OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE VEGA BAJA
AUDITORIA 2005-2006

30 DE JUNIO DE 2006

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2006
(INDEPENDENT AUDITOR'S REPORT)

Juan A. Feliciano Charneco * Certified Public Accountant

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2006

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MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipality of Vega Baja, 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, 2006. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2005-2006 operations except for the general fund sustain the Municipality's track of solvency and sound fiscal condition. The Governmental Wide Financial statement also supports our statement. This condition is achieved in a time of economic constraints and low revenue growth rates.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality exceeded its liabilities at the close of the current fiscal year by $34,799,149 millions (net assets).

- The general fund, ended with an unfavorable fund balance amounting to $6,000,089.

- The adjusted actual of the General Fund operations resulted in an unfavorable variance of ($6,626,991) as compared to the revised budget due to lower revenue receipts. In addition, during the 2005-2006 fiscal year the General Fund received a reduction of approximately $273,000 related with remittances from CRIM due to the temporary central government closure.

- As June 30, 2006 the Municipality's General Fund (the primary operating fund) reported a fund balance of $6,000,089 a decrease of $6,240,284 in comparison with the prior year.

- Of the total restricted cash of $5,843,000 there was investment in certificates of deposit amounting to $5,843,000 millions.

- Long Term Debt loans principal payments were $2,240,000 during fiscal year 2004-05. Loan proceeds from new debt issued amounted to $5,065,000 during the same fiscal year.

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 user to address relevant questions about municipality's performance and provides a basis for comparisons and evaluation of services quality.

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior year. 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.

General Fund

In spite of the difficult economic situation during fiscal year 2005-2006 and the budgetary deficit that the island of Puerto Rico has run through, our administration has worked responsible paying attention to most urgent requests but without overlooking what is important and necessary. To that effect we have promoted and completed several projects related to permanent improvements in various areas that will provide quality facilities to the citizens of the Municipality.

However, we have had to deal with a deficit situation in the General Fund of approximately $6,000,081 at June 30, 2006. The increase is the deficit during fiscal year 2005-2006 is due mainly to Excise Tax and Taxes that were projected but were not realized as needed. Certain significant Construction projects in our Municipality, like Playa Hermosa Project, were not started since final endorsement has not been received to begin the development. In addition, one industry company did not obtain their expected volume of business and, accordingly, this affected our revenue estimates. Therefore, we expect that during fiscal year 2006-2007 the construction projects receive final endorsement from the authorities and, accordingly, our Municipality's Management will correct the deficit in the general fund with 2006-2007 revenue sources.

Financial Statements Components

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

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most 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 licenses tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including police, public works, solid waste disposal, community services, and general administration. Property tax, municipal license tax, state and federal appropriations finance most of the services.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or 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 called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental funds statement provides a detailed short-term view of the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality's programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements.

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

Infrastructure Assets

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

Government-Wide Statement

Statement of Net Assets

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by $34,799,149 millions at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets.

Statement of Net Assets

	June 30	
	2006	**2005**
Current assets	$ 11,697,879	$ 25,382,418
Restricted and other assets	11,600,387	3,441,767
Capital assets	58,975,028	58,859,597
Total assets	**$ 82,273,294**	**87,683,782**
Current	$ 11,825,722	$ 13,432,801
Long-term liabilities	34,723,136	35,090,242
Total liabilities	**46,548,858**	**48,523,043**
Net assets:		
Invested in capital assets, net related debt	29,765,028	28,399,282
Debt service	3,744,500	2,641,767
Special and other funds	3,957,672	1,309,089
Capital project fund	12,730,614	12,947,371
Unrestricted (deficit)	(15,398,665)	(6,136,770)
Total Net assets	**$ 34,799,149**	**$ 39,160,739**

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

Statement of Activities

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

	Year ended June 30	
	2006	**2005**
Revenues:		
Program Revenues	$ 20,190,374	$ 17,295,604
General Revenues	28,859,008	25,281,953
Total Revenue	**49,049,382**	**42,577,557**
Expenses:		
Governmental Activities	54,217,535	46,913,712
Change in Net Assets	**$ (5,168,153)**	**$ (4,336,155)**

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

Governmental Funds
Balance Sheet

	June 30	
	2006	**2005**
Assets:		
Cash	$11,697,879	$ 22,313,827
Restricted Cash	8,401,240	3,441,767
Accounts Receivable	9,971,372	6,062,622
Total assets	**$ 30,070,491**	**$ 31,818,216**
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$10,490,370	$ 6,928,573
Deferred Revenue	5,147,424	7,751,221
Mature bonds, notes and interests	-	-
Total Liabilities	**15,637,794**	**14,679,794**
Fund Balances	14,432,697	17,138,422
Total liabilities and Fund Balances	**$ 30,070,491**	**$ 31,818,216**

The most significant changes in this statement were as follows:

- Noticeably, the fund balances are mostly in cash and cash restricted.
- The increase in liabilities is due mainly to the accounts payable of special and capital project funds. The decrease in assets to increase in construction in progress.

Statement of Revenue, Expenditures and Changes in Fund Balances

	Year ended June 30	
	2006	**2005**
Revenues:		
Property taxes	$9,917,984	$ 7,755,624
Volume of business tax	8,811,064	8,791,297
Federal grants	11,121,023	14,860,884
Other	18,976,619	10,005,124
Total Revenues	**48,826,690**	**41,412,929**
Expenditures:		
General Government	19,641,809	12,083,765
Public works	7,535,415	8,073,370
Public safety	2,365,496	1,887,821
Health	1,698,926	2,499,434
Capital projects	7,900,006	5,982,347
Culture and recreation	3,336,888	2,131,617
Bonds, notes and interests	4,056,459	4,031,029
Education and training	6,637,466	8,242,633
Other expenditures	155,109	222,765
Total expenditures	53,327,574	45,154,781
Excess of revenues over expenditures	**$(4,500,884)**	**$ (3,741,852)**

The most significant changes of this statement were as follows:

- The larger increase in revenues is related to intergovernmental and other revenues for the amount of $8.9 millions.
- The most significant changes in the expenditures were an increase in capital project for approximately $2 millions related with capital outlays and the General Government by 7.6 millions.

Ciudad del Melao Melao

Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Vega Baja
Departamento de Finanzas

Aladino Andújar Cordero
Director

MANAGEMENT'S 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 governmental of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 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 revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

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

Contacting the Municipality's Financial Management

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

Aladino Andújar
Finance Director

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Governmental Activities, each major fund and the remaining fund information of the **Municipality of Vega Baja**, Puerto Rico, as of and for the year ended June 30, 2006, which collectively comprise the **Municipality of Vega Baja** basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit.

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

The 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.

In my opinion, except for the effects as described in the preceding paragraph the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information and governmental activities of the **Municipality of Vega Baja**, Puerto Rico, as of June 30, 2006, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 8, 2006 on my consideration of the **Municipality of Vega Baja**, Puerto Rico internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The additional report is not an integral part of a governmental auditing standard audit in considering the results of the audit the separate report should be read in conjunction with the auditor's report considering the results of our audit.

My audit was performed for the purpose of forming an opinion on the Governmental Activities financial statements of the **Municipality of Vega Baja**, Puerto Rico taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in my opinion, is fairly stated in all material respects, in relation the by general purpose financial statement a taken as whole.

As described in Note 1, on July 1, 2004, **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 Management's Discussion and Analysis and budgetary comparison information on pages 1 through 8 and page 16, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

San Juan, Puerto Rico
November 30, 2006

The stamp number was affixed to the original of this report **2202577**

CPA JUAN A. FELICIANO CHARNECO
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JUAN A. FELICIANO CHARNECO
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PUERTO RICO

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2006

		Governmental Activities
ASSETS		
Cash and investments	$	11,697,879
Cash with fiscal agent and other		8,401,240
Accounts receivable		1,346,603
Accounts receivable federal government		799,040
Accounts receivable government		1,053,504
Capital assets, net of accumulated depreciation		58,975,028
Total assets	$	**82,273,294**
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	$	2,747,977
Due to government entity		702,683
Deferred revenue		5,414,909
Non-current liabilities:		
Due within one year		2,960,153
Due in more than one year		35,648,423
Total liabilities		**47,474,145**
NET ASSETS		
Invested in capital assets, net of related debt		29,765,028
Restricted for:		
Reserve for debt service		3,744,500
Special funds		3,957,672
Capital project fund		12,730,614
Unrestricted (deficit)		(15,398,665)
Total net assets		34,799,149
Total liabilities and net assets	$	**82,273,294**

See notes to financial statement.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Program Revenues: Operating Grants and Contributions	Net (expense) revenue and change in Net Assets Governmental Activities
EXPENDITURES:					
General government	$ 20,195,735	$ (68,469)	$ (1,393,645)	$ (5,332,270)	$ 13,401,351
Public safety	3,354,650	-	-	-	3,354,650
Public works	9,591,153		-	-	9,591,153
Capital projects	6,758,524	-	(1,596,547)	(5,161,977)	-
Health	2,023,369	-	-	-	2,023,369
Education and training	6,637,466	-	-	(6,637,466)	-
Culture and recreation	3,685,070	-	-	-	3,685,070
Other expenditure	155,109	-	-	-	155,109
Interest and fiscal charges	1,816,459	-	-	-	1,816,459
Total governmental activities	**54,217,535**	**(68,469)**	**(2,990,192)**	**(17,131,713)**	**$ 34,027,161**
GENERAL REVENUES:					
Property taxes					$ 9,917,984
Municipal licenses tax					8,811,064
Licenses, permits and fines					2,004,587
Intergovernmental revenues					6,219,072
					176,195
					244,632
Interests					772,617
Other revenues					712,857
Total general revenues					28,859,008
Changes in net assets					(5,168,153)
Net assets at beginning of year					39,190,739
Prior year adjustment					776,563
Net assets at end of year					**$ 34,799,149**

See notes to financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	2005 and 2006 Bond Issue Fund	HUD Programs	Head Start Programs	Capital Projects Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS								
Cash and investments	$ 36,150	$ -	$ 346,244	$ 117,540	$ 10,512,330	$ -	$ 685,615	$ 11,697,879
Cash with fiscal agent and other	-	4,046,600	610,140	-	-	3,744,500	-	8,401,240
Accounts receivable (volume business)	1,346,603	-	-	-	-	-	-	1,346,603
Accounts receivable federal government	-	-	104,115	413,476	-	-	13,964	531,555
Due from general fund and other	2,870,063	-	94,616	-	-	-	4,075,031	7,039,710
Accounts receivable government	1,053,504	-	-	-	-	-	-	1,053,504
Total assets and other debits	$ 5,306,320	$ 4,046,600	$ 1,155,115	$ 531,016	$ 10,512,330	$ 3,744,500	$ 4,774,610	$ 30,070,491
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued liabilities	$ 1,286,655	$ -	$ 1,155,115	$ 124,196	$ -	$ -	$ 182,011	$ 2,747,977
Due to general fund and other	4,169,647	-	-	406,820	1,828,316	-	634,927	7,039,710
Due to government entity	702,683	-	-	-	-	-	-	702,683
Deferred revenue	5,147,424	-	-	-	-	-	-	5,147,424
Total liabilities	11,306,409	-	1,155,115	531,016	1,828,316	-	816,938	$ 15,637,794
Fund balances								
Reserve for debt services	-	-	-	-	-	3,744,500	-	3,744,500
Encumbrances	29,500	-	-	-	-	-	-	29,500
General Fund	(6,029,589)	-	-	-	-	-	-	(6,029,589)
Special and other funds	-	-	-	-	-	-	3,957,672	3,957,672
Capital project fund	-	4,046,600	-	-	8,684,014	-	-	12,730,614
Total fund balances	(6,000,089)	4,046,600	-	-	8,684,014	3,744,500	3,957,672	14,432,697
Total liabilities and fund balance	$ 5,306,320	$ 4,046,600	$ 1,155,115	$ 531,016	$ 10,512,330	$ 3,744,500	$ 4,774,610	$ 30,070,491

Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds		58,975,028
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued compensated absence	$ 3,090,685	
Bonds payable	34,275,000	
Legal claims	317,604	
Health Insurance debt	925,287	
		38,608,576
Total net assets of governmental activities		$ 34,799,149

See notes to financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	2005 and 2006 Bond Issue Fund	HUD Programs	Head Start Programs	Capital Project Funds	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:								
Property taxes	$ 5,594,238	$ -	$ -	$ -	$ -	$ 4,323,746	$ -	$ 9,917,984
Municipal license tax	8,811,064	-	-	-	-	-	-	8,811,064
Licenses, permits and fines	2,073,056	-	-	-	-	-	-	2,073,056
Intergovernmental revenues	6,219,072	-	-	-	5,161,977	-	3,616,213	14,997,262
Landfill	176,195	-	-	-	-	-	-	176,195
Rent of properties	244,632	-	-	-	-	-	-	244,632
Interest income	683,341	-	-	-	-	89,276	-	772,617
Other revenues	601,511	-	-	-	-	-	111,346	712,857
Federal financial award		-	2,990,192	6,741,994	-	-	1,388,837	11,121,023
Total revenues	**24,403,109**	**-**	**2,990,192**	**6,741,994**	**5,161,977**	**4,413,022**	**5,116,396**	**48,826,690**
EXPENDITURES:								
General government	15,239,141	-	3,048,697	-	-	-	1,353,971	19,641,809
Public safety	2,365,496	-	-	-	-	-		2,365,496
Public works	7,535,415	-	-	-	-	-	-	7,535,415
Health	1,698,926	-	-	-	-	-	-	1,698,926
Capital projects	-	-	1,596,547	-	6,303,459	-		7,900,006
Culture and recreation	3,336,888	-	-	-	-	-	-	3,336,888
Other Expenditures	155,109	-		-	-	-	-	155,109
Education and training	-	-	-	6,637,466	-	-	-	6,637,466
Debt service:							-	
Principal retirement	-	-	-	-	-	2,240,000	-	2,240,000
Interest and fiscal charges	-	-	-	-	-	1,816,459	-	1,816,459
Total expenditures	**30,330,975**	**-**	**4,645,244**	**6,637,466**	**6,303,459**	**4,056,459**	**1,353,971**	**53,327,574**
Excess of revenues over (under) expenditures	(5,927,866)	-	(1,655,052)	104,528	(1,141,482)	356,563	3,762,425	(4,500,884)
Other financing source (uses):								
Transfer in (out) to debt service fund	(312,418)	-	(281,931)	-	-	844,836	-	250,487
Interest expenditure	-	-	-	-	-	(72,507)	-	(72,507)
Net bond issued debt	-	5,031,000	-	-	-	-	-	5,031,000
Net bond expenditures		(2,353,334)						(2,353,334)
Total other financing source (uses)	**(312,418)**	**2,677,666**	**(281,931)**	**-**	**-**	**772,329**	**-**	**2,855,646**
Excess of revenues and other sources over (under) expenditures and other uses	(6,240,284)	2,677,666	(1,936,983)	104,528	(1,141,482)	1,128,892	3,762,425	(1,645,238)
Fund balance June 30, 2005	240,195	1,368,934	1,135,525	64,251	11,098,118	2,641,767	195,247	16,744,037
Prior period adjustment	-	-	801,458	(168,779)	(1,272,622)	(26,159)	-	(666,102)
Fund balance June 30, 2006	**$ (6,000,089)**	**$ 4,046,600**	**$ -**	**$ -**	**$ 8,684,014**	**$ 3,744,500**	**$ 3,957,672**	**$ 14,432,697**

See notes to financial statements.

15/03/2007

MUNICIPALITY OF VEGA BAJA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:			
Net change in fund balance - total governmental funds		$	**(1,645,238)**
Governmental funds report 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.			
Expenditures for capital assets	1,141,482		
Less: current year depreciation	(4,271,443)		
			(3,129,961)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.			
Net bond expenditures	2,425,841		
Net bond proceeds of bond issue	(5,031,000)		
Principal payments	2,240,000		
			(365,159)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			(27,795)
Change in net assets of governmental activities		$	**(5,168,153)**

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS) GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Adjusted Actual Note 1	Variance Favorable (Unfavorable)
REVENUES:				
Property taxes	$ 1,557,730	$ 1,557,730	$ 1,557,730	$ -
Local taxes	8,500,000	8,500,000	8,541,158	41,158
Intergovernmental revenues	5,475,126	5,475,126	5,239,072	(236,054)
Licenses, Permits and Fines	7,474,999	7,475,000	996,359	(6,478,641)
Interest income	540,000	540,000	683,341	143,341
Landfill	600,000	600,000	176,196	(423,804)
Rent	250,000	250,000	244,632	(5,368)
Other revenues	145,000	563,397	601,511	38,114
Other financial sources	3,352,957	3,352,957	4,036,507	683,550
Principal and interest	1,682,129	1,682,129	4,323,746	2,641,617
Total revenues	29,577,941	29,996,339	26,400,252	(3,596,087)
EXPENDITURES:				
Current:				
General Government	14,561,874	18,252,987	15,048,783	3,204,204
Public Work	6,669,455	8,743,903	7,716,528	1,027,375
Public Safety	2,122,494	2,477,298	2,365,496	111,802
Health	1,569,314	1,695,043	1,698,926	(3,883)
Culture and Recreation	2,820,642	3,295,984	3,336,888	(40,904)
Other Expenditure	133,067	163,568	155,109	8,459
Transfer-out	200,600	312,418	312,418	-
Principal and interest	1,682,129	1,682,129	4,056,459	(2,374,330)
Total expenditures	29,759,575	36,623,330	34,690,607	1,932,723
Excess of revenues over (under) expenditures		(6,626,991)	$ (8,290,355)	$ (1,663,364)

Explanation of Differences:

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 26,400,752
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	2,415,379
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances	**$ 28,816,131**
Uses/outflow of resources	
Actual amounts (budgetary basis) "total charges to appropiations" from the budgetary comparison schedule	$ 34,690,607
Differences - budget to GAAP:	
Non budgeted expenditures	(303,173)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances	**$ 34,387,434**

See notes to budgetary comparison schedule.

See notes to financial statements.

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 applicable to governmental 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.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statement 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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, know 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 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, 2006 nor for the year then ended.

c. Basic Financial Statement – 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 particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government- with 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.

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, 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 or major funds. **The Municipality** reports the following major funds on **Fund Financial Statements:**

Major Funds

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

d. Basis of Presentation (Continuation)

Major 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 purpose 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.

Other Funds (not major funds) – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. 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.

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 90 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 an available.

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 date reflected in the basic financial statements.

(1) On or prior to May 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.

(2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.

(3) Prior to July 1st., the annual budget is legally enacted through passage of the annual appropriation ordinance.

(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 ahead.

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 $6,663,755 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.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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.

i. Inventories

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

j. Capital Assets

Fund Financial Statements

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

Government Wide Financial Statement

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value at the time they are received by **the Municipality** and are 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 for in the Statement of Net Assets.

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

Investments and Certificates

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

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 11) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

n. Reservations of Fund Balance (Continuation)

* *Capital Projects* – Represent net assets available to finance future capital outlays.

* *For Other Purpose* – 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 asses 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 inter-fund eliminations have not been made.

2. PROPERY 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 ad 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 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 2).

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.

2. PROPERY 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$229,450 during 2006.

The following is a summary of the property tax advances that resulted in an account receivable, for the year ended June 30, 2006. The resulting receivable is presented as deferred revenue in the Government Wide Financial Statements.

Accounts Receivable:

Amortization through collections of property taxes by the CRIM	
07-01-05 – 06-30-06	$(8,910,212)
Advance received, 07-01-04 – 06-30-05	8,642,727
Due from CRIM - 2006	**$ (267,485)**

3. DEPOSITS

Deposits include certificates of deposits amounting to $5,843,000. **The Municipality's** cash and investments at June 30, 2006, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collaterized 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 collaterized by the bank securities to property safeguard such funds.

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

5. MUNICIPAL LICENSE TAXES

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

The tax rates are as follow:
1.5% for financial institutions
for all other organizations 0.5%

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

5. MUNICIPAL LICENSE TAXES (Continuation)

The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

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 firs 15 days of each semester beginning with the first semester ending December 31.

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 balance are as follows:

Funds	Due From	Due To
General	$2,870,063	$4,169,647
Hud Programs	94,616	-
Head Start Special Revenue	-	406,820
Capital Project	-	1,828,316
Other Funds	4,075,031	634,927
	$7,039,710	**$7,039,710**

The Inter-fund receivables and payables on fund financial statement are eliminated on Statement of Net Assets (Government Wide Financial Statement).

7. INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico "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.

8. FROM (DUE TO) GOVERNMENTA ENTITIES

As of June 30, 2006 balances from (due to) governmental entities of the general fund consists of the following:

Name	Due to
Electric Puerto Rico Power Authority	$316,704
Puerto Rico Water and Sewer Authority	80,602
Puerto Rico Retirement System	156,275
Puerto Rico Telephone Co.	126,664
General Administration Services	2,749
Puerto Rico Employees Association System	19,689
Totals	**$702,683**

9. CAPITAL ASSETS

Fund Financial Statements

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

Governmental activities:	Balance 6/30/2005	Additions	Retirements and Transfers dispositions	Balance 6/30/2006
Capital assets, not being depreciated:				
Land	$ 10,199,261	$ -	$ -	$ 10,199,261
Construction in progress	1,029,451	1,596,547	-	2,625,998
Total capital assets not being depreciated	11,228,712	1,596,547	-	12,825,259
Capital assets, being depreciated				
Buildings and building improvements	37,907,759	175,614	-	38,083,373
Infrastructure	23,343,165	-	-	23,343,165
Vehicles and equipment	10,491,303	1,614,713	-	12,106,016
Total capital assets being depreciated	71,742,227	1,790,327	-	73,532,554
Less accumulated depreciation for:			-	
Buildings and building improvements	(9,527,826)	-	(858,863)	(10,386,689)
Infrastructure	(5,758,529)	-	(2,334,317)	(8,092,846)
Vehicles and equipment	(7,824,987)	-	(1,078,263)	(8,903,250)
Total accumulated depreciation	(23,111,342)	-	(4,271,443)	(27,382,785)
Total capital assets being depreciated, net	48,630,885	1,790,327	(4,271,443)	46,149,769
Governmental activities capital assets, net	**$ 59,859,597**	**$ 3,386,874**	**$ (4,271,443)**	**$ 58,975,028**

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

Governmental activities:	
General government	$553,926
Public safety	989,154
Public works	2,055,738
Culture and recreation	348,182
Health	324,443
Total depreciation expense-governmental activities	**$ 4,271,443**

Government Wide Financial Statements

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

Vehicles, Heavy Equipment	5-25	$300
Furniture and Fixture	5-10	$300
Computer and Electronic Equipment	5	$300
Buildings	50	$1
Infrastructure	60	$1
Improvements	20-40	$1

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

10. GENERAL LONG-TERM DEBT

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

The following is a summary of bonds transactions of the Municipality of Vega Baja for the year ended June 30, 2006.

Description	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations Bonds	$31,450,000	$5,065,000	$2,240,000	$34,275,000

Long-term debt at June 30, 2006 is comprised of the following General and Special Obligation's issues:

Description	Balance 06-30-2006	Due within One year
Series of 1994, $1,635,000 payable in annual installments of $55,000 to $160,000 until 2014; with interest ranging from 6.5% to 7.706%.	1,050,000	85,000
Series of 1995, $6,665,000 payable in annual installments of $275,000 to $720,000 until 2012; with interest ranging from 6.875% to 6.28%.	3,930,000	425,000
Series of 1997, $4,340,000 payable in annual installments of $75,000 to $375,000 until 2022; with interest ranging from 6.69% to 6.56%.	3,805,000	110,000
Series of 1999, $3,115,000 payable in annual installments of $70,000 to $290,000 until 2019; with interest at ranging from 5.69% to 6.51%.	2,475,000	105,000
Series of 1987, $3,175,000 payable in annual installments of $170,000 until 2007; with interest at 9%.	340,000	170,000
Series of 1991, $510,000 payable in annual installments of $140,000 to $60,000 until 2006; with interest ranging from 4.37% to 6.363%.	60,000	60,000

10. GENERAL LONG-TERM DEBT (continuation)

General and Special Obligations(Continuation)

Series of 2002, $1,410,000 payable in annual installments of $20,000 to $120,000 until 2026; with interest ranging from 5.0% to 5.6%.	1,315,000	30,000
Series of 2002, $310,000 payable in annual installments of $5,000 to $25,000 until 2026; with interest ranging from 5.0% to 5.6%.	290,000	5,000
Series of 2003, $2,900,000 payable in annual installments of $50,000 to $230,000 until 2027; with interest ranging from 2.7% to 5.6%.	2,745,000	60,000
Series of 2003, $215,000 payable in annual installments of $5,000 to $15,000 until 2027; with interest ranging from 5% to 6.5%.	200,500	5,000
$1,760,000 payable in annual installments of $30,000 to $130,000 until 2028; with interest at ranging from 2.36% to 6%	1,695,000	35,000
Series of 2003, $910,000 payable in annual installments of $105,000 to $130,000 until 2009; with interest ranging from 5.0% to 6.5%.	570,000	130,000
Series of 2003, $545,000 payable in annual installments of $10,000 to $45,000 until 2027; with interest ranging from 5.0% to 6.5%.	515,000	10,000
$720,000, payable in annual installments of $85,000 to $125,000 until 2012; with interest ranging from 5.0% to 7.5%.	720,000	85,000
$815,000 payable in annual installments of $10,000 to $65,000 until 2030; with interest ranging from 4.23% to 5.31%.	815,000	10,000
$3,530,000 payable in annual installments of $65,000 to $260,000 until 2030, with interest ranging from 5.9% to 7.25%.	3,530,000	65,000

10. GENERAL LONG-TERM DEBT (Continuation)

General and Special Obligations (Continuation)

		DUE WITHIN ONE YEAR
$465,000 payable in annual installments of $35,000 to $70,000 until 2008; with interest ranging from 6. % to 8%.	185,000	55,000
$1,375,000 payable in annual installments of $65,000 to $125,000 until 2019; with interest ranging from 4.37% to 5 %.	1,310,000	65,000
$6,455,000 payable in annual installments of $300,000 to $455,000 until 2015; with interest ranging from 5.26% to 7.66%.	3,655,000	350,000
$2,370,000 payable in annual installments of $125,000 to $185,000 until 2019; with interest ranging from 7.066% to 7.95%	1,870,000	125,000
$3,200,000 payable in annual installments of $35,000 to $175,000 until 2023; with interest ranging from 2.41% to 5.69%.	3,200,000	35,000
TOTAL	**$34,275,000**	**$2,020,000**

10. GENERAL LONG-TERM DEBT (Continuation)

The annual requirements to amortize the general long-term debt outstanding at June 30, 2006, including interest are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 1,705,000	$ 2,007,888	$ 3,712,888
2008	2,200,000	1,889,327	4,089,327
2009	2,145,000	1,750,588	3,895,588
2010	2,190,000	1,615,654	3,805,654
2011	1,490,000	1,074,076	2,564,076
Subsequent years	24,545,500	8,557,198	33,102,198
TOTAL	**$34,275,000**	**$16,894,731**	**$51,169,731**

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

11. DEBT SERVICE FUND

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

The Government Development Bank pays principal and interest on these obligations for Puerto Rico from funds obtained fro the Following:

Property taxes	$4,413,022
General funds	312,418
Special Revenue fund	281,931
TOTAL	**$5,007,371**

Expenditures for year 2005-2006 were as follows:

Principal	$2,240,000
Interest	1,816,459
TOTAL	**$4,056,459**

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	Pension Benefits
Age 55 and 30 years of service	75% of average highest compensation during any years of credited service
Under 55 and 30 years of service	65% of average highest compensation during any 3 years of credit service

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

NEW PLAN

Eligibility	Pension Benefits
Age 65 with 10 years of service	1.5% of average compensation during the final 5 years of credited services multiples by the numbers of years credited service

For both plants, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased 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, 2006 amounted approximately $795,335. Members' contributions are 5.775% for gross salaries up to $6,600 plus 8.275% of the gross salary in excess of $6,600. **The Municipality** is required to contribute 9.275% of gross salary.

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.**

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.

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 increase	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

Account 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.

The changes in Compensated absences for the year ended June 30, 2006 are as follows:

Governmental activity	June 30, 2005	Net Increase	June 30, 2006	Due within One year
Compensated Absences	**$2,935,476**	**$155,209**	**$3,090,685**	**$622,549**

In addition, the liabilities for retirement obligations were recorded in the Government-Wide Financial Statements. The balance consists of unpaid, accumulated pension obligations.

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, 2006, were approximately $601,638 included in all funds.

15. CLAIMS AND CONTINGENCIES

Contingencies

On July 1, 1997, there was an amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 would be earned on the additional lottery games. During the year the Municipality pay to Health Insurance of PR Administration $1,236,487.

Federal Programs

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

Comptroller's Office Audits

The Municipality of Vega Baja, Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office has not issued a final report related to the financial operations of the Municipality for the period of the single audit. These audit report do not cover any findings subsequently disclosed to Municipality operation by the Comptroller's Office.

16. PRIOR PERIOD ADJUSTMENTS

HUD Programs, and Capital Projects prior period adjustment correspond to the reclassification of fund balances.

17. CLOSURE AND POST-CLOSURE CARE COST AND LANDFILL OBLIGATION

The Municipality owns a landfill of approximately 40 acres of which 23 acres are currently in use, which is used by several municipalities including Vega Baja and is administered by AR Waste Disposal Enterprise, Inc. (the landfill administrator), an independent private entity, under an agreement with the Municipality, for a period of twenty (20) years from August 22, 2005 to August 22, 2025. According to the landfill's management and administration contract, the municipality will transfer the 40 acres mentioned above, plus another 30 acres of land that will be acquired from the "Autoridad de Tierras de Puerto Rico", for the term of the contract to the landfill administrator. This transfer will be made free of cost to the administrator as sublessor. In the other hand the administrator will be responsible for the operation and management of the landfill and the rehabilitation work in relation to the horizontal expansion of the landfill. The Municipality will pay a fixed amount of $250,000 per annum for the first 200 daily tons of solid waste. In addition, the Municipality will pay $30.00 for each ton of solid waste in excess of the 200 daily tons received by the administrator.

The Municipality of Vega Baja formalized an agreement with Atlantic Waste Disposal Company for the gathering, transportation and disposal of municipal waste for a period of ten (10) years from August 5, 2005 to March 31, 2015 on established routes per contract. The change for service amount is $6.50 by residential unit and payable monthly to AW (considering presently 10, 995 residential units in the 1st year).

18. SUBSEQUENT EVENT:

On August 25, 2006, the Municipal Council approved Ordinance No. 15, Series 2006-07, (the ordinance), that established a sales tax of 1.5% over retail sales in the municipality. The ordinance will be effective commencing on October 1, 2006. The monies collected through the above mentioned sales tax will be used among other purposes for the management for improvements in the Municipal infrastructure.

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

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

I have audited the accompanying financial statements of the Governmental Activities of the **Municipality of Vega Baja,** Puerto Rico, as of and for the year ended June 30, 2006, and have issued an unqualified report thereon dated November 30, 2006. I conducted my audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered **Municipality of Vega Baja**, Puerto Rico, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error of fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of **Municipality of Vega Baja**, in a separate dated November 30, 2006.

Compliance and other matters

As part of obtaining reasonable assurance about whether the **Municipality of Vega Baja** financial statements are free of material misstatement, I performed tests of its compliance which 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

This report is intended solely 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.

San Juan, Puerto Rico
November 30, 2006

The stamp number was affixed to the original of this report **2202578**

CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007

JUAN A. FELICIANO CHARNECO
CONTADOR PUBLICO AUTORIZADO
LIC. No. 1263
PUERTO RICO

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

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

Compliance

I 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, 2006. The **Municipality of Vega Baja** 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 Municipality of Vega Baja Management. My responsibility is to express an opinion on **Municipality of Vega Baja** compliance based on my audit.

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

In my opinion, the **Municipality of Vega Baja**, 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, 2006. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, 2006-08, 2006-09, 2006-10, 2006-11, 2006-12, 2006-13 and 2006-14.

Internal Control Over Compliance

The management of the **Municipality of Vega Baja,** 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 my audit, I considered **Municipality of Vega Baja** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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 the 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. I noted no matters involving the internal control over compliance and its operation that I consider being material weaknesses.

This report is intended solely 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.

San Juan, Puerto Rico
November 30, 2006

The stamp number was affixed to the original of this report **2202579**

CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007

JUAN A. FELICIANO CHARNECO
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MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
U.S. Of Housing and Urban Development			
Direct Program			
Community Planning and Development			
Community Development Block Grant (Entitlement Grants) and Loan Agreement			
CDBG - 2005	14.218	B-05-MC-72-0014	$ 1,554,692
CDBG - 2004	14.218	B-04-MC-72-0014	43,720
CDBG - 2003	14.218	B-03-MC-72-0014	313
CDBG - 2001	14.218	B-01-MC-72-0014	125
CDBG - 2000	14.218	B-00-MC-72-0014	6,300
CDBG - 1998	14.218	B-98-MC-72-0014	35,555
			1,640,705
Emergency Shelters Grant Program			
Passed-through Governors Office of Federal Emergency Management			
Emergency Shelter Grant	14.231	S-03-MC-72-0015	1,281
Emergency Shelter Grant	14.231	S-02-MC-72-0015	8,547
Emergency Shelter Grant	14.231	S-01-MC-72-0015	14,436
Emergency Shelter Grant	14.231	S-00-MC-72-0015	13,621
Emergency Shelter Grant	14.231	S-99-MC-72-0015	19,998
Emergency Shelter Grant	14.231	S-98-MC-72-0015	6,076
Emergency Shelter Grant	14.231	S-97-MC-72-0015	318
			64,277
Section 108 loan guarantee	14.248	B-94-MC-72-0014	5,295
Section 108 loan guarantee	14.248	B-95-MC-72-0014	22,672
Section 108 loan guarantee	14.248	B-98-MC-72-0014	226,616
Section 108 loan guarantee	14.248	B-01-MC-72-0014	1,232,078
			1,486,661
Direct Program:			
Public and Indian Housing			
Section 8- Voucher	14.871	RQ-032-V-0004/5	1,029,904
Section 8- Modern Rehabilitation	14.856	RQ-032-MR-0001	359,482
Section 8 - Hopwa	14.241	-	64,215
			1,453,601
U.S. Department of Health and Human Services:			
Administration for children and families			
Passed-through Governors Office for Human Development:			
Head Start	93.600	02-CH-0483	6,232,723
Child Care (Escuela Maternal)	93.994		370,026
Child Care			34,717
			6,637,466
Administration on Aging			
Passed through -Governors Office (Sendec)			
Special Program for the Aging	93.044	Title III	467,955

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed-through from the Commonwealth Department of Education			
Child and adult care food program	10.769	UDAG	556,165
U.S Department of Transportation:			
Passed-through Federal Transportation Adminsitration			
Federal Transportation Act.	20.500	PR-90-X141	2,152
Federal Transportation Act	20.500	PR-90X151	86,371
Federal Transportation Act	20.500	PR-90X176	9
Federal Transportation Act	20.500	PR-90X185	12,519
Federal Transportation Act	20.500	PR-90X197	827
			101,878
U.S. Department of Justice			
Public safety partnership and community policing (Cops)	16.710		157,430
U.S. Federal Emergency Management Agency			
Passed-through Emergency Management State and Local Assistance			
Federal 1552 (Tormenta Jeanne)	83.544		7,184
Total Federal Assistance			**$ 12,573,322**

See notes to the schedule of expenditures of federal awards.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO SCHEDULE OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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) MAJOR FEDERAL AWARDS

The Community Development Block grants, Housing Assistance Payments Programs, Health and Human Services Programs and Child and Adult Care Food Program represents the major federal financial awards of the Municipality. Major federal awards represent 94% of total expenditures.

(3) FEDERAL CFDA NUMBER

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

(4) RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Vega Baja, Puerto Rico combined Statement of Revenues, Expenditures and Change in Fund Balances all Governmental and Types as follow:

Description	HUD Programs	Head Start Programs	Other funds	Total
Federal Programs Expenditures	$4,645,244	$6,637,466	$1,290,612	$12,573,322
Municipal Funds	-	-	63,359	63,359
Total Expenditures	$4,645,244	$6,637,466	$1,353,971	$12,636,681

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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?	X Yes	___ No
4.		

Part II – Federal Awards

1. Internal control over major programs:

* Material weakness(es) identified?		
* Reportable condition(s) identified that are not considered to be Material weaknesses?	___ Yes	X No
2. Type of auditor's report issued on compliance for major programs was **unqualified.**	X Yes	___ No
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)	Name of Federal Program or Cluster
93.600	Head Start
14.218	Community Development Block Grant
14.871	Section 8 Voucher
14.856	Moderate Rehabilitation
14.248	Section 108
10.558	Child Care Food Program
93.994	Child Care Escuela Maternal
93.044	Special Program for the Aging

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

Auditee qualified as low-risk auditee? X Yes ___ No

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Program: Accounting and Finance Department
General Fund – Cash Balance
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance	Questioned Cost
2006-01	Statement of Condition and Criteria It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems for CFR; and with GASB codifications 1200 and 1300; and with requirements stated in OMB Circular A-133.	-0-

Cause

The Municipality has significant deficiencies in its internal control structure, accounting and financial management systems, budgetary controls and financial reporting practices as related to cash balances for the General Fund.

Effect

The lack of internal controls does not permit the Municipality:

a) to present fairly and with full disclosure the financial position and results of operations of the general fund in conformity with GAAP, and
b) to determine compliance with finance – related legal and contractual provisions.

Auditors Recommendation

The Municipality should implement an internal control structure to provide reasonable assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements, maintain accountability over monies in the General Fund; and demonstrate compliance with laws, regulations, and other compliance requirements.
- Cash accounts in the General Fund that may include cash excess and shortages are reconciled to books, investigated and resolved in a timely manner.

Municipality Response

We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedures being followed to make the necessary improvements in the internal control procedures to comply with standards of financial management systems.

Department of Housing and Urban Development
Direct Program: Community Development Block Grant
CFDA No. 14.218
Grant No. Community Development
Block Grant Entitlement Grants CDBG
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance	Questioned Cost
2006-02	Statement of Condition and Criteria It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial management Systems, Sub-part C, Section 21, b., 24 CFR, Section 570.503 Uniform Administrative Requirements. 1. Accurate, current and complete disclosure of the financial results of federally sponsored projects of programs. 2. Records that identify adequately the source and application of funds. The records shall contain information pertaining to federal awards, authorization, obligations, un-obligated balances, assets, outlays, income and interest. 3. Effective controls and accountability for funds, property and other assets. To establish procedures to comply with Financial and Program Management Standards of funds of the CDBG Program. It was noted during my audit that Municipality does not maintain proper accounting records general ledger by grant. Cause The Municipality does not comply with the Financial and Program Management System Standards. The municipality did not maintain General Ledger by Fund to properly segregate fund by grant. Effect The Municipality did not maintain adequate procedures for the Administration of funds from CDBG Program by grant funds. Auditors Recommendation The Municipality must establish adequate procedures in order to control in a more effective manner the financial and Program Management System Standards Municipality Response: We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedures followed to establish a procedure, to comply with proper financial and program management system standards.	-0-

U.S. Department of Housing and Urban Development
Direct Program: Community Development Block Grant
CFDA No. 14.218
Grant No. Community Development Block Grant
Entitlement Grants CDBG
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance
2006-03	Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Housing and Urban Development Public and Indian Housing and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over $5,000 for periods longer than 3 days.

Cause
The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect
The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation
The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:
We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

U.S. Department of Housing and Urban Development
Public and Indian Housing
CFDA No. 14.871
Grant No. Section 8 Voucher
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance
2006-04	Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Housing and Urban Development Public and Indian Housing and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over $5,000 for periods longer than 3 days.

Cause
The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect
The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation
The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:
We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

U.S. Department of Housing and Urban Development
Public and Indian Housing
CFDA No. 14.856
Grant No. Section 8 Moderate Rehabilitation
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance
2006-05	Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Housing and Urban Development Public and Indian Housing and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over $5,000 for periods longer than 3 days.

Cause
The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect
The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation
The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:
We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

U.S. Department of Housing and Urban Development
CFDA No. 14.248
Grant No. Section 108 Loan Guarantee
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance
2006-06	Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Housing and Urban Development Public and Indian Housing and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over $5,000 for periods longer than 3 days.

Cause
The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect
The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation
The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:
We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

U.S. Department of Health Human Services
Administration for Children and Families
CFDA No. 93.600
Grant No. Head Start Program
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance
2006-07	Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Health and Human Services and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over $5,000 for periods longer than 3 days.

Cause
The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect
The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation
The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:
We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

U.S. Department of Health Human Services
CFDA No. 93.994
Grant No. Child Care Escuela Maternal
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance
2006-08	Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Health and Human Services and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over $5,000 for periods longer than 3 days.

Cause
The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect
The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation
The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:
We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

U.S. Department of Health and Human Services
CFDA No. 93.994
Grant No. Child Care Escuela Maternal
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance	Questioned Cost
2006-9	Statement of Condition and Criteria It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial management Systems, Sub-part C, Section 237.50, 45, CFR, Uniform Administrative Requirements. 1. Accurate, current and complete disclosure of the financial results of federally sponsored projects of programs. 2. Records that identify adequately the source and application of funds. The records shall contain information pertaining to federal awards, authorization, obligations, un-obligated balances, assets, outlays, income and interest. 3. Effective controls and accountability for funds, property and other assets. To established procedures to comply with Financial and Program Management Standards of funds of the Child Care Program. It was noted during my audit that Municipality does not maintain proper accounting records general ledger by grant. Cause The Municipality does not comply with the Financial and Program Management System Standards. The municipality does not maintained General Ledger by Fund to properly segregate fund by grant. Effect The Municipality does not maintain and adequate procedures for the Administration of funds from Child Care Program by grant funds. Auditors Recommendation The Municipality must establish adequate procedures in order to control in a more effective manner the financial and Program Management System Standards Municipality Response: We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedures followed to establish a procedure, to comply with proper financial and program management system standards.	-0-

U.S. Department of Housing and Urban Development
Public and Indian Housing
CFDA No. 14.231
Grant No. Emergency Shelter Grant
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance
2006-10	Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Housing and Urban Development Public and Indian Housing and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over $5,000 for periods longer than 3 days.

Cause
The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect
The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation
The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:
We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

U.S. Department of Health and Human Services
Administration on Aging
CFDA No. 93.044
Grant No. Special Program for the Aging
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance
2006-11	Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Health and Human Services and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over $5,000 for periods longer than 3 days.

Cause
The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect
The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation
The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:
We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

Department of Health and Human Services
Administration on Aging
CFDA No. 93.044
Grant No. Special Program for the Aging
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance	Questioned Cost
2006-12	Statement of Condition and Criteria It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial management Systems, Sub-part C, Section 237.50, 45, CFR, Uniform Administrative Requirements. 1. Accurate, current and complete disclosure of the financial results of federally sponsored projects of programs. 2. Records that identify adequately the source and application of funds. The records shall contain information pertaining to federal awards, authorization, obligations, un-obligated balances, assets, outlays, income and interest. 3. Effective controls and accountability for funds, property and other assets. To established procedures to comply with Financial and Program Management Standards of funds of the Special Program for the Aging. It was noted during my audit that Municipality does not maintain proper accounting records general ledger by grant. Cause The Municipality does not comply with the Financial and Program Management System Standards. The municipality does not maintained General Ledger by Fund to properly segregate fund by grant. Effect The Municipality does not maintain and adequate procedures for the Administration of funds from Special Program for the Aging by grant funds. Auditors Recommendation The Municipality must establish adequate procedures in order to control in a more effective manner the financial and Program Management System Standards Municipality Response: We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedures followed to establish a procedure, to comply with proper financial and program management system standards.	-0-

U.S. Department of Justice
CFDA No. 16.710
Grant No. Office Community Oriented Policing Service Troops to Cops
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance
2006-13	Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Justice and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over $5,000 for periods longer than 3 days.

Cause
The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect
The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation
The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:
We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

Department of Justice
CFDA No. 16.710
Grant No. Office Community Oriented
Policing Service Troops to Cops
Year ended June 30, 2006

Ref. No.	Finding / Noncompliance	Questioned Cost
2006-14	Statement of Condition and Criteria It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial management Systems, Sub-part C, Section 66.20, 28, CFR, Uniform Administrative Requirements. 1. Accurate, current and complete disclosure of the financial results of federally sponsored projects of programs. 2. Records that identify adequately the source and application of funds. The records shall contain information pertaining to federal awards, authorization, obligations, un-obligated balances, assets, outlays, income and interest. 3. Effective controls and accountability for funds, property and other assets. To established procedures to comply with Financial and Program Management Standards of funds of the Cops Program. It was noted during my audit that Municipality does not maintain proper accounting records general ledger by grant. Cause The Municipality does not comply with the Financial and Program Management System Standards. The municipality does not maintained General Ledger by Fund to properly segregate fund by grant. Effect The Municipality does not maintain and adequate procedures for the Administration of funds from Cops Program by grant funds. Auditors Recommendation The Municipality must establish adequate procedures in order to control in a more effective manner the financial and Program Management System Standards Municipality Response: We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedures followed to establish a procedure, to comply with proper financial and program management system standards.	-0-

MUNICIPALITY OF VEGA BAJA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

2005 – Finding No. 1: U.S. Department of Health and Human Services
Direct Program of Administration Department of Families
CFDA No. 93-600
Grant – No. 02-CH-0483
Year ended June 30, 2005
Finding was corrected.

2005 – Finding No. 2: U.S. Department of Housing and Urban Development
Direct Program Community Development Block Grant
CFDA No. 14-218
Grant No. CDBG
Year ended June 30, 2005
Finding was corrected.

2005 - Finding No. 3. : U.S. Department of Housing and Urban Development
Direct Program: Community Development Block Grant
CFDA No. 14.218
Year ended June 30, 2005
Finding reported again.

Ciudad del Melao Melao

Aladino Andújar
Director

Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Vega Baja
Departamento de Finanzas

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006
(continue)

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-01	Statement of Condition: The General Fund-Cash Balance apply Standards of Financial Management Systems. Corrective Action Planned: The Finance Director established adequate procedures to control to permit the preparation of reliable financial statements, reconciled to books, investigated and resolved in a timely manner, cash accounts reconciliation's. Person Responsible: Mr. Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-02	Statement of Condition: The CDBG, Program Management System Standards. Corrective Action Planned: The CDBG Program Administrator established adequate procedures to control and use in an effective manner, federal funds. Person Responsible: Mr. Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

P O BOX 4555 Vega Baja, PR 00694 Tel. 855-2500 Ext. 2300 Fax 858-1945
www.vegabaja.gov.pr

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006
(continue)

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-03	Statement of Condition: The CDBG Program, cash balance over $5,000 for periods end longer than 3 days. Corrective Action Planned: The CDBG Program Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds. Standards for financial management system. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-04	Statement of Condition: The Section 8 Voucher Program, cash balance over $5,000 for periods end longer than 3 days Corrective Action Planned: The Section 8 Voucher Program Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds. Standards for financial management system. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006
(continue)

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-05	Statement of Condition: The Section 8 Moderate Rehabilitation Program, cash balance over $5,000 for periods end longer than 3 days Corrective Action Planned: The Section 8 Voucher Moderate Rehabilitation Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds. Standards for financial management system. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-06	Statement of Condition: The Section 108 Program, cash balance over $5,000 for periods end longer than 3 days. Corrective Action Planned: The Section 108 Program Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds. Standards for financial management system. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006
(continue)

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-07	Statement of Condition: The Head Start Program, cash balance over $5,000 for periods end longer than 3 days. Corrective Action Planned: The Head Start Program Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds. Standards for financial management system. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-08	Statement of Condition: The Child Care Escuela Maternal Program, cash balance over $5,000 for periods end longer than 3 days. Corrective Action Planned: The Municipalities Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds. Standards for financial management system. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006
(continue)

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-9	Statement of Condition: The Child Care Escuela Maternal Program, Management System Standards. Corrective Action Planned: The Municipalities Administration will established adequate and correct the finding before the audit report was issued. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-10	Statement of Condition: The ESG Program, cash balance over $5,000 for periods end longer than 3 days. Corrective Action Planned: The ESG Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds. Standards for financial management system. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006
(continue)

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-11	Statement of Condition: The Special Program for the Aging, cash balance over $5,000 for periods end longer than 3 days. Corrective Action Planned: The Municipalities Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds. Standards for financial management system. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-12	Statement of Condition: The Special Program for the Aging Management System Standards. Corrective Action Planned: The Municipalities Administration will established adequate and correct the finding before the audit report was issued. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006
(continue)

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-13	Statement of Condition: The Cops Program, cash balance over $5,000 for periods end longer than 3 days. Corrective Action Planned: The Municipalities Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds. Standards for financial management system. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

Ref. No.	Finding /Corrective Action Planned/Person Responsible:	Anticipated Completion Date
2006-14	Statement of Condition: The Cops Program Management System Standards. Corrective Action Planned: The Municipalities Administration will established adequate and correct the finding before the audit report was issued. Person Responsible: Aladino Andújar, Finance Director	On or before end of 2006-07 fiscal year

FCCM
DISCLOSURE/DOCUMENTATION
EXTENSION

07 MAR -9 PM 2:25