

Vega Baja

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2009
(INDEPENDENT AUDITOR'S REPORT)

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Vega Baja

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**MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2009
(INDEPENDENT AUDITOR'S REPORT)**

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MUNICIPALITY OF VEGA BAJA MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Municipality of Vega Baja, provides this Management's Discussion and Analysis for the reader of the Municipality's basic financial statements. This narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2009, and is intended to provide an easily readable explanation of the information provided in the attached basic financial statement. We encourage readers to consider this information with the Municipality's basic financial statements that follow.

The Commonwealth of Puerto Rico during the last five years presents a stagflation, together with an increasing in the unemployment rate and stagnant in business activity. Continuous increase in the price of good and cost living affects all cities of Puerto Rico.

Fiscal year 2008-2009 operations sustain the Municipality's deteriorated economic condition do to its decreases of incomes of Volume of Business budget and Intergovernmental Revenues received from the Commonwealth of Puerto Rico. In spite of these reductions in revenues and difficult economic situation that the island of Puerto Rico is running through, our administration has continued to offer quality services to the community, in the construction of the "Casa Portela Museum" and the first phase of the Electronic Library. This condition is achieved in a time of economy constrains and low revenues growth rates, however through the following management discussion and analysis it will be shown our approach to face the actual deficit situation of the Municipality.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$55,089,863 millions (net assets).
- The general fund, ended with a fund balance (deficit) amounting to (\$7,390,293).
- The adjusted actual of the General Fund operations resulted in an unfavorable variance of \$4,151,163 as compared to the revised budget due to a reduction in revenue receipts. During the 2008-2009 fiscal year the General Fund decrease excess tax revenue by approximately \$2,960,166.
- As June 30, 2009 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$(7,390,293) an increase of \$2,960,166 in comparison with the prior year.
- Total restricted cash of \$3,304,736 is available for payment of principal and interest in the Debt Service Fund.
- Long Term Debt loans principal payments were \$2,150,000 during fiscal year 2008-09.

MUNICIPALITY OF VEGA BAJA MANAGEMENT DISCUSSION AND ANALYSIS

New Requirements for the Financial Reporting

The new approach on the preparation of the Municipality's financial statements emphasize on a government wide (consolidated) view of its financial operations. Nevertheless major individual funds are presented and evaluated in all of its details. Simultaneous implementation of both of these perspectives allows 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 2008-2009 and the budgetary deficit that the island of Puerto Rico has run through, our administration has worked very 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.

The Property Tax revenue represents 30% of total revenues of the municipality during the last five years. The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico 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.

However, we have had to deal with a deficit situation in the General Fund of approximately \$2,960,166 at June 30, 2009. The increase in the deficit during fiscal year 2008-2009 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 2009-2010 the construction projects receive final endorsement from the authorities and, accordingly, our Municipality's Management will correct the deficit in the general fund with 2009-2010 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.

MUNICIPALITY OF VEGA BAJA MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

The Statement of Net Assets and the statement of activities, on page 11-12 report the Municipality net assets and changes in them. One can analyze of the Municipality's net assets, as the difference between assets and liabilities, as one way to measure the Municipality's financial position. Over time increase decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered, such as changes in the Municipality's property tax base, and the condition of roads, to assess the overall health of the Municipality's of Vega Baja.

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.

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

Government-Wide and fund financial Statements

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 \$55,089,863 at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets.

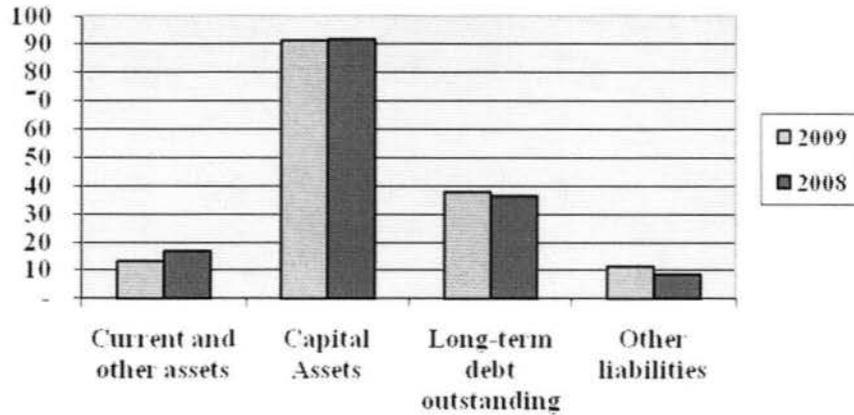
Statement of Net Assets

| | June 30 | |
|---|-----------------------|-----------------------|
| | 2009 | 2008 |
| Current and other assets | \$ 13,045,046 | \$ 16,929,325 |
| Capital assets | 91,371,884 | 92,011,854 |
| Total assets | \$ 104,416,930 | \$ 108,941,179 |
| Current | \$ 11,323,756 | \$ 8,456,444 |
| Long-term liabilities | 38,003,311 | 36,692,230 |
| Total liabilities | 49,327,067 | 45,148,674 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 59,928,432 | 62,078,432 |
| Debt service | 1,445,377 | 1,760,225 |
| Special and other funds | 554,834 | 1,861,360 |
| Capital project fund | 8,059,827 | 8,322,026 |
| Unrestricted (deficit) | (14,898,607) | (10,229,538) |
| Total Net assets | \$ 55,089,863 | \$ 63,792,505 |

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

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

Components of Net Assets



Statement of Activities

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

| | Year ended June 30 | |
|------------------------------|---------------------------|---------------------|
| | 2009 | 2008 |
| Revenues: | | |
| Program Revenue | \$ 10,682,365 | \$ 11,696,697 |
| General Revenue | 28,380,583 | 29,756,956 |
| Total Revenue | 39,062,948 | 41,453,653 |
| Expenses: | | |
| Governmental activities | (42,353,264) | (39,168,177) |
| Changes in net assets | \$ (3,290,316) | \$ 2,285,476 |

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

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

**Governmental Funds
Balance Sheet**

| | June 30 | |
|--|----------------------|----------------------|
| | 2009 | 2008 |
| Assets: | | |
| Cash | \$ 8,118,453 | \$ 6,031,886 |
| Restricted Cash | 3,857,688 | 9,237,141 |
| Accounts Receivable | 2,127,453 | 3,371,683 |
| Total Assets | \$ 14,103,594 | \$ 18,640,710 |
| | | |
| Liabilities and Fund Balance | | |
| Liabilities: | | |
| Accounts payable and liabilities | \$ 7,552,418 | \$ 6,772,458 |
| Deferred revenue | 4,019,571 | 4,022,371 |
| Total Liabilities | 11,571,989 | 10,794,829 |
| | | |
| Funds Balances | 2,531,605 | 7,845,881 |
| Total liabilities and Fund Balances | \$ 14,103,594 | \$ 18,640,710 |

The most significant changes in this statement were as follows:

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

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

Statement of Revenue, Expenditures and Changes in Fund Balances

| | Year ended June 30 | |
|---|----------------------|----------------------|
| | 2009 | 2008 |
| Revenues: | | |
| Property taxes | \$ 7,666,935 | \$ 8,481,129 |
| Municipal licence tax | 4,925,970 | 4,313,512 |
| Federal grants | 10,390,543 | 11,612,431 |
| Sales Tax | 2,046,986 | 2,203,703 |
| Other | 14,057,367 | 15,098,121 |
| Total Revenues | \$ 39,087,801 | \$ 41,708,896 |
| Expenditures: | | |
| General Government | \$ 17,135,088 | \$ 15,702,174 |
| Public works | 3,216,436 | 3,487,587 |
| Public safety | 1,307,880 | 1,468,743 |
| Health | 1,429,032 | 1,405,282 |
| Capital outlays | 6,622,154 | 12,020,776 |
| Culture and recreation | 1,948,765 | 2,044,415 |
| Bonds, notes and interest | 4,005,365 | 3,895,218 |
| Education and training | 6,843,049 | 6,699,572 |
| Other expenditures | 2,031,056 | 201,313 |
| Total Expenditures | \$ 44,538,825 | \$ 46,925,080 |
| Excess of revenues (expenditures) | | |
| Over expenditures (revenues) | \$ (5,451,024) | \$ (5,216,184) |
| Other Financing (uses) sources, debt (expenditures) issuance | (335,143) | 1,325,842 |
| Fund balance, beginning | 7,841,881 | 13,010,809 |
| Prior period adjustment | 475,891 | (1,274,586) |
| Fund balance, ending | \$ 2,531,605 | \$ 7,845,881 |

The most significant changes of this statement were as follows:

- The larger decrease in revenues is related to federal grants for the amount of 1.3 million.
- The larger decreases in revenues were related Property Tax for 1.3 and Federal Fund received for the amount of \$1.3 million.
- The most significant changes in the expenditures were decrease in capital outlays for approximately \$5.4 millions related with capital outlays and an increase in the General Government expenditures by \$1.4 millions.

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 industrial base which included one large pharmaceutical, wholesalers, retail stores, financial institutions, restaurants, among others. This industrial base has decreased 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 Finance Director.

Myrna Rivera Muñiz, Finance Director PO Box 4555, Vega Baja, PR 00694. Telephone (787) 858-8447 Fax: (787) 858-1945 E-mail: finanzas@vegabaja.gov.pr

JUAN A. FELICIANO CHARNECO
Certified Public Accountant

Urbanización Matienzo
151 Calle Miguel Salas
Arecibo, PR 00612

Tel: (787) 879-4433
Fax: (787) 880-1402

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, 2009, 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.

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.

My responsibility is to express an opinion on, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the **Municipality of Vega Baja**, Puerto Rico, as of June 30, 2009, 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.

As discussed in Note 16 to the Financial Statements, on October 28, 2009 the Municipality received a letter from The United States Environmental Protection Agency, Region 2 New York to clarify the Vega Baja Municipal Landfill Closure. The estimate cost to Closure and Post-closure of the Vega Baja Municipal are in process of analysis.

In accordance with Government Auditing Standards, I have also issued my report dated December 8, 2009 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 purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of and audit performed in accordance with Governmental Auditing Standards and should be considered in assessing 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.

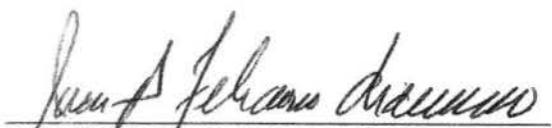
As described in Note 1, on July 1, 2004, **the Municipality** implemented a new financial reporting model required by GASB Statement No. 34, (GASB No. 34), *Basic Financial Statements – And Management’s Discussion and analysis-for State and Local Governments*. In conjunction with the adoption of GASB 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 schedule 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 required supplementary information. However, I did not audit the information and express no opinion on it.

Arecibo, Puerto Rico
December 8, 2009

The stamp number 2481176
was affixed to the
original of this report.




CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2010

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2009

| <u>ASSETS</u> | Governmental Activities |
|--|------------------------------------|
| Cash and investments | \$ 8,118,453 |
| Cash with fiscal agent and other | 3,857,688 |
| Accounts receivable volume of business tax and other | 193,260 |
| Accounts receivable federal government | 875,645 |
| Capital assets, net of accumulated depreciation | 91,371,884 |
| Total assets | \$ 104,416,930 |
| | |
| <u>LIABILITIES AND FUND EQUITY</u> | |
| Liabilities: | |
| Accounts payable and accrued liabilities | \$ 2,153,558 |
| Due to government entity | 1,538,110 |
| Deferred revenue (Volume business tax) | 4,019,571 |
| Deferred revenue | 1,019,202 |
| Non-current liabilities: | |
| Due within one year | 2,593,315 |
| Due in more than one year | 38,003,311 |
| Total liabilities | 49,327,067 |
| | |
| <u>NET ASSETS</u> | |
| Invested in capital assets, net of related debt | 59,928,432 |
| Restricted for: | |
| Reserve for debt service | 1,445,377 |
| Special funds | 554,834 |
| Capital project fund | 8,059,827 |
| Unrestricted (deficit) | (14,898,607) |
| Total net assets | 55,089,863 |
| Total liabilities and net assets | \$ 104,416,930 |

See notes to financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| Functions/Programs | Expenses | Program Revenues | | | Net (expense) revenue and change in Net Assets Governmental Activities |
|--------------------------------------|-------------------|-------------------------|--|--|--|
| | | Charges for Services | Capital Grants and Contributions | Operating Grants and Contributions | |
| <u>EXPENDITURES:</u> | | | | | |
| General government | \$ 18,005,780 | \$ - | \$ (2,272,089) | \$ (1,584,664) | \$ 14,149,027 |
| Public safety | 2,818,980 | - | - | - | 2,818,980 |
| Public works | 6,370,036 | (71,452) | - | - | 6,298,584 |
| Health | 1,888,933 | - | - | - | 1,888,933 |
| Education and training | 6,843,049 | - | - | (6,754,160) | 88,889 |
| Culture and recreation | 2,540,065 | - | - | - | 2,540,065 |
| Other expenditure | 2,031,056 | - | - | - | 2,031,056 |
| Interest and fiscal charges | 1,855,365 | - | - | - | 1,855,365 |
| Total governmental activities | 42,353,264 | (71,452) | (2,272,089) | (8,338,824) | \$ 31,670,899 |
| <u>GENERAL REVENUES:</u> | | | | | |
| Property taxes | | | | | \$ 7,666,935 |
| Municipal licenses tax | | | | | 4,925,970 |
| Licenses, permits and fines | | | | | 755,069 |
| Intergovernmental revenues | | | | | 12,232,950 |
| Rent | | | | | 205,075 |
| Interests | | | | | 369,326 |
| Other revenues | | | | | 178,272 |
| Municipal sales tax | | | | | 2,046,986 |
| Total general revenues | | | | | 28,380,583 |
| Changes in net assets | | | | | (3,290,316) |
| Net assets at beginning of year | | | | | 63,792,505 |
| Prior period adjustment (Note 19) | | | | | (5,412,326) |
| Net assets at end of year | | | | | \$ 55,089,863 |

See notes to financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

| | General Fund | Bond Issue Fund | HUD Programs | Head Start Programs | Capital Projects Fund | Debt Service Fund | Other Funds | Total Governmental Funds |
|---|--------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|--------------------------|
| ASSETS | | | | | | | | |
| Cash and investments | 414,689 | \$ 4,467,093 | \$ 323,779 | \$ 232,091 | \$ 2,080,474 | \$ - | \$ 600,327 | \$ 8,118,453 |
| Cash with fiscal agent and other | - | - | 552,952 | - | - | 3,304,736 | - | 3,857,688 |
| Accounts receivable (volume business) and other | 193,260 | - | - | - | - | - | - | 193,260 |
| Accounts receivable federal government | - | - | 562,153 | 278,769 | - | - | 34,723 | 875,645 |
| Due from general fund and other | - | - | - | - | - | - | 1,058,548 | 1,058,548 |
| Total assets and other debits | <u>\$ 607,949</u> | <u>\$ 4,467,093</u> | <u>\$ 1,438,884</u> | <u>\$ 510,860</u> | <u>\$ 2,080,474</u> | <u>\$ 3,304,736</u> | <u>\$ 1,693,598</u> | <u>\$ 14,103,594</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 500,951 | \$ - | \$ 654,546 | \$ 321,030 | \$ - | \$ 2,412,311 | \$ 47,720 | \$ 3,936,558 |
| Due to general fund and other | 920,408 | - | - | - | - | - | 138,140 | 1,058,548 |
| Due to government entities | 1,538,110 | - | - | - | - | - | - | 1,538,110 |
| Deferred revenue (Volume Business Tax) | 4,019,571 | - | - | - | - | - | - | 4,019,571 |
| Deferred revenue | 1,019,202 | - | - | - | - | - | - | 1,019,202 |
| Total liabilities | <u>7,998,242</u> | <u>-</u> | <u>654,546</u> | <u>321,030</u> | <u>-</u> | <u>2,412,311</u> | <u>185,860</u> | <u>\$ 11,571,989</u> |
| Fund balances | | | | | | | | |
| Reserve for debt services | - | - | 552,952 | - | - | 892,425 | - | 1,445,377 |
| Encumbrances | 469,948 | - | - | - | - | - | - | 469,948 |
| General Fund | (7,860,241) | - | - | - | - | - | - | (7,860,241) |
| Special and other funds | - | - | 231,386 | 76,338 | - | - | 247,110 | 554,834 |
| Capital project fund | - | 4,467,093 | - | 113,492 | 2,080,474 | - | 1,260,628 | 7,921,687 |
| Total fund balances | <u>(7,390,293)</u> | <u>4,467,093</u> | <u>784,338</u> | <u>189,830</u> | <u>2,080,474</u> | <u>892,425</u> | <u>1,507,738</u> | <u>2,531,605</u> |
| Total liabilities and fund balance | <u>\$ 607,949</u> | <u>\$ 4,467,093</u> | <u>\$ 1,438,884</u> | <u>\$ 510,860</u> | <u>\$ 2,080,474</u> | <u>\$ 3,304,736</u> | <u>\$ 1,693,598</u> | <u>\$ 14,103,594</u> |

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET NET ASSETS:

| | |
|--|----------------------|
| TOTAL FUND BALANCE - GOVERNMENTAL FUNDS | \$ 2,531,605 |
| 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 | 91,371,884 |
| 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 | \$ 2,123,626 |
| Bonds payable | 36,392,000 |
| Legal claims | 298,000 |
| | <u>\$ 38,813,626</u> |
| TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 55,089,863</u> |

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, 2009

| | General Fund | 2008 and 2009 Bond issue Fund | HUD Programs | Head Start Programs | Capital Project Funds | Debt Service Fund | Other Funds | Total Governmental Funds |
|---|-----------------------|-------------------------------|-------------------|---------------------|-----------------------|-------------------|---------------------|--------------------------|
| REVENUES: | | | | | | | | |
| Property taxes | \$ 5,741,644 | \$ - | \$ - | \$ - | \$ - | \$ 1,925,291 | \$ - | \$ 7,666,935 |
| Municipal license tax | 4,925,970 | - | - | - | - | - | - | 4,925,970 |
| Licenses, permits, fines and sales tax | 826,521 | - | - | - | - | - | - | 826,521 |
| Intergovernmental revenues | 5,632,508 | - | - | - | 5,552,271 | - | 1,048,171 | 12,232,950 |
| Rent of properties | 205,075 | - | - | - | - | - | - | 205,075 |
| Interest income | 369,326 | - | - | - | - | 24,853 | - | 394,179 |
| Other revenues | 178,272 | - | 220,370 | - | - | - | - | 398,642 |
| Municipal sales tax | 2,046,986 | - | - | - | - | - | - | 2,046,986 |
| Federal financial award | - | - | 2,051,719 | 6,754,160 | - | - | 1,584,664 | 10,390,543 |
| Total revenues | 19,926,302 | - | 2,272,089 | 6,754,160 | 5,552,271 | 1,950,144 | 2,632,835 | 39,087,801 |
| EXPENDITURES: | | | | | | | | |
| General government | 12,765,082 | - | 2,033,079 | - | 1,165,559 | - | 1,171,368 | 17,135,088 |
| Public safety | 1,307,880 | - | - | - | - | - | - | 1,307,880 |
| Public works | 3,216,436 | - | - | - | - | - | - | 3,216,436 |
| Health | 1,429,032 | - | - | - | - | - | - | 1,429,032 |
| Capital outlays | 66,600 | - | 29,994 | - | 6,062,789 | - | 462,771 | 6,622,154 |
| Culture and recreation | 1,948,765 | - | - | - | - | - | - | 1,948,765 |
| Other Expenditures | 2,031,056 | - | - | - | - | - | - | 2,031,056 |
| Education and training | - | - | - | 6,843,049 | - | - | - | 6,843,049 |
| Debt service: | | | | | | | | |
| Principal retirement | - | - | - | - | - | 2,150,000 | - | 2,150,000 |
| Interest and fiscal charges | - | - | - | - | - | 1,855,365 | - | 1,855,365 |
| Total expenditures | 22,764,851 | - | 2,063,073 | 6,843,049 | 7,228,348 | 4,005,365 | 1,634,139 | 44,538,825 |
| Excess of revenues over (under) expenditures | (2,838,549) | - | 209,016 | (88,889) | (1,676,077) | (2,055,221) | 998,696 | (5,451,024) |
| Other financing source (uses): | | | | | | | | |
| Transfer in (out) to debt service fund | (121,617) | - | (1,116,592) | - | - | 1,221,617 | - | (16,592) |
| Interest expenditure | - | - | - | - | - | (24,853) | - | (24,853) |
| Net bond issued debt | - | 5,429,231 | - | - | - | - | - | 5,429,231 |
| Transfer to other fund | - | - | 443,422 | - | - | - | (443,422) | - |
| Net bond expenditures | - | (5,722,929) | - | - | - | - | - | (5,722,929) |
| Total other financing source (uses) | (121,617) | (293,698) | (673,170) | - | - | 1,196,764 | (443,422) | (335,143) |
| Excess of revenues and other sources over (under) expenditures and other uses | (2,960,166) | (293,698) | (464,154) | (88,889) | (1,676,077) | (858,457) | 555,274 | (5,786,167) |
| Net change in fund balance | (2,960,166) | (293,698) | (464,154) | (88,889) | (1,676,077) | (858,457) | 555,274 | (5,786,167) |
| Fund balance June 30, 2008 | (4,097,730) | 4,760,791 | 777,780 | 278,756 | 3,756,551 | 1,760,225 | 605,508 | 7,841,881 |
| Prior period adjustment (Note 19) | (332,397) | - | 470,712 | (37) | - | (9,343) | 346,956 | 475,891 |
| Fund balance June 30, 2009 | \$ (7,390,293) | \$ 4,467,093 | \$ 784,338 | \$ 189,830 | \$ 2,080,474 | \$ 892,425 | \$ 1,507,738 | \$ 2,531,605 |

See notes to financial statements.

**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, 2009**

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

Net change in fund balance - total governmental funds \$ (5,786,167)

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 | 6,622,154 | |
| Less: current year depreciation | <u>(6,570,001)</u> | 52,153 |

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

| | | |
|--------------------------|------------------|------------------|
| Principal payments | 2,150,000 | |
| Net bond issued proceeds | (5,429,231) | |
| Bond expenditures | <u>5,722,929</u> | <u>2,443,698</u> |

Change in net assets of governmental activities \$ (3,290,316)

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND
BUDGETARY COMPARISON SCHEDULE (BUDGET BASIS) GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| | Budgeted Amounts | | Adjusted Actual Note 1 | Variance Favorable (Unfavorable) |
|---|-------------------|-------------------|---------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Property taxes | \$ 1,557,730 | \$ 1,557,730 | \$ 1,557,730 | \$ - |
| Local taxes | 7,500,000 | 7,500,000 | 4,811,303 | (2,688,697) |
| Intergovernmental revenues | 5,623,992 | 5,623,992 | 5,632,508 | 8,516 |
| Licenses, Permits and Fines | 2,070,000 | 2,070,000 | 826,521 | (1,243,479) |
| Interest income | 158,000 | 158,000 | 369,326 | 211,326 |
| Landfill | 5,000 | 5,000 | - | (5,000) |
| Rent | 174,176 | 174,176 | 205,075 | 30,899 |
| Other revenues | 643,000 | 643,000 | 178,272 | (464,728) |
| Other financial sources | 5,203,116 | 5,203,116 | 5,203,116 | - |
| Total revenues | 22,935,014 | 22,935,014 | 18,783,851 | (4,151,163) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | 13,655,804 | 13,729,608 | 12,291,873 | 1,437,735 |
| Public Work | 3,568,343 | 3,624,348 | 3,216,436 | 407,912 |
| Public Safety | 1,616,704 | 1,551,904 | 1,307,880 | 244,024 |
| Health | 1,447,631 | 1,447,631 | 1,429,032 | 18,599 |
| Culture and Recreation | 2,443,159 | 2,378,150 | 1,948,765 | 429,385 |
| Other Expenditure | 81,373 | 81,373 | 190,565 | (109,192) |
| Transfer-out | 122,000 | 122,000 | 121,632 | 368 |
| Total expenditures | 22,935,014 | 22,935,014 | 20,506,183 | 2,428,831 |
| Excess of revenues over (under) expenditures | | | \$ (1,722,332) | \$ (1,722,332) |
| Explanation of Differences: | | | | |
| Sources/inflows of resources: | | | | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | | | | \$ 18,783,851 |
| Differences - budget to GAAP: | | | | |
| Revenues for financial purpose only not for budgetary purpose | | | | 2,161,653 |
| Revenues for budgetary resources but are not revenues for financial reporting purposes. | | | | (1,019,202) |
| Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances | | | | \$ 19,926,302 |
| Uses/outflow of resources | | | | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | | | | \$ 20,506,183 |
| Differences - budget to GAAP: | | | | |
| Non budgeted expenditures | | | | 2,258,668 |
| Total expenditures as reported on the statement of revenue, expenditures and change in fund balances | | | | \$ 22,764,851 |

See notes to budgetary comparison schedule.
See notes to financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 a full range of services for its citizens 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) in the United States of America 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** implemented this Standard for the fiscal year ended June 30, 2003.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their 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, 2009 nor for the year then ended.

As indicated in Note 19, during fiscal year 2009, **the Municipality** noted that certain adjustments were noted to present properly the net assets and fund balances at June 30, 2006 as a result assets, liabilities and net assets were restated

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.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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.

HUD Programs Fund – This fund accounts for revenues sources for the development of viable urban communities, decent housing suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 and available.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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.

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.

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budge indicating: 1) interest, amortization and retirement public debt, 2) statutory obligations, 3) judicial claims payments, 4) any amount to cover prior years deficit, 5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtain of additional special property tax (municipal) collections. **The Municipality's** management shows budgetary financial statements in general funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for debt service fund.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 Statements

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 vacations, with the employer's share of payroll taxes, are accounted for in the Statement of Net Assets.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 appropriated 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.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 this column 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.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. PROPERY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within **the Municipality of Vega Baja** and for the levy, administration and collection of the corresponding taxes.

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

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

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The tax rate per annum is 10.33% for real property and 8.33% for personal property of which 3.58% and 1.58%, respectively, belongs to the Commonwealth of Puerto Rico and 4.84% 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.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. PROPERTY TAXES (Continuation)

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

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

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, **the Municipality** recognized as an expenditure the operational expenses allocated by the CRIM to **the Municipality**, which amounted to \$254,402 during 2009.

The following is a summary of the property tax advances that resulted in an account payable, for the year ended June 30, 2009. The resulting payable is presented as decrease in the General Fund in Financial Statement and Government Wide Financial Statements.

Deferred revenue:

| Amortization through collections of property taxes by the CRIM | |
|--|-----------------------|
| 07-01-08 - 06-30-09 | \$ 8,173,524 |
| Advance received, 07-01-08 - 06-30-09 | (9,756,130) |
| Sub-Total | (1,582,606) |
| **Less: amount debt to the Municipality | 563,404 |
| Deferred revenue - 2009 | \$ (1,019,202) |

**The modified accrual basis of accounting allows the use of 30 days of collection of Property Taxes after June 30, 2009 to be used to pay liabilities of the current period, as revenue of the period.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

3. DEPOSITS

The Municipality's cash and investments at June 30, 2009, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

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

4. CONCENTRATION OF CREDIT RISK

The Municipality maintains its cash account in local commercial banks, whose accounts are warranty by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits in excess of \$250,000 are collateralized 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.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 first 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 balances are as follows:

| Funds | Due From | Due To |
|----------------------|---------------------|---------------------|
| General | | \$ 920,408 |
| Special Revenue Fund | | 138,140 |
| Special Revenue Fund | 1,058,548 | - |
| TOTAL | \$ 1,058,548 | \$ 1,058,548 |

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

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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. DUE TO GOVERNMENT ENTITIES AND DUE FROM GOVERNMENTAL ENTITIES

As of June 30, 2009 balances due to governmental entities of the general fund consists of the following:

| Name | Due to |
|--|---------------------|
| Puerto Rico Water and Sewer Authority | \$ 297,375 |
| Puerto Rico Retirement System | 421,065 |
| Puerto Rico Department of Tresury | 12,180 |
| General Administration Services | 137,829 |
| State Insurance Fund Corporation | 344,029 |
| Puerto Rico Employees Association System | 18,854 |
| Puerto Rico Department of Labor | 306,778 |
| Totals | \$ 1,538,110 |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

9. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 was as follows:

| | Balance 6/30/2008 | Additions | Retirements and Transfers dispositions | Balance 6/30/2009 |
|--|----------------------|---------------------|--|----------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 10,455,899 | \$ - | | \$ 10,455,899 |
| Construction in progress | 8,604,439 | 4,755,636 | 1,784,460 | 11,575,615 |
| Total capital assets not being depreciated | 19,060,338 | 4,755,636 | 1,784,460 | 22,031,514 |
| Capital assets, being depreciated | | | | |
| Buildings and building improvements | 41,114,928 | 2,428,790 | - | 43,543,718 |
| Infrastructure | 54,133,541 | 894,258 | - | 55,027,799 |
| Licensed vehicles | 8,326,186 | 10,495 | - | 8,336,681 |
| Equipment | 4,199,992 | 317,435 | - | 4,517,427 |
| Total capital assets being depreciated | 107,774,647 | 3,650,978 | - | 111,425,625 |
| Less: accumulated depreciation for: | | | | |
| Buildings and building improvements | 11,845,009 | - | 968,295 | 12,813,304 |
| Infrastructure | 12,860,157 | - | 4,532,533 | 17,392,690 |
| Vehicles | 7,267,392 | - | 763,687 | 8,031,079 |
| Equipment | 3,542,696 | - | 305,486 | 3,848,182 |
| Total accumulated depreciation | 35,515,254 | - | 6,570,001 | 42,085,255 |
| Total capital assets being depreciated, net | 72,259,393 | 3,650,978 | 6,570,001 | 69,340,370 |
| Governmental activities capital assets, net | \$ 91,319,731 | \$ 8,406,614 | \$ 8,354,461 | \$ 91,371,884 |

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

| | |
|---|---------------------|
| Governmental activities: | |
| General government | \$ 854,100 |
| Public safety | 1,511,100 |
| Public works | 3,153,600 |
| Culture and recreation | 591,300 |
| Health | 459,901 |
| Total depreciation expense governmental activities | \$ 6,570,001 |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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.

Fund Financial Statements

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

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, 2009.

| Description | Beginning Balance | Additions | Reductions | Ending Balance |
|---------------------------|----------------------|-------------|-------------|-------------------|
| General Obligations Bonds | \$34,850,000 | \$5,475,000 | \$2,150,000 | \$38,175,000 |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Long-term debt at June 30, 2009 is comprised of the following General and Special Obligation's issues:

| Description | Balance 06-30-09 | 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 form 6.5% to 7.706% | \$ 780,000 | \$ 105,000 |
| Series of 1995, \$6,665,000 payable in annual installments of \$275,000 to \$720,000 until 2012; with insterest ranging from 6.875% to 6.28% | 2,535,000 | 555,000 |
| 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% | 3,445,000 | 140,000 |
| 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% | 2,220,000 | 135,000 |
| 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% | 1,220,000 | 35,000 |
| 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% | 275,000 | 10,000 |
| Series of 2003, \$2,900,000 payable in annual installments of \$50,000 to \$230,000 until 2007; with interest ranging from 2.7% to 5.6% | 2,555,000 | \$ 70,000 |
| Series of 2003, \$215,000 payable in annual installments of \$5,000 to \$15,000 until 2007; with interest ranging from 5% to 6.5% | 185,000 | 5,000 |
| Serie of 2004,\$1,760,000 payable in annual installments of \$30,000 to \$130,000 until 2028; with interest at ranging from 2.36% to 6% | 1,580,000 | 45,000 |
| Series of 1987, \$3,175,000 payable in annual installments of \$170,000 until 2007; with interest at 9% | 170,000 | |
| Sub Total | 14,965,000 | 1,100,000 |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

10. GENERAL LONG-TERM DEBT (continuation)
General and Special Obligations(Continuation)

| Description | Balance 06-30-09 | Due within One year |
|--|---------------------|------------------------|
| Series of 2003, \$910,000 payable in annual intallments of \$105,000 to \$130,000 until 2009; with interest ranging from 5.0% to 6.5% | 160,000 | 160,000 |
| Series of 2003, \$545,000 payable in annual intallments of \$10,000 to \$45,000 until 2027; with interest ranging from 5.0% to 6.5% | 480,000 | 15,000 |
| *Operational Bonds (Serie of 2005) \$720,000, payable in annual installments of \$85,000 to \$125,000 until 2012; with interest ranging from 5.0% to 7.5% | 445,000 | 100,000 |
| Serie of 2006, \$815,000 payable in annual installments of \$10,000 to \$65,000 until 2030; with interest ranging from 4.23% to 5.31% | 780,000 | 15,000 |
| Serie of 2006, \$3,530,000 payable in annual installments of \$65,000 to \$26,000 until 2030, with interest ranging from 5.9% to 7.25% | 3,320,000 | \$ 75,000 |
| Serie o 2005, \$1,375,000 payable in annual installments of \$65,000 to \$125,000 until 2019; with interest ranging from 6% to 5% | 1,100,000 | 75,000 |
| Series of 1994 *Bonds with Section 108 \$6,455, 000 payable in annual installments of \$300,000 to 455,000 until 2015; with interest ranging from 5.26% to 7.66% | 2,780,000 | 350,000 |
| Series of 1998 *Bonds with Section 108 \$2,370,000 payable in annual installments of \$125,000 to 185,000 until 2019; with interest ranging from 7.066% to 7.95% | 1,495,000 | 125,000 |
| Sub Total | 10,560,000 | 915,000 |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

10. GENERAL LONG-TERM DEBT (Continuation)

| Description | Balance 06-30-09 | Due within One year |
|---|---------------------|------------------------|
| Series of 2001 *Bonds with Section 108 \$3,200,000 payable in annual installments of \$35,000 to \$175,000 until 2023; with interest ranging from 2.41% to 5.69%. | 2,500,000 | 175,000 |
| Series of 2003, \$545,000 payable in annual intallments of \$10,000 to \$45,000 until 2027; with interest ranging from 5.0% to 6.5% | 285,000 | 5,000 |
| Series of 2003, \$545,000 payable in annual intallments of \$10,000 to \$45,000 until 2027; with interest ranging from 5.0% to 6.5% | 4,390,000 | 70,000 |
| Series of 2008, \$360,000 payable in annual intallments of \$25,000 to \$50,000 until 2018, with interest ranging from 2.43% to 7.5%. | 360,000 | 25,000 |
| Series of 2009, \$131,000 payable in annual installments of \$15,000 to \$25,000 until 2015, with interest ranging from 2.43% to 7.5%. | 131,000 | 15,000 |
| Series of 2009, \$150,000 payable in annual intallements of \$15,000 to \$25,000 until 2015, with interest ranging from 2.43% to 7.5%. | 150,000 | 15,000 |
| Series of 2009, \$1,530,00 payable in annual intallments of \$20,000 to \$130,000 until 2033, with interest ranging from 2.43% to 7.5%. | 1,530,000 | 20,000 |
| Series of 2009, \$1,460,00 payable in annual intallments of \$35,000 to \$135,000 until 2028, with interest ranging from 4.75% to 7.5%. | 1,460,000 | 35,000 |
| Series of 2009, \$1,390,000 payable in annual intallments of \$20,000 to \$120,000 until 2033, with interest ranging from 4.75% to 7.5%. | 1,390,000 | 20,000 |
| Series of 2009, \$454,000 payable in annual intallments of \$38,000 to \$65,000 until 2017, with interest ranging from 2.43% to 7.5%. | 454,000 | 38,000 |
| Sub-Total | 12,650,000 | 418,000 |
| TOTAL | 38,175,000 | 2,433,000 |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

10. GENERAL LONG-TERM DEBT (Continuation)

The annual debt service requirements for the bonded debt outstanding as June 30, 2009, are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|----------------------|----------------------|
| 2010 | 2,433,000 | 1,917,372 | 4,350,372 |
| 2011 | 2,411,000 | 2,147,010 | 4,558,010 |
| 2012 | 2,538,000 | 1,993,880 | 4,531,880 |
| 2013 | 2,686,000 | 1,830,950 | 4,516,950 |
| 2014 | 1,935,000 | 1,685,097 | 3,620,097 |
| Subsequent years | 26,172,000 | 13,471,572 | 39,643,572 |
| TOTAL | \$ 38,175,000 | \$ 23,045,881 | \$ 61,220,881 |

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property tax restricted for debt services. Other obligations include compensated absences, LIMS refinance debt, claims and judgments.

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 general obligations bonds and notes.

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

| | |
|----------------------|---------------------|
| Property taxes | \$ 1,950,144 |
| General funds | 121,617 |
| Special Revenue fund | 1,221,617 |
| Debt Service | 1,111,987 |
| TOTAL | \$ 4,405,365 |

Expenditures for year 2008-2009 were as follows:

| | |
|--------------|---------------------|
| Principal | \$ 2,150,000 |
| Interest | 1,855,365 |
| TOTAL | \$ 4,005,365 |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

| <u>Eligibility</u> | <u>Pension Benefits</u> |
|----------------------------------|--|
| 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.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NEW PLAN

Eligibility

Age 65 with 10
years of service

Pension Benefits

1.5% of average compensation during the
final 5 years of credited services 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 Municipality's total payroll for the fiscal year 2009 amounted approximately \$19,643,642 respectively. The annual employer and employees contribution for the year ended June 30, 2009 amounted approximately \$743,539. Members' required contributions are 5.775% of 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 annually during year 2009, the Municipality's required actual contribution under Act 447 and Reforma 2000 were \$420,133 and \$271,119 respectively.

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 June 30, 2007 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$11.2 billion. The net assets available for benefits at such date were \$2.0 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$9.2 billion. This information is not available by each participant government agencies or municipalities.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009 are as follows:

| Governmental activity | June 30, 2008 | Net Decrease | June 30, 2009 | Due within One year |
|-----------------------|--------------------|--------------------|--------------------|---------------------|
| Compensated Absences | \$2,807,730 | \$(684,104) | \$2,123,626 | \$512,315 |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009, were approximately \$173,221 included in all funds.

15. CLAIMS AND CONTINGENCIES

Contingencies per Act No. 72 of September 7, 1993, Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform The Municipality paid \$1,326,488 during the year to Health Insurance of PR Administration.

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.

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, 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 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 issued a final report related to the financial operations of the Municipality before the period of the single audit. These audit report do not cover any findings subsequently disclosed to Municipality operation by the Comptroller's Office.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

15. CLAIMS AND CONTINGENCIES (*continuation*)

Contingencies and claims and judgments against the Municipality

The **Municipality** is a defendant in a number of lawsuits arising principally from claims against the **Municipality** for alleged improper actions. It is management's opinion, based on the advise of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are by the amount of \$298,000 at June 30, 2009, the financial condition of the **Municipality** adjusted for that amount.

16. CLOSURE AND POST-CLOSURE CARE COST AND LANDFILL OBLIGATION AND SUBSEQUENT EVENT

The Municipality owns a landfill of approximately 50 acres of which 23.87 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 charge for service amount is \$6.50 by residential unit and payable monthly to AW (considering presently 10,995 residential units in the 1st year).

The Municipality received the order RCRA 7003 Order on Consent, Docket No. RCRA-02-2007-7306 from the United States Environmental Protection Agency Region 2, New York to permanently cease receiving all waste for disposal at the Municipality solid Waste Facility no later than December 31, 2009 and shall secure the Facility against unauthorized disposal.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

16. CLOSURE AND POST-CLOSURE CARE COST AND LANDFILL OBLIGATION AND SUBSEQUENT EVENT (continuation)

The Municipality has the alternative to operate the Landfill on a "Cell" basis, that is only a portion of the Landfill used. The Puerto Rico Environmental Quality Board have to accept this alternative, if not the Municipality will use the Landfill of Municipality of Toa Baja. There is a variety of current costs during the closure and post-closure of the Landfill. The estimate cost are in process of analysis, currently not been determined. The Closure cost include equipment, facilities, maintenance and upgrading of the site, renewals , replacement, replacement and erosion facilities .The Post-closure Care Cost include inspection ,maintenance of final cover, ground water monitoring , on-site leachate pretreatment cost and off-site treatment.

17. MUNICIPAL SALES TAX

Pursuant to the provisions of the Law number 80 of July 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5% of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by Treasury Department. The Act provides and optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create the Municipal Development Fund (.02%), the Municipal Redemption Fund (.02%) and the Municipal Improvements Fund (.01%0 with the remaining 0.5%. The Municipality collected \$2,046,986 during the year ended June 30, 2009, expenditures were \$1,840,492.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

18. RESTATEMENT OF 2008 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2009 **the Municipality** notes that certain liabilities had been overstated or understated as well as other differences related with adjustments to capital assets and reclassification of certain fund balances. As a result the net assets at June 30, 2008, as previously reported, had been decreased by \$470,397 and the fund balance of various funds at June 30, 2008, as previously reported, had been increased by \$470,712 and the debt service fund decreased by \$9,343 and the other funds an increase of \$484,956.

| | <u>General Fund</u> | <u>Hud Program</u> | <u>Head Start Programs</u> | <u>Debt Service</u> | <u>Other Funds</u> |
|---|-------------------------|------------------------|------------------------------------|-------------------------|------------------------|
| Beginning balance at June 30, 2008 | \$ (4,097,730) | \$ 777,780 | \$ 278,756 | \$ 1,760,225 | \$ 605,508 |
| Accounts payable from prior year cancelled | - | 470,712 | - | - | 484,956 |
| Accounts payable from prior year | (470,397) | - | (37) | (9,343) | - |
| Beginning balance, as restated June 30, 2009 | <u>\$ (4,568,127)</u> | <u>\$ 1,248,492</u> | <u>\$ 278,719</u> | <u>\$ 1,750,882</u> | <u>\$ 1,090,464</u> |

JUAN A. FELICIANO CHARNECO
Certified Public Accountant

Urbanización Matienzo
151 Calle Miguel Salas
Arecibo, PR 00612

Tel: (787) 879-4433
Fax: (787) 880-1402

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
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 financial statements of the governmental activities of Municipality of Vega Baja, Puerto Rico as of and for the year ended June 30, 2009 and have issued my report thereon dated December 8, 2009 which was unqualified. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the Municipality of Vega Baja Puerto Rico's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement the of the Municipality of Vega Baja, Puerto Rico's financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Vega Baja, Puerto Rico's internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item 2009-01.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

I noted certain matters that I reported to management of Municipality of Vega Baja Puerto Rico in a separate letter dated December 8, 2009.

The report is intended solely for the information and use of management, Municipal Council 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.

Arecibo, Puerto Rico
December 8, 2009

The stamp number 2481177
was affixed to the
original of this report



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2010

JUAN A. FELICIANO CHARNECO
Certified Public Accountant

Urbanización Matienzo
151 Calle Miguel Salas
Arecibo, PR 00612

Tel: (787) 879-4433
Fax: (787) 880-1402

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND 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, 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, 2009. 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 of Municipality of Vega Baja compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States and Local Governments". Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Municipality of Vega Baja' compliance with those requirements.

In my opinion, Municipality of Vega Baja, Puerto Rico, complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of my auditing procedures disclosed instances of non compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item, 2009-2, 2009-3 and 2009-04.

Internal Control Over Compliance

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

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

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

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

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

This report is intended solely for the information and use of management, Municipal Council, others within the entity, 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.

Arecibo, Puerto Rico
December 8, 2009

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CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2010

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| Federal Grantor / Pass-through Grantor Program Title | Federal CFDA Number | Pass-through Grantors Number | Federal Expenditures |
|---|------------------------|---------------------------------|-------------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| Direct Program | | | |
| Community Planning and Development | | | |
| Community Development Block Grant (Entitlement Grants) and Loan Agreement | | | |
| CDBG - 2008 | 14.218 | B-07-MC-72-0014 | \$ 1,513,736 |
| CDBG - 2007 | 14.218 | B-06-MC-72-0014 | 152,298 |
| CDBG - 2006 | 14.218 | B-05-MC-72-0014 | 11,435 |
| CDBG - 2005 | 14.218 | B-04-MC-72-0014 | 1,858 |
| CDBG - 2002 | 14.218 | B-00-MC-72-0014 | 16 |
| CDBG - 2001 | 14.218 | B-98-MC-72-0014 | 2,143 |
| CDBG - 1997 | 14.218 | B-97-MC-72-0014 | 23 |
| CDBG - 1995 | 14.218 | B-95-MC-72-0014 | 289 |
| | | | 1,681,798 |
| Emergency Shelters Grant Program | | | |
| Passed-through Governors Office of Federal Emergency Management | | | |
| Emergency Shelter Grant | 14.231 | S-03-MC-72-0015 | 23,080 |
| Emergency Shelter Grant | 14.231 | S-02-MC-72-0015 | 7,061 |
| Emergency Shelter Grant | 14.231 | S-01-MC-72-0015 | 2,393 |
| | | | 32,534 |
| Direct Program: | | | |
| Section 108 loan guarantee | 14.248 | B-94-98 MC-72-0014 | 130,824 |
| | | | 130,824 |
| Direct Program: | | | |
| Public and Indian Housing | | | |
| Section 8 Housing Choice Voucher | 14.871 | RQ-032-V-0004/5 | 1,121,014 |
| Lower Income Housing Assistance Program | | | |
| Section 8 Moderate Rehabilitation | 14.856 | RQ-032-MR-0001 | 164,042 |
| Housing Opportunities for Persons with AIDS | 14.241 | N/A | 49,453 |
| | | | 1,334,509 |
| Total U.S. Of Housing and Urban Development | | | 3,179,665 |
| <u>U.S. Department of Health and Human Services:</u> | | | |
| Passed-through Commonwealth of Puerto Rico Governors Office for the Care and Integral Development of Children: | | | |
| Department of Families of Puerto Rico | | | |
| Head Start | 93.600 | 02-CH-0483 | 6,119,254 |
| Maternal and Child Health Service Block Grant to the States (Escuela Maternal) | 93.994 | N/A | 56,260 |
| Maternal and Child Health Service Block Grant to the States (Cuidado del Niño) | 93.994 | N/A | 667,535 |
| | | | 6,843,049 |
| Administration on Aging | | | |
| Passed-through Commonwealth of Puerto Rico Governors Office for the elderly | | | |
| Nutrition Services | 93.045 | Title III | 445,555 |
| Total U.S. Department of Health and Human Services | | | 7,288,604 |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| Federal Grantor / Pass-through Grantor Program Title | Federal CFDA Number | Pass-through Grantors Number | Federal Expenditures |
|---|------------------------|---------------------------------|-----------------------------|
| <u>U.S. Department of Agriculture:</u> | | | |
| Passed-through Commonwealth of Puerto Rico Governors Office Department of Education of P.R. Child and adult care food program | 10.558 | N/A | 576,305 |
| Direct Program - Rural Business Rural Development Grant | 10.769 | N/A | 76 |
| Total U.S. Department of Agriculture: | | | <u>576,381</u> |
| <u>U.S. Department of Transportation Federal Transit Administration</u> | | | |
| Direct Program | | | |
| Federal Transit - Capital Investment Act | 20.500 | PR-90-X208 | 944 |
| Federal Transit - Capital Investment Act | 20.500 | PR-90-X219 | 2,176 |
| Federal Transit - Capital Investment Act | 20.500 | PR-90X141 | 271,168 |
| Federal Transit - Capital Investment Act | 20.500 | PR-90X185 | 5,634 |
| Federal Transit - Capital Investment Act | 20.500 | PR-90X197 | 6,612 |
| Total U.S. Department of Transportation | | | <u>286,534</u> |
| <u>U.S. Department of Justice</u> | | | |
| Public safety partnership and community policing (Cops) | 16.710 | N/A | 52,177 |
| Total U.S. Department of Justice | | | <u>52,177</u> |
| <u>U.S. Department of Homeland Security</u> | | | |
| Homeland Security Grant Program | 97.062 | N/A | 248,756 |
| Total U.S. Department Homeland Security | | | <u>248,756</u> |
| TOTAL FEDERAL ASSISTANCE | | | <u><u>\$ 11,632,117</u></u> |

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, 2009

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, Child and Adult Care Food Program and U.S. Department of Agriculture represent the major federal financial awards of the Municipality. Major federal awards represent 91% 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:

| <u>Description</u> | <u>Hud Programs</u> | <u>Head Start Programs</u> | <u>Other funds</u> | <u>Transfer to Debt Service</u> | <u>Total</u> |
|--------------------------------|---------------------|----------------------------|---------------------|---------------------------------|----------------------|
| Federal Programs Expenditures | \$ 2,063,073 | \$ 6,843,049 | \$ 1,609,403 | \$ 1,116,592 | \$ 11,632,117 |
| State & Municipal Expenditures | - | - | 24,736 | - | \$ 24,736 |
| TOTAL | \$ 2,063,073 | \$ 6,843,049 | \$ 1,634,139 | \$ 1,116,592 | \$ 11,656,853 |

**MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Part I – Financial Statements

- | | | |
|--|--------------------|-----------------|
| 1. Type of auditor’s report issued | Unqualified | |
| 2. Internal control over financial reporting: | | |
| Material weakness (es) identified? | ___ Yes | ___ <u>X</u> No |
| Significant deficiency(s) identified not considered to be Material weaknesses? | <u>X</u> Yes | ___ No |
| 3. Noncompliance material to financial statements noted? | ___ Yes | <u>X</u> No |

Part II – Federal Awards

- | | | |
|--|--------------|-------------|
| 1. Internal control over major programs: | | |
| Material weakness (es) identified? | ___ Yes | <u>X</u> No |
| Significant deficiency(s) identified not considered bearing Material weaknesses? | <u>X</u> Yes | ___ No |
| 2. Type of auditor’s report issued on compliance for major programs was unqualified . | <u>X</u> Yes | ___ No |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? | <u>X</u> Yes | ___ No |

Identification of major programs:

| <u>CFDA Number (s)</u> | <u>Name of Federal Program or Cluster</u> |
|------------------------|--|
| 93.600 | Head Start |
| 93.994 | Maternal and Child Health Service Block Grant to the States (Cuido del Niño) |
| 14.218 | Community Development Block Grant |
| 14.871 | Section 8 Housing Choice Voucher |
| 14.856 | Lower Income Housing Assistance Program |
| 10.558 | Section 8 Moderate Rehabilitation Child and Adult Care Food Program |
| 93.045 | Nutrition Services |

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

\$348,964

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, 2009**

**Program: Accounting and Finance Department
General Fund – Deficit
Year ended June 30, 2009**

| Ref. No. | Finding / Noncompliance | Questioned Cost |
|----------|--|--------------------|
| 2009-01 | <u>Statement of Condition and Criteria</u> | -0- |

It was noted in my test of balance of accounts that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems for CFR; and with GASB codifications 1700, with requirements stated in OMB Circular A-133.

Cause

The Municipality has some deficiencies in its financial management systems, and financial reporting practices as related to the General Fund.

Effect

The lack of deficiency in the financial management systems does not permit the Municipality:

- a) To provide services to citizens without affecting them.
- b) To determine compliance with finance – related legal and contractual provisions.

Auditors Recommendation

The Municipality should revised and evaluate in a monthly basis revenues and disbursements to adjust disbursements to the revenues receipt to comply with the Standards of Financial Management Systems for CFR; and with GASB codifications 1700, with requirements stated in OMB Circular A-133. Implement measure to reduce the Municipal deficit. Evaluate the impact in the revenues of the change in construction tax and the increase of the real and personal taxes. Evaluate the impact in the disbursement to reduce hours of services of employees, evaluate and revised transitory contracts with employees, approve only necessary professional services, reduce confidence employees salary and consolidate services.

Municipality Response

The Municipality management took serious and radical measure to minimize the impact of this condition and expect to correct in the near future.

**MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**U.S. Department of Housing and Urban Development
Public and Indian Housing
CFDA No. 14.871
Grant No. Section 8 Housing Choice Voucher
Year ended June 30, 2009**

| Ref. No. | Finding / Noncompliance | Questioned Cost |
|----------|--|--------------------|
| ----- | ----- | ----- |
| 2009-02 | <p><u>Statement of Condition and Criteria</u> <u>Cash Management</u></p> <p>It was noted in my test of compliance that the established procedures for the cash management requirements do not minimize the time elapsing between the transfer of funds From HUD and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.</p> <p><u>Cause</u> The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States as per Title 24 of CFR, part 84, Cc) (7).</p> <p><u>Effect</u> The Municipality revise the procedures for the Administration of cash to determine properly their use needs.</p> <p><u>Auditor's Recommendation</u> The Municipality should revise the procedures in established order to control in a more effective manner the need and use of the federal funds to minimize the time elapsed to disburse the funds receive.</p> <p><u>Municipality Response:</u> The Mayor of the Municipality gave instructions to the officials in the areas mentioned above to comply with the federal regulation.</p> | -0- |

**MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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, 2009**

| Ref. No. | Finding / Noncompliance | Questioned Cost |
|----------|--|--------------------|
| ----- | ----- | ----- |
| 2009-03 | <u>Statement of Condition and Criteria</u> <u>Cash Management</u> | -0- |

It was noted in my test of compliance that the Municipality's procedures to minimize the time elapsing between the transfer of funds from the Office of the Administration for Integrated Care and Development of Child (ACUDEN) and the disbursements by the Municipality was not properly followed. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 20 days.

Cause

The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States as per Title 45 of CFR, part 92, (c) (7). The procedures established by ACUDEN in the delegation of funds agreement do not provide a clause to comply with this requirement.

Effect

The Municipality should modify procedures for the Administration of cash to determine properly their cash needs.

Auditor's Recommendation

The Municipality should revise the procedures order to control in a more effective manner the need and use of the federal funds to minimize the time elapsed to disburse the funds receive.

Municipality Response:

The Municipality accepts the auditor recommendation and the Mayor gave instructions to implement immediately.

**MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Department of Homeland Security
Passed through Commonwealth of Puerto Rico
Governors Office of Authorized Representative to FEMA (GAR)
CFDA No. 97.036
Grant No. Disaster Grant Public Assistance
Year ended June 30, 2009**

| Ref. No. | Finding / Noncompliance | Questioned Cost |
|----------|---|--------------------|
| ----- | ----- | ----- |
| 2009-4 | <p><u>Statement of Condition and Criteria</u> Effective control and accountability must be maintained for the grant. Administrative personnel must verify that all program transactions must be properly documented and are allocated to federal awards in accordance to OMB Circular A-87.</p> <p><u>Cause</u> The Municipality federal program made disbursement transaction to other funds during the year. It was not correctly documented as per OMB Circular A-87. The amount belong to the remaining amount of inactive bank account since 1999.</p> <p><u>Effect</u> The disbursement is not allowable for the grant requirements because it did not have the adequate documentation required in OMB Circular A-87.</p> <p><u>Auditor's Recommendation</u> We recommend the Municipality to revise, improve and modify the internal control procedures relative to disbursement to comply with program regulations and the Municipality must return the amount to the program.</p> <p><u>Municipality Response:</u> The Municipality returned the amount on May 2009 to the program account and made the appropriate improvement to the internal control procedure to comply with programs regulations required. The Municipality do not have enough documentation to support what source belong to the account bank balance. The finance director gave instructions to the federal officers in the municipality to maintain documentation to support revenues and expenditures separately for each grant until final use of resources.</p> | -0- |

**MUNICIPALITY OF VEGA BAJA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

2007 Finding No. 1: U.S. Department of Housing and Urban Development
Public and Indian Housing
CFDA No. 14.871
Grant No. Section 8 Housing Choice Voucher
Year ended June 30, 2007.
Finding reported again.

2007 Finding No. 2: U.S. Department of Health and Human Services and Administration
for Children and Families
CFDA No. 93.600
Grant No. Head Start Program
Year ended June 30, 2007.
Finding reported again.

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2009**

| Ref. No. <u>Finding /Corrective Action</u> 2009-01 <u>Planned/Person Responsible:</u> | <u>Anticipated Completion Date</u> |
|---|--|
| <p><u>Statement of Condition:</u> The General Fund is not complying with budget balances and criteria established by the Standards of Financial Management System for CFR, with GASB codification 1700, with requirements stated in OMB Circular A-133 and with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended.</p> <p><u>Corrective Action Planned:</u> The Municipality management took serious and radical measure to minimize the impact of this condition and expect to correct then in the near future.</p> <p><u>Person Responsible:</u> Myrna Rivera Muñiz Finance Director</p> | <p>On or before end of 2009-10 fiscal year</p> |
| <p>Ref. No. <u>Finding /Corrective Action</u> 2009-02 <u>Planned/Person Responsible:</u></p> <p><u>Statement of Condition:</u> The Section 8 Voucher Program, cash balance over \$5,000 for periods end longer than 3 days.</p> <p><u>Corrective Action Planned:</u> The Section 8 Voucher Program Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds.</p> <p><u>Person Responsible:</u> Myrna Rivera Muñiz Finance Director</p> | <p><u>Anticipated Completion Date</u></p> <p>On or before end of 2009-10 fiscal year</p> |



Myrna Rivera
Directora de Finanzas

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2009
(continued)**

Ref. No. Finding /Corrective Action
2009-03 Planned/Person Responsible:

Anticipated
Completion Date

Statement of Condition:

The Head Start Program, cash balance over \$5,000 for periods end longer than 20 days.

On or before
end of 2009-10
fiscal year

Corrective Action Planned:

The Head Start Program Administration will evaluate and implement adequate procedures to control and use in a effective manner federal funds.

Person Responsible:

Myrna Rivera Muñiz
Finance Director

Ref. No. Finding /Corrective Action
2009-04 Planned/Person Responsible:

Anticipated
Completion Date

Statement of Condition:

Effective control and accountability must be maintained for the grant. Administrative personnel must verify all program transactions and must assure that are solely for authorized Fiscal year purpose, necessary and reasonable and allocate to federal awards.

On or before
end of 2009-10

Corrective Action Planned:

The Municipality returned the balance due on May 2009 to the program and made improvement to the control procedure to comply with programs regulations.

Person Responsible:

Myrna Rivera Muñiz
Finance Director