<u>75,330,926</u>	<u>70,296,999</u>
Current	14,776,326	12,570,701
Long-term liabilities	<u>33,017,113</u>	<u>35,076,113</u>
Total liabilities	<u>47,793,439</u>	<u>47,646,814</u>
Net assets:		
Invested in capital assets, net related debt	22,265,830	20,386,516
Restricted	19,583,198	9,276,242
Unrestricted	<u>(14,311,541)</u>	<u>(7,012,573)</u>
Total Net assets	<u>\$27,537,487</u>	<u>22,650,185</u>

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

**MUNICIPALITY OF VEGA BAJA
MANAGEMENT DISCUSSION AND ANALYSIS**

Statement of Activities

The following reflects the condensed Statement of Activities:

**Statement of Activities
Year ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Revenues:		
Program Revenues	\$15,903,309	14,500,160
General Revenues	<u>30,819,382</u>	<u>30,329,363</u>
Total Revenue	<u>46,722,691</u>	<u>44,829,523</u>
Expenses:		
Governmental Activities	<u>(41,835,389)</u>	<u>(45,080,626)</u>
Change in Net Assets	<u>\$ 4,887,302</u>	<u>(251,103)</u>

The most significant changes in this statement were as follows:

- Total revenues increased by approximately \$1.9 millions as compared to prior year.
- Total governmental activities expenses decreased by approximately \$3.2 millions principally in the general government expense category.

The following reflects the condensed Balance Sheet of the Governmental Funds:

**Governmental Funds
Balance Sheet
June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Assets:		
Cash	\$16,567,905	15,368,664
Restricted Cash	13,722,907	11,911,504
Accounts Receivable	<u>3,325,208</u>	<u>1,964,087</u>
Total Assets	<u>\$33,616,020</u>	<u>29,244,255</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable and due to	4,788,103	2,670,749
Deferred Revenue and Volume of Business Tax	7,893,941	7,115,685
Mature bonds, notes and interests	<u>2,174,352</u>	<u>1,907,255</u>
Total Liabilities	14,856,396	11,693,689
Fund Balances	<u>18,759,624</u>	<u>17,550,566</u>
Total liabilities and Fund Balances	<u>\$33,616,020</u>	<u>29,244,255</u>

The most significant changes in this statement were as follows:

- Noticeably, the fund balances are mostly in cash and cash restricted.
- The increase in assets and liabilities is due mainly to the loan of \$1,760,000 obtained during the year.

**MUNICIPALITY OF VEGA BAJA
MANAGEMENT DISCUSSION AND ANALYSIS**

**Statement of Revenue, Expenditures and Changes in Fund Balances
Year Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Revenues:		
Property taxes	\$10,969,191	11,514,257
Volume of business tax	7,424,072	7,366,829
Federal grants	14,443,887	13,180,956
Other	<u>13,327,670</u>	<u>12,190,045</u>
Total Revenues	<u>46,164,820</u>	<u>44,252,087</u>
Expenditures:		
General Government	9,689,775	8,733,350
Highways, streets and transportation	7,074,380	9,746,602
Education and training	7,873,575	9,182,659
Bonds, notes and interests	4,914,735	4,182,505
Other	<u>17,163,296</u>	<u>11,397,402</u>
Total Expenditures	<u>46,715,761</u>	<u>43,242,518</u>
Excess of revenues (expenditures) over expenditures (revenues)	(550,941)	1,009,569
Other financing sources, debt issuance	1,760,000	4,570,000
Fund balance, beginning	<u>17,550,565</u>	<u>11,970,996</u>
Fund balance, ending	<u>\$18,759,624</u>	<u>17,550,565</u>

The most significant changes of this statement is as follows:

- The larger increase was in the federal grants and other revenue by approximately \$1.8 and \$1.1 millions, respectively.
- The most significant change in the expenditures was an increase in other for approximately \$6.2 millions related with capital outlays.

MUNICIPALITY OF VEGA BAJA MANAGEMENT DISCUSSION AND ANALYSIS

Economic Factors and Next Year Budget

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 14 members.

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

The municipality has a wide industrial base which include the large pharmaceuticals, wholesalers, retail stores, financial institutions and restaurants, among others. This industrial base has increased during the most recent years.

Contacting the municipality's Financial Management

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



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
the Municipality's Legislature
Municipality of Vega Baja
Vega Baja, Puerto Rico

We have audited the accompanying financial statements of the Governmental Activities, each major fund and the aggregate remaining fund information of the **Municipality of Vega Baja**, Puerto Rico, (**the Municipality**) as of and for the year ended June 30, 2004, which collectively comprise **the Municipality's** basic financial statements as listed in the accompanying table of contents. We have also audited the accompanying Statement of Revenues and Expenditures-Budget and Actual-Budgetary Basis of the General and Debt Service Fund of **the Municipality** for the fiscal year then ended, which is presented as part of the basic financial statements. These financial statements are the responsibility of **the Municipality's** management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following two paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures of 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. We believe that our audit provides a reasonable basis for our opinions.

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related with the Capital Assets additions and depreciation for the year reported in the governmental activities. Accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

As described in Note 17 to the financial statements, **the Municipality** incorrectly recorded twice a transfer of \$277,000 from other funds into the miscellaneous revenue account of the general fund without considering the effect, if any, on the current's operation of the general fund. Because the uncertainty of the correctness of the general fund balance we were unable to determine the effect, if any, on the 2004 general fund operations.

INDEPENDENT AUDITOR'S REPORT

(Continuation)

In our opinion, because of the effect of the matters discussed in the third and fourth paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the respective financial position of the governmental activities and the general fund of the **Municipality of Vega Baja**, Puerto Rico, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Head Start Revenue Fund, Capital Project Fund, Debt Service Fund, and the aggregate remaining fund information of the **Municipality of Vega Baja**, Puerto Rico, as of June 30, 2004, and the respective changes in financial position, thereof and the respective Budgetary Comparison for the General Fund and Debt Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, on July 1, 2002, **the Municipality** implemented a new financial reporting model required by GASB Statement No. 34 (GASB No. 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In conjunction with the adoption of GASB No. 34, **the Municipality** has also adopted the following pronouncements: (1) GASB Statement No. 37-*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, (2) GASB Statement No. 38-*Certain Financial Statement Note Disclosures*, and (3) GASB Interpretation No. 6-*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying Management's Discussion and Analysis is not a required part of the basic financial statements referred to above, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

January 21, 2005
San Juan, Puerto Rico

Nemes Velazquez & Co., P.S.C.

CPA Stamp #1981595 was affixed to
the record copy of this report.



MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets	<u>Governmental Activities</u>
Current assets:	
Cash (including certificates of deposits of \$9,900,000)	\$ 16,567,905
Receivables:	
Loans and accounts	805,813
Other governmental entities	579,275
Federal government / Pass-through grantor	<u>469,821</u>
Total current assets	<u>18,422,814</u>
Noncurrent assets:	
Restricted assets:	
Cash with fiscal agent	13,722,907
Other assets	<u>261,559</u>
Capital assets:	
Nondepreciable assets:	
Land and construction in progress	12,065,494
Depreciable assets:	
Buildings, equipment and other, net	<u>30,858,152</u>
Total capital assets	<u>42,923,646</u>
Total noncurrent assets	<u>56,908,112</u>
Total assets	<u>\$ 75,330,926</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 1,899,788
Due to:	
Federal agency / Pass - through grantor	307,407
Other governmental entities	1,372,168
Deferred revenues:	
Volume of business tax	7,336,070
General obligations, bonds and notes	2,203,000
Compensated absences	857,155
Interest payable	<u>800,738</u>
Total current liabilities	<u>14,776,326</u>
Noncurrent liabilities:	
General obligations, bonds and notes	26,880,000
Compensated absences	2,806,870
Claims and judgement	250,000
Accrued landfill obligations	<u>3,080,243</u>
Total noncurrent liabilities	<u>33,017,113</u>
Total liabilities	<u>47,793,439</u>
Net assets:	
Invested in capital assets, net of depreciation and related debt	22,265,830
Restricted for:	
Debt service	1,756,358
Capital projects	15,023,119
Other purposes	2,803,721
Unrestricted	<u>(14,311,541)</u>
Total net assets	<u>27,537,487</u>
Commitments and contingencies (Note 15)	-
Total liabilities and net assets	<u>\$ 75,330,926</u>

The accompanying notes are an integral part of these financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>
		<u>Charges for Services and other</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:					
General government	\$ 6,967,119	269,013	-	428,191	(6,269,915)
Capital outlays	6,800,438	-	-	3,832,816	(2,967,622)
Welfare	877,662	-	-	487,512	(390,150)
Housing	2,193,708	-	-	1,588,129	(605,579)
Highway, streets and transportation	7,074,380	-	2,253,905	-	(4,820,475)
Recreation and sports	2,762,467	-	-	-	(2,762,467)
Education and training	7,986,948	-	190,766	5,853,334	(1,942,848)
Sanitation	1,222,878	999,643	-	-	(223,235)
Public safety and security	1,766,718	-	-	-	(1,766,718)
Health	2,427,950	-	-	-	(2,427,950)
Interest	1,755,121	-	-	-	(1,755,121)
Total governmental activities	\$ 41,835,389	1,268,656	2,444,671	12,189,982	(25,932,080)
General revenues					
Taxes					
Property taxes					11,336,296
Volume of business taxes					7,424,072
Intergovernmental revenue, unrestricted					8,521,678
Interest revenues					387,081
Licenses, permits, fines and forfeits					965,298
Miscellaneous					2,184,957
Total general revenues					30,819,382
Change in net assets					4,887,302
Net assets - beginning of year					22,650,185
Net assets - end of year					\$ 27,537,487

The accompanying notes are an integral part of these financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	Major Funds					Total Governmental Funds
	General Fund	Head Start Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	
ASSETS						
Cash (including certificates of deposits of \$9,900,000)	\$ 7,467,367	3,272	6,697,266	-	2,400,000	16,567,905
Restricted assets:						
Cash with fiscal agent	-	-	8,428,366	3,890,159	1,404,382	13,722,907
Receivables:						
Federal agency / Pass - through grantor	-	-	-	-	469,821	469,821
Loans and accounts	-	489,703	-	-	316,110	805,813
Due From other funds	1,208,663	-	-	-	77	1,208,740
From other governmental entities	-	164,424	-	414,851	-	579,275
Other	176,893	2,325	-	-	82,341	261,559
Total assets	\$ 8,852,923	659,724	15,125,632	4,305,010	4,672,731	33,616,020

(Continues)

The accompanying notes are an integral part of these financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

(CONTINUATION)

	Major Funds					Total Governmental Funds
	General Fund	Head Start Special Revenues Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	
LIABILITIES						
Accounts payable and accrued liabilities	\$ 968,259	296,443	102,513	-	532,573	1,899,788
Due to:						
Other governmental entities	1,372,168	-	-	-	-	1,372,168
Others funds	-	363,281	-	7,195	838,264	1,208,740
Federal agency / Pass - through grantor	-	-	-	-	307,407	307,407
Deferred revenues:						
Volume of business tax	7,336,070	-	-	-	190,766	7,526,836
Others	-	-	-	367,105	-	367,105
Matured bonds & notes:						
Principal	-	-	-	1,580,000	-	1,580,000
Interests	-	-	-	594,352	-	594,352
Total liabilities	9,676,497	659,724	102,513	2,548,652	1,869,010	14,856,396

(Continues)

The accompanying notes are an integral part of these financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

(CONTINUATION)

	<u>Major Funds</u>					<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Head Start Special Revenues Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	
FUND BALANCE						
Reserved for encumbrances	41,251	-	-	-	-	41,251
Reserved for other purposes	-	-	-	-	2,803,721	2,803,721
Reserved for debt service	-	-	-	1,756,358	-	1,756,358
Reserved for capitals projects	-	-	15,023,119	-	-	15,023,119
Unreserved (deficit)	(864,825)	-	-	-	-	(864,825)
Total fund balance (deficit)	(823,574)	-	15,023,119	1,756,358	2,803,721	18,759,624
Commitments and contingencies (Note 15)	-	-	-	-	-	-
Total liabilities and fund balance	\$ 8,852,923	659,724	15,125,632	4,305,010	4,672,731	33,616,020

The accompanying notes are an integral part of these financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2004
(Continuation)**

Total fund balances for governmental funds		\$ 18,759,624
Total net assets reported in the statement of governmental activities is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Governmental Funds Statement. Those assets consist of:		
Land	\$ 10,199,261	
Construction in progress	1,866,233	
Buildings and improvements, equipment and vehicles, net of \$15,612,369 accumulated depreciation	<u>30,858,152</u>	
Total capital assets		42,923,646
Some of the Municipality's taxes and other revenues will be collected after the year end but are not available soon enough to pay for the current period's expenditures, and, therefore, are reported as deferred revenues in the Governmental Funds Statement.		557,871
Some of interest expenditures on long-term debt incurred during the year were not matured after year-end, therefore are not reported in the Governmental Funds Statement.		(206,386)
Long-term liabilities applicable to the Municipality's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term-are reported in the Net Assets. Balances at June 30, 2004, were:		
Compensated Absences		(3,664,025)
Landfill post-closure costs		(3,080,243)
Legal Claims		(250,000)
Bonds and notes payable		<u>(27,503,000)</u>
Total net assets of governmental activities		<u>\$ 27,537,487</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Major Funds					Total Governmental Funds
	General Fund	Head Start Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	
REVENUES						
Property taxes	\$ 8,392,932	-	-	2,576,259	-	10,969,191
Volume of business tax	7,424,072	-	-	-	-	7,424,072
Licenses, permits, fines and forfeits	965,298	-	-	-	-	965,298
Intergovernmental grants and others	1,841,740	1,429,691	4,037,856	-	1,212,391	8,521,678
Interests	377,145	-	-	-	9,936	387,081
Property rent	269,013	-	-	-	-	269,013
Landfill	999,643	-	-	-	-	999,643
Federal grants	-	5,798,792	-	-	8,645,095	14,443,887
Miscellaneous	1,349,821	-	-	-	835,136	2,184,957
Total revenues	21,619,664	7,228,483	4,037,856	2,576,259	10,702,558	46,164,820

(Continues)

The accompanying notes are an integral part of these financial statements

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

(CONTINUATION)

	Major Funds					Total Governmental Funds
	General Fund	Head Start Special Revenues Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	
<u>EXPENDITURES</u>						
General government	8,170,992	-	-	-	1,518,783	9,689,775
Public safety and security	1,766,718	-	-	-	-	1,766,718
Highway, streets and transportation	7,074,380	-	-	-	-	7,074,380
Sanitation	1,200,132	-	-	-	-	1,200,132
Health	2,427,950	-	-	-	-	2,427,950
Recreation and sports	1,926,478	-	-	-	-	1,926,478
Education and training	-	7,228,483	-	-	645,092	7,873,575
Housing	-	-	-	-	2,193,708	2,193,708
Welfare	-	-	-	-	847,872	847,872
Capital outlays	-	-	3,876,428	-	2,924,010	6,800,438
Principal	-	-	-	3,366,000	-	3,366,000
Interest	-	-	-	1,548,735	-	1,548,735
Total expenditures	22,566,650	7,228,483	3,876,428	4,914,735	8,129,465	46,715,761

(Continues)

The accompanying notes are an integral part of these financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

(CONTINUATION)

	Major Funds					Total Governmental Funds
	General Fund	Head Start Special Revenues Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	
Excess / (deficiency) of revenues over / (under) expenditures before other financing sources / (uses)	(946,986)	-	161,428	(2,338,476)	2,573,093	(550,941)
OTHER FINANCING SOURCES / (USES)						
Proceeds from debt issued	-	-	1,760,000	-	-	1,760,000
Operating transfers - in	-	-	-	2,003,737	709,776	2,713,513
Operating transfers - out	(231,200)	-	-	-	(2,482,313)	(2,713,513)
Total other financing sources (uses)	(231,200)	-	1,760,000	2,003,737	(1,772,537)	1,760,000
Net change in fund balance	(1,178,186)	-	1,921,428	(334,739)	800,556	1,209,059
Fund balance at beginning of year	354,612	-	13,101,691	2,091,097	2,003,165	17,550,565
Fund balance at end of year	<u>\$ (823,574)</u>	<u>-</u>	<u>15,023,119</u>	<u>1,756,358</u>	<u>2,803,721</u>	<u>18,759,624</u>

The accompanying notes are an integral part of these financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to
the Statement of Activities**

For the year ended June 30, 2004

(Continuation)

Net change in fund balances-Governmental Funds Statement	\$1,209,059
Governmental Funds Statement reports capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures (\$4,396,808) exceeded depreciation and amortization expense (\$2,878,966) reported in the Statement of Activities.	1,517,842
Revenues reported as deferred revenue in the governmental funds statement based on availability and reported as revenues in the statement of activities as follows:	
Property taxes	367,105
Government grant assistance	190,766
Recording of additional payment of loans and interest not recorded in the governmental fund statements.	202,916
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under modified accrual basis of accounting until due.	
These adjustments combine the net changes of the following balances:	
Accrued interest on loans	(206,386)
Bond proceeds provide current financial resources to governmental funds, but, issuing debt increases long-term liabilities in the Statement of Net Assets.	(1,760,000)
Payment of bond principal is an expenditure in the governmental funds, but it reduces the long-term liabilities in the Statement of Net Assets.	<u>3,366,000</u>
Change in Net Assets of Governmental Activities	<u>\$ 4,887,302</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL-GENERAL FUND**

**BUDGET BASIS
Year Ended June 30, 2004**

	Budgeted Amounts		Adjusted Actual (Note 1)	Variance Favorable (Unfavorable)
	Original Budget	Final Budget		
Revenues				
Property tax	\$ 8,646,773	9,520,056	8,392,932	(1,127,124)
Volume of business tax	7,150,000	7,150,000	7,424,072	274,072
Licenses and permits	1,005,000	1,005,000	965,298	(39,702)
Intergovernmental grants	1,862,780	1,862,780	1,841,740	(21,040)
Property rent	188,272	188,272	269,013	80,741
Interest	500,000	500,000	377,145	(122,855)
Landfill	1,000,000	1,000,000	999,643	(357)
Miscellaneous	255,300	1,443,397	1,349,821	(93,576)
Total Revenues	20,608,125	22,669,505	21,619,664	(1,049,841)
Expenditures				
General government	7,901,473	9,288,241	8,253,753	1,034,488
Public works	6,302,313	6,796,689	7,074,380	(277,691)
Health & welfare	2,442,886	2,338,770	2,427,950	(89,180)
Public safety	1,695,009	1,767,156	1,766,718	438
Education & recreation	1,335,633	1,278,060	1,923,376	(645,316)
Sanitation	930,811	1,200,589	1,200,133	456
Transfer-out	-	-	231,200	(231,200)
Total Expenditures	20,608,125	22,669,505	22,877,510	(208,005)
Excess of expenditures over revenues	\$ -	-	(1,257,846)	(1,257,846)

The accompanying notes are an integral part of these financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL)
 BUDGETARY BASIS - DEBT SERVICE FUND
 YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Adjusted Actual (Note 1)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 2,192,205	2,192,205	2,576,259	384,054
Total revenues	2,192,205	2,192,205	2,576,259	384,054
Expenditures				
Bonds and notes	1,551,000	1,551,000	1,891,000	(340,000)
Interest-bonds and notes	641,205	641,205	1,251,198	(609,993)
Total expenditures	2,192,205	2,192,205	3,142,198	(949,993)
Excess of expenditures over revenues	\$ -	-	(565,939)	(565,939)

The accompanying notes are an integral part of these financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

GENERAL ORGANIZATION

The **Municipality of Vega Baja (the Municipality)** was founded in 1776. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of fourteen (14) assemblymen also elected in the general elections of Puerto Rico for a four-year period.

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

The financial statements of **the Municipality** have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) constitute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Municipality's financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

a. Reporting Entity (Continuation)

The **Municipality of Vega Baja** was required to implement this Standard for the fiscal year ended June 30, 2003.

b. Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of **the Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be 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 according to GASB Statement No. 14, - *The Financial Reporting Entity* (GASB No.14.)

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of **the Municipality** as of June 30, 2004 nor for the year then ended.

c. Basic Financial Statements-GASB Statement No. 34

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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

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

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

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

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

d. Basis of Presentation

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

d. Basis of Presentation (Continuation)

Major Funds

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

Special Revenue Fund Head Start– The special revenue fund of Head Start is a major fund used by **the Municipality** to account for revenues derived from the grant that is legally restricted by outside parties for use on specific purpose. The uses and limitations of this revenue fund is specified by municipal ordinances or federal and state statutes.

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality's** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

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

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

e. Basis of Accounting

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

e. Basis of Accounting (Continuation)

Measurement Focus, Basis of Accounting

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

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

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

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

f. Encumbrances

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

g. Budgetary Data

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

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

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

g. Budgetary Data (Continuation)

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

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year. During the fiscal year, **the Municipality** readjusted its original budget of the General Fund Balance by \$2,061,380 from current year resources increase.

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

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

g. Budgetary Data (Continuation)

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

	<i><u>General Fund</u></i>	<i><u>Debt Service Fund</u></i>
Excess of expenditures and other financing sources over revenues and other financing uses (Budgetary-Statutory Basis)	\$(1,257,846)	(565,939)
Transfer of funds from the general and capital project funds	-	2,003,737
Loans principal and interest paid through the debt service not budgeted	-	(1,772,537)
Prior year encumbrances recognized as expenditures on the budgetary basis	120,911	-
Current year encumbrances recognized as expenditures on the budgetary basis	<u>(41,251)</u>	<u>-</u>
Excess of expenditures and other financing sources over revenues and other financing sources (GAAP basis)	\$(1,178,186)	<u>(334,739)</u>

The Municipality has not legally adopted a budget for the Head Start special revenue and capital projects funds. Accordingly, it has not presented an annual comparison of budget and actual for these major funds.

h. Deposits

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

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

i. **Inventories**

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

j. **Capital Assets**

Fund Financial Statement

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

Government Wide Financial Statement

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

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

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

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

l. Insurance

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

m. Restricted Assets

Cash with fiscal agent

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

n. Reservations of Fund Balance

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

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

n. Reservations of Fund Balance (Continuation)

- * *For Other Purposes* - Represent mainly resources set aside for use in federal and state grant programs accounted for in the special revenue funds, and resources available in the general fund for the payment of certain accounts payable and commitments approved by GDB.

o. 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 and in the Statement of Net Assets.

p. Use of Estimates

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

q. Totals Column (Memorandum Only) Governmental Funds Statement

The total data under this column is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since interfund eliminations have not been made.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

2. PROPERTY TAXES

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

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

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

The tax rate per annum is 8.43% for real property and 6.43% for personal property of which 3.58% and 1.58%, respectively, belongs to the Commonwealth of Puerto Rico and 4.85% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3.25% represents **the Municipality's** basic tax rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.6% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service which is accounted for through the debt service fund (See Note 10). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

2. PROPERTY TAXES (Continuation)

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

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

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, **the Municipality** recognized as an expenditure the operational expenses allocated by the CRIM to **the Municipality**, which amounted to \$223,527 during 2004.

The following is a summary of the property tax advances, which resulted as an account receivable, for the year ended June 30, 2004 and outstanding debt from 2001. The resulting receivable is presented as a deferred revenue in the general fund for Fund Financial Statement and as a revenue in the Government Wide Financial Statements. The debt has been presented in the Statement of Net Assets as a non-current liability since payment is not anticipated to be paid in near future.

Account Receivable:

Advanced received, 7/1/03 - 6/30/04	\$8,895,516
Amortization through collections of property taxes by the CRIM, 7/1/03-6/30/04	(7,768,392)
Due to CRIM-2004	<u>\$1,127,124</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

3. DEPOSITS

Deposits include certificates of deposits amounting to \$9,900,000. **The Municipality's** cash and investments at June 30, 2004, were entirely covered by the Federal Depository Insurance Corporation or by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

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

4. CONCENTRATION OF CREDIT RISK

The Municipality maintains its cash account in local commercial banks, whose accounts are warranty by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits in excess of \$100,000 are collateralized by the bank securities to property safeguard such funds.

Nevertheless, Management believes that concentration of credit risks is limited because balances are deposited with high standing financial institutions.

5. MUNICIPAL LICENSE TAXES

The Municipality imposes a volume of business tax pursuant to Act No. 82 of August 30, 1991, on all business entities, which operate within **the Municipality**, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.5% for financial institutions and savings and loans associations, 0.5% for all other non-financial organizations.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. **The Municipality** grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

5. MUNICIPAL LICENSE TAXES (Continuation)

The Municipality recognized an account receivable for the estimated municipal license taxes to be collected during the first three months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as deferred revenues.

6. INTERFUND TRANSACTIONS

Due From/To Other Funds (Fund Financial Statement)

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

<u>Fund</u>	<u>Due From</u>	<u>Due to</u>
General	\$1,208,663	-
Head Star Special Revenue	-	363,281
Debt Service	-	7,195
Capital Project	-	-
Other Governmental Funds	<u>77</u>	<u>838,264</u>
	<u>\$1,208,740</u>	<u>1,208,740</u>

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

7. DUE FROM (DUE TO) GOVERNMENTAL ENTITIES

As of June 30, 2004 balances from (due to) governmental entities of the general fund consists of the following:

<u>Name</u>	<u>Due from</u>	<u>Due to</u>
Centro de Recaudación Ingresos Municipales (CRIM)	\$414,851	1,127,124
Electric Puerto Rico Power Authority	-	89,331
Puerto Rico Water and Sewer Authority	-	35,301
Puerto Rico Retirement System	-	120,412
Puerto Rico Family Department	<u>164,424</u>	-
Totals	<u>\$579,275</u>	<u>1,372,168</u>

Part of the balances of due from governmental agencies were recorded as deferred revenues-others as of June 30, 2004.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

8. INTERGOVERNMENTAL REVENUES

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

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

9. GENERAL AND SPECIAL OBLIGATIONS

The following is a summary of the long-term debt transactions for the year ended June 30, 2004:

Debt at June 30, 2003	\$30,419,000
Add: Issuance of new debt	1,760,000
Deduct:	
Payments	<u>(3,096,000)</u>
Debt at June 30, 2004	<u>\$29,083,000</u>

Long-term debt at June 30, 2004 is composed of the following:

General Obligations-Bonds:

		<i><u>DUE WITHIN ONE YEAR</u></i>
Series of 1991, \$2,700,000 payable in annual installments of \$225,000 to \$315,000 until 2005; with interest ranging from 5.913% to 6.313%.	\$ 600,000	\$285,000
Series of 1994, \$1,635,000 payable in annual installments of \$55,000 to \$160,000 until 2014; with interest at 6.906% to 7.706%.	1,195,000	70,000
Series of 1995, \$6,665,000 payable in annual installments of \$275,000 to \$720,000 until 2012; with interest at 5.50% to 6.30%.	4,680,000	360,000
Series of 1997, \$4,340,000 payable in annual installments of \$75,000 to \$375,000 until 2022; with interest at 5.17% to 6.560%.	3,910,000	95,000
Series of 1999, \$3,115,000 payable in annual installments of \$70,000 to \$290,000 until 2019; with interest at 5.19% to 6.51%.	2,755,000	90,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

9. GENERAL AND SPECIAL OBLIGATIONS (Continuation)

General Obligations-Bonds (Continuation):

		<i><u>DUE WITHIN ONE YEAR</u></i>
Series of 1987, \$3,175,000 payable in annual installments of \$170,000 until 2007; with interest at 9%.	680,000	170,000
Series of 1991, \$510,000 payable in annual installments of \$40,000 to \$60,000 until 2006; with interest ranging from 5.913% to 6.363%.	165,000	50,000
Series of 2001, \$825,000 payable in annual installments of \$140,000 to \$195,000 until 2005; with interest at 5.0% to 8.00%.	370,000	175,000
Series of 2002, \$1,410,000 payable in annual installments of \$20,000 to \$120,000 until 2026; with interest at 5.0% to 7.0%.	1,365,000	25,000
Series of 2002, \$310,000 payable in annual installments of \$5,000 to \$25,000 until 2026; with interest at 5.0% to 7.0%.	300,000	5,000
Series of 2003, \$2,900,000 payable in annual installments of \$50,000 to \$230,000 until 2027; with interest at 2.89% to 5.6%.	2,850,000	50,000
Series of 2003, \$215,000 payable in annual installments of \$5,000 to \$15,000 until 2027; with interest at 5% to 6.5%.	210,000	5,000
\$1,760,000 payable in annual installments of \$30,000 to \$130,000 until 2028, with interest at 6%.	1,760,000	30,000
<u>Notes:</u>		
Series of 2003, \$910,000 payable in annual installments of \$105,000 to \$130,000 until 2006; with interest at 5.0% to 6.5%.	805,000	115,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

9. GENERAL AND SPECIAL OBLIGATIONS (Continuation)

Notes (Continuation):

		<i><u>DUE WITHIN ONE YEAR</u></i>
Series of 2003, \$545,000 payable in annual installments of \$10,000 to \$45,000 until 2027; with interest at 5.0% to 6.5%.	535,000	10,000
\$472,000 payable in annual installments of \$64,000 to \$78,000 until 2005; with interest at 4.75%.	78,000	78,000
\$430,000 payable in annual installments of \$59,000 to \$70,000 until 2005; with interest at 4.5%.	70,000	70,000
\$465,000 payable in annual installments of \$35,000 to \$70,000 until 2008; with interest at 5.0% to 8%.	280,000	45,000
NOTES, guaranteed by Real Property built, to be Constructed and HUD. These are Revenue Anticipation Notes to be paid from Community Development Block Grant Entitlement program fund to be approved in future years.		
\$6,455,000 payable in annual installments of \$300,000 to \$455,000 until 2015; with interest from 5.85% to 7.66%.	4,355,000	350,000
\$2,370,000 payable in annual installments of \$125,000 to \$185,000 until 2019; with interest at 7.5%.	<u>2,120,000</u>	<u>125,000</u>
	<u>\$29,083,000</u>	<u>2,203,000</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

9. GENERAL AND SPECIAL OBLIGATIONS (Continuation)

Notes (Continuation)

The annual requirements to amortize the general long-term debt outstanding at June 30, 2004, including interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$2,203,000	1,678,046	3,881,046
2006	2,180,000	1,600,314	3,780,314
2007	1,760,000	1,485,447	3,245,447
2008	1,785,000	1,367,551	3,152,551
2009	1,710,000	1,257,922	2,967,922
2010 -2014	8,290,000	4,628,651	12,918,651
2015-2019	5,420,000	2,436,076	7,856,076
2020-2024	3,715,000	979,441	4,694,441
2025-2029	<u>2,020,000</u>	<u>210,630</u>	<u>2,230,630</u>
TOTALS	<u>\$29,083,000</u>	<u>15,644,078</u>	<u>44,727,078</u>

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond obligations that can be issued to 10% of the assessed valuation of the property located at the **Municipality of Vega Baja**.

10. DEBT SERVICE FUND

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

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

Property taxes	\$2,576,259
General Fund	231,200
Special Revenue fund	1,772,537
From fund balance	<u>334,739</u>
	<u>\$4,914,735</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

10. DEBT SERVICE FUND (Continuation)

Expenditures for year 2003-2004 were as follows:

Principal	\$3,366,000
Interest	<u>1,548,735</u>
	<u>\$4,914,735</u>

11. CAPITAL ASSETS

Fund Financial Statements

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

Government Wide Financial Statements

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>	<u>Capitalization Threshold</u>
Vehicles, Heavy Equipment	5-10	\$300
Furniture and Fixture	10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	40	\$1
Infrastructure	60	\$1
Improvements	20	\$1

In addition, the Municipality assigned a 10% residual value to all Capital Assets.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

11. CAPITAL ASSETS (Continuation)

Government Wide Financial Statements (Continuation)

<i>Capital Assets</i>	<i>Balances 6/30/03</i>	<i>Additions</i>	<i>Retirements, Dispositions and Transfers</i>	<i>Balances 6/30/04</i>
Governmental Activities:				
<i>Non-depreciable assets:</i>				
Land	\$10,199,261	-	-	10,199,261
Construction in progress	<u>1,703,383</u>	<u>162,850</u>	-	<u>1,866,233</u>
Total Non-depreciable assets	<u>\$11,902,644</u>	<u>162,850</u>	<u>-</u>	<u>12,065,494</u>
<i>Depreciable assets:</i>				
Buildings and improvements	\$33,274,373	3,553,234	-	36,827,607
Vehicles, Equipment, Furniture & Fixture	<u>9,051,745</u>	<u>680,724</u>	<u>89,555</u>	<u>9,642,914</u>
Sub-totals	42,326,118	4,233,958	89,555	46,470,521
Less accumulated depreciation	<u>(12,822,958)</u>	<u>(2,878,966)</u>	<u>(89,555)</u>	<u>(15,612,369)</u>
Depreciable assets, net	<u>\$ 29,503,160</u>	<u>1,354,992</u>	<u>-</u>	<u>30,858,152</u>

Depreciation expense was charged to functions as follows:

General Government	\$1,877,068
Welfare	29,790
Housing	-
Transportation	-
Recreation and Sports	835,989
Education and Training	113,373
Sanitation	22,746
Public Safety	-
Health	-
Total	<u>\$2,878,966</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

12. RETIREMENT SYSTEM

Plan Description

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS).

ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities.

Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P. O. Box 42003, San Juan, Puerto Rico 00940.

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

OLD PLAN

Eligibility

Age 55 and 30 years
of service

Under 55 and 30 years
of service

Pension Benefits

75% of average highest compensation
during any 3 years of credited service

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

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

12. RETIREMENT SYSTEM (Continuation)

Plan Description (Continuation)

NEW PLAN

Eligibility

Age 65 with 10 years
of service

Pension Benefits

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

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

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The annual employer and employees contribution for the year ended June 30, 2004 amounted approximately \$788,472 and \$695,184 respectively. Members' contributions are 5.775% for gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600 and **the Municipality** is required to contribute 9.275% of gross salary.

Actuarial Valuation

The actuarial determined present value of benefits accrued as of July 1, 2003 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$11.2 billion. The net assets available for benefits at such date were \$2.0 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$9.2 billion. This information is not available by each participant government agencies or municipalities.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

12. RETIREMENT SYSTEM (Continuation)

Actuarial Valuation (Continuation)

Net assets of the System consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

- | | |
|--|---|
| a) Interest rate | 8.5% a year |
| b) Salary increases | 5.0% a year |
| c) Mortality | GAM'83 Mortality Table set forward two years. |
| d) Termination | Medium Turnover Table commensurate with anticipated experience. |
| e) Disability | 65% of Third Railroad Retirement Table Rates. |
| f) Retirement age | Graded scale of retirement ages commensurate with anticipated experience. |
| g) Proportion of participants with spouses | 80% of participants assumed to be married, with wives assumed to be four years younger than husbands. |
| h) Number of employees electing higher contributions | 15% of retiring employees assumed to pay retroactive contributions at retirement. |
| i) Cost-of-living adjustment | 3% every third year |

13. LONG TERM LIABILITIES

Compensated Absences

Accounts for vacation and sick leave absences to be financed with governmental funds.

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

13. LONG TERM LIABILITIES (Continuation)

Compensated Absences (Continuation)

The changes in Compensated absences for the year ended June 30, 2004 are as follows:

<u>Governmental activity</u>	<u>June 30, 2004</u>	<u>Net Decrease</u>	<u>June 30, 2004</u>	<u>Due within One year</u>
Compensated Absences	<u>\$4,359,738</u>	<u>695,713</u>	<u>\$3,664,025</u>	<u>\$857,155</u>

In addition, the liabilities for retirement obligations were recorded in the Government-Wide Financial Statements. The balance consists of unpaid, accumulated pension obligations. The current portion of the liability has been calculated using the vesting method, in which every employee with 58 years of age and at least 10 years of creditable service is entitled to an early retirement benefit. On the other hand, the long-term portion consist of those employees, which at the close of the fiscal year have not attained 58 years of age nor 10 years of creditable service.

14. LEASES

Operating Leases

The Municipality has several short-term operating lease agreements covering some of the Municipality's premises and equipment. Most of the agreements are renewed annually. Total rental charges for the year ended June 30, 2004, were approximately \$602,200 included in all funds.

15. CONTINGENCIES AND COMMITMENTS

Contingencies

Litigation

Litigation represents the ultimate liability, if any, of the Municipality as a defendant in various lawsuits, not covered by insurance.

The Municipality has been named as a defendant or co-defendant in various lawsuits amounting to approximately \$14.9 millions. They primarily relate to accidents and personal injuries, accidents and employee claims of alleged unjustified dismissal or breach of contracts.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

15. CONTINGENCIES AND COMMITMENTS (Continuation)

Contingencies (Continuation)

Litigation (Continuation)

The Municipality believes it has meritorious defenses against these legal actions and is contesting them vigorously. In addition, **the Municipality** considers that these claims are filed in amounts far greater than those that can be reasonably expected to be agreed on with claimants or awarded by a court. Nonetheless, a provision of \$250,000 has been recorded in the Government Wide Financial Statements.

CRIM

In December 2001, the CRIM refinanced an approximately \$70 Millions long-term debt with a financial institution related with the Land Information Management System (LIMS) project. The loan includes the interests at 5.95% for a 10 years period ending in 2011 and it is collateralized proportionally with the total add-valorem personal and real property of all the municipalities.

Federal Programs

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

Commitments

The Capital Project Fund reflects construction commitments for which **the Municipality** is obligated to an amount of approximately \$2 millions. These are commitments for the improvements of recreational and cultural facilities and for streets and general developments.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

16. CLOSURE AND POST-CLOSURE CARE COST OF LANDFILL

The Municipality operated a 40 acres solid waste landfill of which 23 acres are currently in use. The remaining 17 acres have not been used. The state and federal laws and regulations require the Municipality to estimate the total current cost of Municipal Solid Waste Landfill Closure and Post-Closure Care Costs. The Municipality recognized \$650,000 as the estimated obligation for landfill closure and \$4,000,000 for post closure care costs for a total of \$4,650,000 which at present value represents approximately \$3,080,243. Actual costs may be higher due to inflation changes in technology or changes in regulations. The amount was reported in the non-current liabilities because is expected to be paid after June 30, 2004. The Municipality expects to finance this obligation with the issuance of general obligation bonds. The estimated useful life of the 26 acres is 2-5 years.

17. TRANSFER OF FUNDS

In May 2004 the Municipality transferred \$190,000 and \$87,000 from the construction excise taxes and the Estate Insurance Fund non budgetary funds, respectively to the miscellaneous revenues account of the general fund. Such amount was incorrectly recorded twice in such account. The Municipality has not been able to determine the correctness of such transactions in the related funds.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**ADDITIONAL REPORTS REQUIRED UNDER THE
SINGLE AUDIT ACT AND OMB CIRCULAR A-133**



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

To the Mayor of the Municipality of Vega Baja
Vega Baja, Puerto Rico

We have audited the basic financial statements of the **Municipality of Vega Baja**, Puerto Rico, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 21, 2005 which was qualified at the fund financial statements level, but adverse at the government wide financial statements level because we were unable to obtain competent evidential matter related to the Capital Assets reported in the Governmental Activities. Also, we were unable to obtain competent evidential matter related to an apparent duplicate income recording of \$277,000 in the General Fund affecting the governmental activities. Except, as discussed in the preceding sentences we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Vega Baja**, Puerto Rico's general purpose financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that is required to be reported under Government Auditing Standards in the accompanying Section II-Financial Statements Findings as items 04-II-1 and 04-II-2 in the current year Schedule of Findings and Questioned Costs Section accompanying this report.

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

(Continuation)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Vega Baja** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality of Vega Baja's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-II-1 and 04-II-2 in the current year Schedule of Findings and Questioned Costs section accompanying this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that items 04-II-1 and 04-II-2 of the reportable condition described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

This report is intended for the information of the **Municipal** Assembly, 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.

January 21, 2005
San Juan, Puerto Rico

Niemi Velazquez & Co., P.S.C.

CPA Stamp No. 1981605 was affixed
to the record copy of this report





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

To the Major of the Municipality of Vega Baja
Vega Baja, Puerto Rico

Compliance

We have audited the compliance of the **Municipality of Vega Baja**, 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, 2004. The **Municipality of Vega Baja**, Puerto Rico'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 Baja**, Puerto Rico's management. Our responsibility is to express an opinion on the **Municipality of Vega Baja**, Puerto Rico's compliance based on our audit.

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

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

Compliance (Continuation)

In our opinion, the **Municipality of Vega Baja**, Puerto Rico, 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, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Finding and Questioned Costs as items 04-III-1 and 04-III-2.

Internal Control Over Compliance

The management of **Municipality of Vega Baja**, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **Municipality of Vega Baja**, Puerto Rico's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

(Continuation)

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the **Municipality of Vega Baja** as of and for the year ended June 30, 2004, and have issued our report thereon dated January 21, 2005 which was qualified at the fund financial statements level, but adverse at the government wide financial statements level because we were unable to obtain competent evidential matter related to the Capital Assets reported in the Governmental Activities. Also, we were unable to obtain competent evidential matter related to an apparent duplicate income recording of \$277,000 in the General Fund affecting the governmental activities. Except, as discussed in the preceding sentences, our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of **Municipality of Vega Baja**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Municipal Assembly, 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.

February 18, 2005
San Juan, Puerto Rico

Nieves Velázquez & Co., P.S.C.

CPA Stamp No. 1981606 was affixed
to the record copy of this report.



MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**SCHEDULE OF FEDERAL FINANCIAL AWARDS
For The Year Ended June 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal Grant CFDA Number	Identifying Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<u>Major Program:</u>			
Community Development Block Grant Program, Entitlement Grants and Loan Guarantee	14.218	N/A	\$ 2,565,338
<u>Non-Major Programs:</u>			
Direct Programs:			
Section 8-Rental Voucher	14.871	RQ032-VO	1,573,341
Section 8-Lower Income Housing Assistance Program, Moderate Rehabilitation	14.856	RQ46K032-001	353,251
Section 8-Rental Certificate Program	14.857	RQ032-CE	220,592
Emergency Shelter Grant Program (Homeless)	14.231	N/A	74,668
Pass-Through Municipality of San Juan, Department of Housing: Housing Opportunity for Persons with AIDS Program	14.241	PR46H94-F028	<u>46,524</u>
Sub-total, carry forward			4,833,714

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**SCHEDULE OF FEDERAL FINANCIAL AWARDS
For The Year Ended June 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal Grant CFDA Number	Identifying Number	Federal Expenditures
Balance brought forward			4,833,714
<u>U.S. Department of Health and Human Services</u>			
<u>Major Program:</u>			
Direct Program: Head Start	93.600	N/A	5,798,792
<u>Non-Major Programs:</u>			
Pass-Through Puerto Rico Elderly Commission: Special Programs for Aging (Title III, Parts B and C, Nutrition Services)	93.044 93.045	N/A N/A	255,264 30,427
Pass-Through Puerto Rico Child Care and Development Block Grant	93.575	N/A	596,700
<u>U.S. Department of Agriculture</u>			
<u>Non-Major Program:</u>			
Pass-Through Puerto Rico Department of Education: Child and Adults Care Food Program	10.558	N/A	487,512
<u>U.S. Department of Transportation</u>			
<u>Non-Major Program:</u>			
Direct Program: Federal Transit Capital Improvement Grant	20.500	N/A	<u>358,672</u>
Total Federal Expenditures			<u>\$12,361,081</u>

See notes to the Schedule of Federal Financial Awards.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO SCHEDULE OF FEDERAL FINANCIAL AWARDS For the year ended June 30, 2004

1. GENERAL

The accompanying Schedule of Federal Financial Awards presents the expenditures of all Federal financial awards programs of the **Municipality of Vega Baja**, Puerto Rico. The **Municipality of Vega Baja** reporting entity is defined in Note 1-A to the basic financial statements. Federal financial awards received directly from Federal agencies as well as Federal financial awards passed through other government agencies are included in the schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Awards is presented using the modified accrual basis of accounting, which is described in Note 1-C to the basic financial statements.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Expenditure amounts included in the accompanying schedule agree with the amounts included in the basic financial statements as follows:

<u>Fund</u>	<u>Federal Assistance</u>	<u>Municipal Assistance</u>	<u>Total per Financial Statements</u>
Head Start	\$ 5,798,792	1,429,691	7,228,483
Other Governmental Funds	<u>6,562,289</u>	<u>3,339,713</u>	<u>9,902,002</u>
	<u>\$12,361,081</u>	<u>4,769,404</u>	<u>17,130,485</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2004**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Part I - Financial Statements

1. Type of auditor's report issued, **qualified**.

2. Internal control over financial reporting:

* Material weakness(es) identified? X yes no

* Reportable condition(s) identified that are not considered to be material weaknesses? X yes no

3. Noncompliance material to financial statements noted? yes X no

Part II - Federal Awards

1. Internal control over major programs:

* Material weakness(es) identified? yes X no

* Reportable condition(s) identified that are not considered to be material weaknesses? X yes no

2. Type of auditor's report issued on compliance for major programs was **unqualified**.

3. Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? X yes no

Identification of major programs:

CFDA Number (s)

93.600

14.218

Name of Federal Program or Cluster

Head Start

Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs:

\$370,832

Auditee qualified as low-risk auditee? X yes no

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

<i>Fund or Program</i>	<i>Finding Number</i>	<i>Findings/Non-Compliance</i>	<i>Questioned Costs</i>
All Programs and Funds	04-II-1	<p>Fixed/Capital Assets</p> <p><u>Criteria</u></p> <p>Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.</p> <p><u>Condition</u></p> <p>The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets additions and related depreciation for the year reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.</p> <p><u>Cause</u></p> <p>Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership to the current year additions and related depreciation.</p> <p><u>Effect</u></p> <p>The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.</p>	

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
All Programs and Funds	04-II-1	Fixed/Capital Assets (Continuation) <u>Recommendation</u> We recommend the Municipality to assign a task force or an outside consultant to identify all the real and personal property additions for the year in order to correct such account balances and the related depreciation computations. <u>Management Comments</u> We agree with the finding. We are updating the property accounting records to include and depreciate all capital assets.	
General Fund	04-II-2	Accounting Records <u>Criteria and Condition</u> Sound accounting practice requires adequate accounting records and competent supporting evidence should be and maintained for all funds and programs. We noted that two transfers of funds amounting to \$277,000 was apparently recorded twice in the general fund without proper explanation.	\$277,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2004**

SECTION II - FINANCIAL STATEMENT FINDINGS

<i><u>Fund or Program</u></i>	<i><u>Finding Number</u></i>	<i><u>Findings/Non-Compliance</u></i>	<i><u>Questioned Costs</u></i>
General Fund	04-II-2	<p>Accounting Records (Continuation)</p> <p><u>Cause</u></p> <p>The annual budget liquidation was prepared by an outside consultant and the amount of \$277,000 appears to be recorded twice in the General Fund miscellaneous income account without explanation.</p> <p><u>Effect</u></p> <p>The miscellaneous income account of the general fund may be overstated by \$277,000 at June 30, 2004.</p> <p><u>Recommendation</u></p> <p>We recommend prompt analysis and correction of the account balances. Also, proper supervision should be exercised to ensure correct and complete explanation of all significant financial transactions.</p> <p><u>Management Comments</u></p> <p>The transfer of funds was recorded apparently in the budget liquidation as miscellaneous income and not in the Municipality records. The report will be revised and corrected properly as soon as possible to reflect the proper fund balance.</p>	

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2004**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<i><u>Program</u></i>	<i><u>Finding No.</u></i>	<i><u>Findings/Non-Compliance</u></i>	<i><u>Questioned Costs</u></i>
Head Start	04-III-1	<p>Special Test and Provisions</p> <p><u>Criteria and Condition</u></p> <p>The OMB Circular A-133 requires that Head Start Program must comply with applicable state and local requirements concerning licensing. In our examination, we found that the Municipality has not obtained the licenses for 8 of 25 Head Start Centers tested, from the "Administración de Reglamentos y Permisos" (ARPE), and 9 of 25, from the Health Department at June 30, 2004.</p> <p><u>Cause</u></p> <p>The administrative personnel in charge of the program has filed the request for the licenses before ARPE but, the Puerto Rico Health Department has not completed their evaluation.</p> <p><u>Effect</u></p> <p>The federal program is not complying with the program requirement related with current State licenses.</p> <p><u>Recommendation</u></p> <p>Municipality officials should ensure that all Head Start Programs submit all required documents to obtain the current State and local licenses required by the federal regulation.</p>	—

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2004

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding No.</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Head Start	04-III-1	Special Test and Provisions (Continuation) <u>Management Comments</u> We agree with finding and have communicated with the person responsible to obtain the licenses from the Administration of Licenses and Permits (ARPE).	
CDBG	04-III-2	Special Tests and Provision <u>Criteria and Condition</u> The 24 CFR, Section 570.506 requires that when CDBG funds are used for rehabilitation, the grantee must assure that the work was properly completed. As per our rehabilitation test, we found that the Municipality has not performed any re-inspection procedures for eligible rehabilitation cases that were approved during the audited fiscal year ended on June 30, 2004. <u>Cause</u> Re-inspection procedures were not performed by the administrative personnel in charge of the program. <u>Effect</u> The federal program is not complying with the program requirement related with re-inspections and work completed.	

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2004

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding No.</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG	04-III-2	Special Tests and Provision (Continuation) <u>Recommendation</u> Municipality officials should ensure that all CDBG Program funds that were used for rehabilitation, a re-inspection of work completed must be performed. <u>Management Comments</u> Administrative personnel in charge of the program have been instructed to document re-inspection procedures for rehabilitation program under CDBG federal program.	

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2004**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
June 30, 2003 dated January 23, 2004	Section 8 Certificates, Moderate, Rehabilitation and Voucher	03-II-1	<u>Cash Management</u> Cash balances in excess of current needs by \$561,000, (206,000, 150,000 and 205,000 for Certificates, Moderate and Voucher, respectively).	Excess cash of \$307,406 and 94,038 of the Voucher and Moderate Programs, respectively were deducted from 2003-2004 budget.
June 30, 2002 dated December 13, 2002	Section 8 Certificate, Moderate, Rehabilitation and Voucher	02-III-1	<u>Cash Management</u> Cash balance in excess of current needs of the program.	Finding repeated in 2002-2003 as 03-II-1.
	Head Start	02-III-2	<u>Special Test and Provisions</u> The Municipality has not obtained state licenses to operate the centers.	During 2003-2004, 9 of 25 centers tested did not have their licenses.
June 30, 2001 dated January 18, 2002.	Section 8 Certificate, Moderate, Rehabilitation and Voucher	01-III-1	<u>Cash Management</u> Cash balance in excess of current programs needs.	Finding repeated in 2002-2003 as 03-II-1.
	Head Start	01-III-2	<u>Special Test and Provisions</u> The Municipality has not obtained state licenses to operate the centers.	During 2003-2004, 9 of the 25 centers tested did not have their licenses.