

**MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2011
(INDEPENDENT AUDITOR'S REPORT)**

Vega Baja (74) *W*

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
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MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2011

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

MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the Municipality of Vega Baja (**the Municipality**), financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2011. The Management Discussion and Analysis (MD & A) should be read in conjunction with the transmittal letter on page 10 and the Municipality's financial statements, which begin on page 13. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended June 30, 2011. This MD & A is prepared in order to comply with such pronouncement and, among other purpose, to provide the financial statements users with major information.

FINANCIAL HIGHLIGHTS

- The Net assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$35,458,553 net assets increased by \$374,027 when compared with prior year.
- Revenues were \$1,105,845 more than last year; expenses were \$1,232,669 less than last year as reported in the Statement of Activities.
- The Municipality had reported in the General Fund a deficiency of revenues over expenditures amounting to \$615,953 in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance.
- Loans principal payments were \$2,806,000 during fiscal year 2010-11, new bonds obligations for the amount of \$10,625,000 were issued.
- The actual revenue was \$48,063 and the expenditures were \$566,772 less creating an excess of \$614,835 in revenues over expenditures in the Budgetary Schedule mainly due to favorable variances related to general government, public works, and recreation expenditures.
- The Municipality government fund reported combined ending fund balances of \$10,347,837 in the accompanying statement of revenues, expenditures and changes in fund balances.
- The Municipality has reported a net undesignated fund balance deficit for the general fund amounting to \$5,870,637.

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 2010-2011 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 26% 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 deal with a deficit situation in the General Fund of approximately \$6,650,700 at June 30, 2011. The increase in the deficit during fiscal year 2010-2011 is due mainly to Municipal tax that was realized as needed. Constructions projects in our Municipality have not been accomplished due to local banks have not financed projects to due economic hardships. 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 2010-2011 the construction projects receive final endorsement from the appropriate authorities and, accordingly, our Municipality's Management will correct the deficit in the general fund with 2010-2011 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.

Governmental-wide financial statements - The government-wide financial statements which begin on page 14 of this report are designed to provide reads with a broad overview of the Municipality's finances, in a manner similar to a private-sector business. The government wide statements provide short and long term information about the municipality's status as a whole.

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

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

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

The Statement of Net Assets and the statement of activities, on page 13-14 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.

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

Infrastructure Assets

The Municipality implemented the major model portions of GASB statement 34 during the current prior years. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statements. The new statement required that this asset be evaluated and reported within the Governmental column of the Governmental Wide Statement.

Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets management system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

Government-Wide Financial Analysis

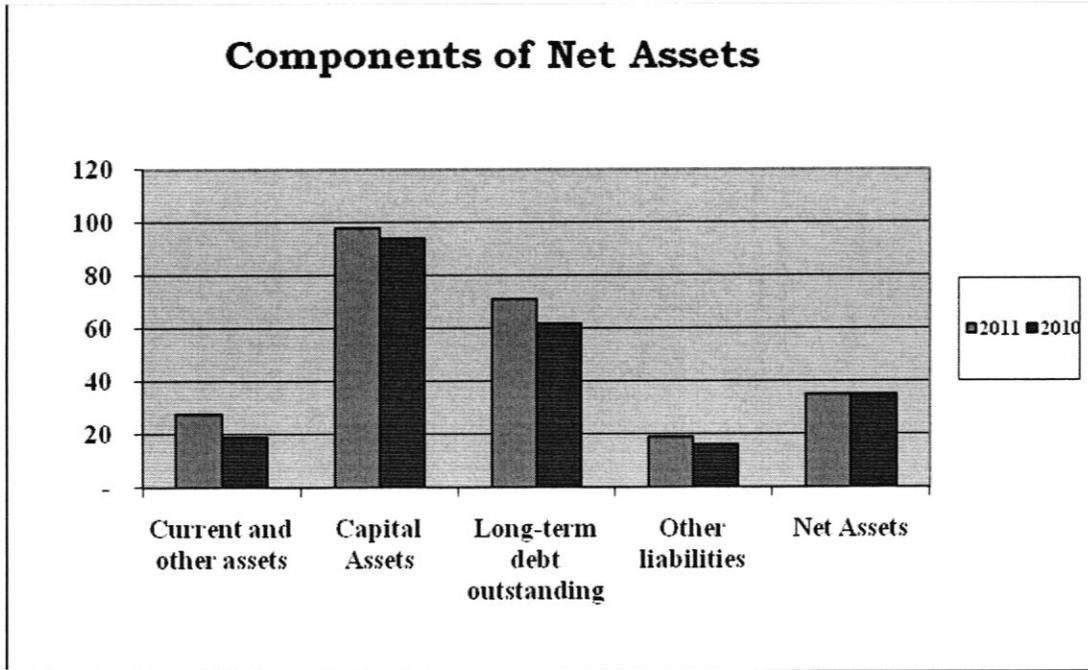
Statement of Net Assets

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 \$35,458,553 at the close of the recent fiscal year compared to \$35,084,526 at the end of the previous year, as restated and showed in the following condensed Statement of Net Assets of the Primary Government.

**Statements of Net Assets
As of June 30, 2011 and 2011**

Current and other assets	\$ 28,390,625	\$ 19,568,030	\$ 8,822,595
Capital assets net	98,269,772	94,523,900	3,745,872
Total assets	126,660,397	114,091,930	12,568,467
Current and other liabilities	19,759,297	16,635,077	3,124,220
Long-term liabilities	71,442,547	62,372,327	9,070,220
Total liabilities	91,201,844	79,007,404	12,194,440
Net assets:			
Invested in capital assets, net of related debt	56,757,907	64,576,908	(7,819,001)
Debt service	2,351,764	892,563	1,459,201
Other activities	10,045	1,835,582	(1,825,537)
Capital project activity	3,348,525	7,080,844	(3,732,319)
Assined for Building	9,611,694		
Unrestricted (deficit)	(36,621,382)	(39,301,371)	2,679,989
Total net assets	\$ 35,458,553	\$ 35,084,526	\$ 374,027

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

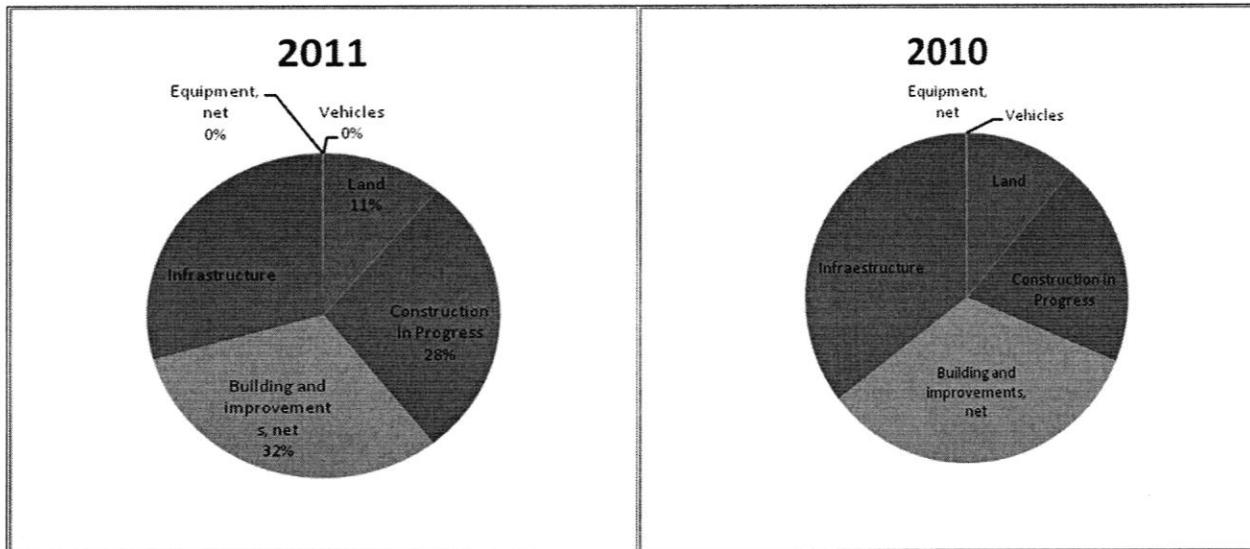


The increase of current net assets was due mainly to the cash with fiscal agent of \$8 million and \$3.7 million respectively' however this increase was offset significantly due to increase in Bond Payable and Landfill Closure Cost. The Capital Assets increase as the infrastructure and construction in progress assets are identified and included in the financial statement, capital outlays were \$9.4 million for the current year, principally in the Bond issued fund. Long-term debt increased by \$9.1 million mainly for \$6.8 additional bonds issued and in increase in the estimation for the Landfill closure cost of \$2.1 in both years. The unrestricted deficit decreased 2.7 million and the net assets invested in capital assets decreased by 7.8 million. Current liabilities increased by nineteen percent caused by an increased of accounts payable and accrued liabilities.

Increase- (Decrease) Net in Capital Assets was as follows:

	June 30, 2011	%	June 30, 2010	%	Changes
Land	\$ 10,455,899	11%	\$ 10,455,899	11%	\$ -
Construction in progress	27,888,844	28%	18,465,712	20%	9,423,132
Building and improvements, net	30,420,254	31%	31,425,514	33%	(1,005,260)
Infrastructure	28,570,045	29%	33,102,577	35%	(4,532,532)
Equipment, net	565,400	.05%	651,258	.06%	(85,858)
Vehicles	369,330	.05%	422,940	.05%	(53,610)
Total Net Capital Asset	\$ 98,269,772		\$ 94,523,900		\$ 3,745,872

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



The net Building improvements represent 24 percent and 31 percent of total asset and net capital asset respectively. Construction in progress represents 22 percent of total asset and 28 percent and net capital asset. The Increase in Construction in progress by \$9.4 million when compare with prior year, includes \$4.7 million increase in projects from Bond Issued Funds.

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

**Statements of Activities
For the year ended June 30, 2011 and 2010
Changes in Net Assets**

	2011	2010	Changes	%
General Revenues	\$ 28,639,592	\$ 27,593,301	\$ 1,046,291	4%
Program Revenues	10,879,207	13,031,343	(2,152,136)	-17%
Total Revenues	39,518,799	40,624,644	\$ (1,105,845)	-3%
Expenses				
Governmental activities	(39,144,772)	(37,912,103)	(1,232,669)	3%
Changes in net assets	\$ 374,027	\$ 2,712,541	\$ (2,338,514)	-86%

The Statement of Activities reflects for fiscal year 2011, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to a decrease of \$374,027 in the Municipality's net assets. Approximately 47 percent of the Municipality's total revenue came from taxes, while 28 percent resulted from Federal grants and 24 percent resulted from Intergovernmental Revenues. The Municipality's expenses cover a range of services like health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and improvements. The largest expenses were for general government, capital outlays, education and training and culture and recreation. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

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

A brief review of the Statements of Activities of the Municipality at June 30, 2011, shows total expenses incurred to afford the cost of all functions and programs amounted to \$39,144,772. Upon examining the sources of revenues for the financing of the programs, the Statement reflects the following services: \$52,536 for charges for service, \$7,559,964 from operating grants and contributions; and \$3,319,243 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$28,639,592. There was a change in net asset (\$415,889) that represents -97.68 percent of total revenues and a decrease of 4 percent when compared with prior year. Expenses decreased by \$1.2 million or three percent when compare with prior year.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

**Governmental Funds
Balance Sheets
June 30, 2011 and 2010**

	2011	2010	Changes	%
Assets:				
Cash	\$ 8,291,471	\$ 6,259,250	\$ 2,032,221	32%
Restricted Cash	19,981,298	11,976,833	8,004,465	67%
Accounts Receivable	1,702,127	2,659,514	(957,387)	-36%
Total Assets	\$ 29,974,896	\$ 20,895,597	\$ 9,079,299	43%
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and liabilities	\$ 17,609,641	\$ 11,797,475	\$ 5,812,166	49%
Deferred revenue	3,695,927	5,652,854	(1,956,927)	-35%
Total Liabilities	21,305,568	17,450,329	\$ 3,855,239	22%
Funds Balances	8,671,328	3,445,268	5,226,060	152%
Total liabilities and Fund Balances	\$ 29,976,896	\$ 20,895,597	\$ 9,081,299	43%

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts is used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities.

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

During the year 2011 the municipality had \$12.7 million of cash restricted, in the Bond issued Fund and in the Debt service fund is obligated by \$7.3 million. Cash for the amount of \$2.8 million is obligated for Special Revenue Funds and accounts payable of the general fund. The accounts payable has increased by \$4.9 millions. Deferred revenues decreased by \$1.9 million.

**Statement of Revenue, Expenditures and Changes in Fund Balances
Year ended June 30, 2011 and 2010**

	2011	2010	Changes	%
Revenues:				
Property taxes	\$ 10,327,019	\$ 10,687,738	\$ (360,719)	-3%
Municipal licence tax	4,791,326	4,888,123	(96,797)	-2%
Intergovernmental	9,405,012	7,728,521	1,676,491	22%
Federal grants	10,879,207	13,024,443	(2,145,236)	-16%
Sales Tax	2,759,992	2,645,468	114,524	4%
Other	1,356,243	1,650,351	(294,108)	-18%
Total Revenues	\$ 39,518,799	\$ 40,624,644	\$ (1,105,845)	-3%
Liabilities and Fund Balance				
Expenditures:				
General Government	\$ 17,937,651	\$ 18,803,747	\$ (866,096)	-5%
Public works	2,882,942	2,744,657	138,285	5%
Public safety	981,568	996,428	(14,860)	-1%
Health	1,236,488	1,423,478	(186,990)	-13%
Capital outlays	9,423,132	8,425,475	997,657	12%
Culture and recreation	1,261,039	1,397,031	(135,992)	-10%
Bonds (principal and interest)	4,914,599	4,104,124	810,475	20%
Education and training	7,007,261	7,390,503	(383,242)	-5%
Other expenditures	51,964	36,587	15,377	42%
Total Expenditures	\$ 45,696,644	\$ 45,322,030	\$ 374,614	1%
Excess of revenues (expenditures)				
Over expenditures (revenues)	(6,177,845)	(4,697,386)	(1,480,459)	32%

The most significant changes of this statement were as follows:

- j. Revenues from property tax were decreased by \$1.1 million mainly due to a decrease in federal grants of \$2.1 million that was offset partially by a increase n intergovernmental revenues of \$1.7 million. Volume business tax declaration was reduced by \$96,797 on funds received when compare with prior year, reflected in sales reported in the municipal tax declaration was reduced approximately by 2 percent in many taxpayers.

Expenditures were increase by approximately \$1.0 million in Capital outlays expense when compare with the prior year. The payroll expenses decrease by \$1.5 million, and other all other expenses by remain in the same total level.



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

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 Budget for Revenues and expenditures were \$18 million for the general fund, total revenues increased \$48,063 when compared the budgeted revenues with the actual revenue. Municipal license tax increased by \$776,326 and excise tax decrease by \$511,209 the actual expenditures were \$566,772 less than budgeted expenditures. General Government and Culture and Recreation reflected a decreased of \$443,490 when compares Budget Expenditures with actual expenditures. Excess of revenues over expenditures reflect a of \$566,772.

The Municipality has an 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.

The Municipality future projects are the final phase construction of the Electronically Library, and other municipal projects.

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.

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Governmental Activities, each major fund and the aggregate remaining fund information of the **Municipality of Vega Baja**, Puerto Rico, as of and for the year ended June 30, 2011, which collectively comprise the **Municipality of Vega Baja** basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as described below, we 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the Municipality internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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. We believe that my audit provides a reasonable basis for my opinion.

Cash accounts were not reconciled timely during year ended June 30, 2011. The Municipality did not provide information as to Capital Assets additions during our audit. Therefore, we were unable to perform audit procedures to form an opinion on cash balances, and the amounts of capital assets, accumulated depreciation or the amount of depreciation expense for the year ended June 30, 2011.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to form an opinion on the amounts related to cash balances, capital assets, accumulated depreciation and depreciation expenses. 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, 2011, and the respective changes in financial position, thereof for the general fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated March 27, 2012 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, grant, agreements and others matters. 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 an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 10 and page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Vega Baja, Puerto Rico, financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not required part of the financial statements. 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 also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and the other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Arecibo, Puerto Rico
March 20, 2012

The stamp number 2628910
was affixed to the
original of this report.



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2013

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 8,291,471
Cash with fiscal agent	19,983,298
Accounts receivable from federal government	115,856
Capital Assets, net of accumulated depreciation	98,269,772
Total assets	<u>\$ 126,660,397</u>
 <u>LIABILITIES AND NET ASSETS</u>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 8,796,347
Due to government entity	2,298,964
Deferred revenue	3,695,927
Non-current liabilities:	
Due within one year	4,968,059
Due in more than one year	71,442,547
Total liabilities	<u>91,201,844</u>
 <u>Net Assets:</u>	
Invested in capital assets, net of related debt	56,757,907
Restricted for:	
Debt service	2,351,764
Other activities	10,045
Capital project activity	3,348,525
Assigned for building repair and maintenance projects	9,611,694
Unrestricted (deficit)	(36,621,382)
Total Net Assets	<u>35,458,553</u>
Total Liabilities and Net Assets	<u>\$ 126,660,397</u>

See notes to financial statements.

**MUNICIPALITY OF VEGA BAJA, PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Functions/Programs	Program Revenues			Net (expense) revenue and change in Net Assets
	Expenses	Charges for Services	Capital Grants and Contributions	
			Operating Grants and Contributions	Governmental Activities
EXPENDITURES:				
General government	\$ 18,675,695	\$ -	\$ (3,319,243)	\$ 14,625,304
Public works	5,608,027	(52,536)	-	5,555,491
Public safety	2,287,337	-	-	2,287,337
Health	1,633,896	-	-	1,633,896
Culture and recreation	1,771,993	-	-	1,771,993
Education and training	7,007,261	-	(6,828,816)	178,445
Other expenditures	51,964	-	-	51,964
Interest on long-term debt	2,108,599	-	-	2,108,599
Total governmental activities	\$ 39,144,772	\$ (52,536)	\$ (3,319,243)	\$ 28,213,029

GENERAL REVENUES:	
Property taxes	\$ 10,327,019
Municipal licenses tax	4,791,326
Licenses, permits and fines	853,474
Intergovernmental revenues	9,405,012
Rent of properties	137,919
Interests income	205,646
Other Revenues	106,668
Municipal sales tax	2,759,992
Total general revenues	28,587,056
Change in net assets	374,027
Net assets at beginning of year	31,956,096
Prior period adjustments (note 20)	3,128,430
Net assets at end of year	\$ 35,458,553

See notes to financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Capital Projects Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 5,494,330	\$ -	\$ 666,561	\$ 390,762	\$ 1,233,646	\$ -	\$ 506,172	\$ 8,291,471
Cash with fiscal agent and other	-	12,703,475	-	-	-	7,279,823	-	19,983,298
Due to other funds	167,339	-	-	-	229,224	-	1,189,708	1,586,271
Accounts receivable from Federal government	-	-	-	115,856	-	-	-	115,856
Total assets and other debits	\$ 5,661,669	\$ 12,703,475	\$ 666,561	\$ 506,618	\$ 1,462,870	\$ 7,279,823	\$ 1,695,880	\$ 29,976,896

LIABILITIES AND FUND BALANCES

Liabilities:								
Accounts payable and accrued liabilities	\$ 4,073,659	\$ 1,986,189	\$ 27,344	\$ 304,291	\$ -	\$ 4,928,059	\$ 2,404,864	\$ 13,724,406
Due to special general fund and other funds	1,463,756	-	-	122,515	-	-	-	1,586,271
Due to governmental entities	2,298,964	-	-	-	-	-	-	2,298,964
Deferred revenue - (volume business tax)	3,695,927	-	-	-	-	-	-	3,695,927
Total liabilities	11,532,306	1,986,189	27,344	426,806	-	4,928,059	2,404,864	21,305,568

Fund balances:

Restricted for:								
Debt service	-	-	-	-	-	2,351,764	-	2,351,764
Capital projects activity	-	4,095,453	-	-	746,928	-	-	3,348,525
Other activities	-	-	639,217	79,812	-	-	708,984	10,045
Assigned for building repair and maintenance projects	780,063	6,621,833	-	-	2,209,798	-	-	9,611,694
Unassigned	(6,650,700)	-	-	-	-	-	-	(6,650,700)
Total fund balances	(5,870,637)	10,717,286	639,217	79,812	1,462,870	2,351,764	708,984	8,671,328
Total liabilities and fund balance	\$ 5,661,669	\$ 12,703,475	\$ 666,561	\$ 506,618	\$ 1,462,870	\$ 7,279,823	\$ 1,695,880	\$ 29,976,896

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

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS

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

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 absences

Bonds payable

Municipal solid waste landfill post-closure cost

Total long-term liabilities

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$	2,195,414	\$	8,671,328
47,803,000	-	98,269,772	-
21,444,133	-	-	-
40,000	-	-	-
\$ 71,482,547	(71,482,547)	\$	35,458,553

**MUNICIPALITY OF VEGA BAJA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net change in fund balance - total governmental funds \$ 5,226,060

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

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	9,423,132	
Less: current year depreciation	<u>(5,677,260)</u>	
		3,745,872

The issuance of long-term debt (e.g., bonds, leases) 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.

Net bond issued debt	(10,660,098)	
Principal payments	<u>2,806,000</u>	
	743,807	
		<u>(8,597,905)</u>

Change in net assets of governmental activities **\$ 374,027**

See notes to financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Budget Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Property taxes	\$ 1,557,731	\$ 1,557,731	\$ 1,557,730	\$ (1)
Municipal license tax	4,015,000	4,015,000	4,791,326	776,326
Intergovernmental revenues	5,456,588	5,456,588	5,491,842	35,254
Licenses, permits and fines	1,364,683	1,364,683	853,474	(511,209)
Rent of properties	140,000	140,000	137,919	(2,081)
Interest income	137,000	137,000	172,249	35,249
Other revenues	292,502	292,502	159,204	(133,298)
Other financial sources	5,120,502	5,120,502	4,968,325	(152,177)
Total revenues	\$ 18,084,006	\$ 18,084,006	\$ 18,132,069	\$ 48,063
EXPENDITURES:				
Current:				
General Government	11,375,020	11,497,445	11,053,955	443,490
Public safety	1,233,681	1,000,119	981,568	18,551
Public Works	2,684,120	2,950,940	2,882,942	67,998
Health	1,145,286	1,240,286	1,236,487	3,799
Culture and Recreation	1,436,506	1,288,540	1,261,039	27,501
Other	82,643	53,517	51,965	1,552
Transfer out to debt service	126,750	126,750	122,869	3,881
Total expenditures	\$ 18,084,006	\$ 18,157,597	\$ 17,590,825	\$ 566,772
Excess of revenues over (under) expenditures			\$ 541,244	\$ 614,835
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 18,132,069
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are or (not) revenues for financial reporting purposes.				(816,587)
revenues for financial reporting purposes.				33,397
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				\$ 17,348,879
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 17,590,825
Differences - budget to GAAP:				
Non budgeted expenditures				(735,030)
Transfer from general fund for budgetary purpose only				(122,869)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				\$ 16,732,926

See notes to budgetary comparison schedule.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011

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, 2011 nor for the year then ended.

As indicated in Note 19, during fiscal year 2011, **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-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 sustainability of **the Municipality** as an entity and 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 sources 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 based financial statements into the column of the government-wide presentation.

d. Basis of Presentation

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

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.

Bond Issue Fund – Bond Issue fund are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

d. **Basis of Presentation** (Continuation)

Major Funds

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.

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 (non 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, 2011

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, 2011

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 balances 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 the following 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 1 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, 2011

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 obtained 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, 2011

1. 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 expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

k. 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.

l. Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation leave 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, 2011

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

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. Fund Balances

During year ended June 30, 2011, **the Municipality** implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Type Definitions ("GASB 54"). The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The implementation of this statement had no impact on the total fund balances for **the Municipality's** governmental funds.

The Municipality classifies governmental fund balances as follows:

- **Nonspendable**– includes amounts that inherently cannot be spent either because it is not in spendable form (i.e., prepaid, inventories, long-term portions of loans receivable, etc.) or because of legal or contractual requirements (i.e., principal of an endowment, etc.).
- **Restricted** – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal actions made by **the Municipality's** legislative body, which is the highest level of decision making authority, before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those mounts.
- **Assigned** – includes amounts that are intended to be used for specific purposes that are neither consider restricted nor committed; in addition, such assignments are made before the report issuance date.
- **Unassigned** – include amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other government funds, if expenditures incurred for specific purposes exceeded the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The Municipality generally uses restricted amounts first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, **the Municipality** generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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 affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

q. Totals Column (Memorandum Only) Governmental Funds Statement

The total data under this column is presented only to facilitate financial analysis. Data in 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, 2011

2. PROPERTY 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.

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, 2011

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 \$218,036.

The following is a summary of the property tax advances that resulted in an account payable, for the year ended June 30, 2011. The resulting payable is presented as decrease in the General Fund in Financial Statement and Government Wide Financial Statements.

Accounts payable:

Amortization through collections of property taxes by the CRIM	
07-01-10 - 06-30-11	\$ 8,442,401
Advance received, 07-01-10 - 06-30-11	(9,258,988)
Account payable - 2011	\$ (816,587)

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

3. DEPOSITS

The Municipality's cash and investments at June 30, 2011, 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, 2011

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 is 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	\$ 167,339	\$ 1,463,756
Other Fund	1,189,708	
Capital project Fund	229,224	-
Head Start Programs	-	122,515
TOTAL	\$ 1,586,271	\$ 1,586,271

For the most part, the effect of interfund activity has been removed from the Statement of Net Assets (Government Wide Financial Statement).

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011 balances due to governmental entities of the general fund consists of the following:

Governmental Entities	Due to
Puerto Rico Water and Sewer Authority	\$ 357,759
Puerto Rico Retirement System	361,417
Puerto Rico Department of Labor	697,288
General Administration Services	630
Puerto Rico Telephone Co.	36,147
Puerto Rico Land Authority	12,200
Puerto Rico Association System	16,636
Municipal Revenue Collection Center	816,587
Totals	\$ 2,298,664

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

9. CAPITAL ASSETS

Include those changes pursuant to the implementation of GASB Statement No. 34, follows.
 Land and construction in progress are not subject to depreciation.

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

	Balance 6/30/2010	Additions	Retirements and Transfers dispositions	Balance 6/30/2011
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 10,455,899	\$ -	\$ -	\$ 10,455,899
Construction in progress	18,465,712	9,423,132		27,888,844
Total capital assets not being depreciated	28,921,611	9,423,132	-	38,344,743
Capital assets, being depreciated				
Buildings and building improvements	45,207,114		-	45,207,114
Infrastructure	55,027,799		-	55,027,799
Licensed vehicles	8,492,088		-	8,492,088
Equipment	4,579,128		-	4,579,128
Total capital assets being depreciated	113,306,129	-	-	113,306,129
Less: accumulated depreciation for:				
Buildings and building improvements	13,781,600		1,005,260	14,786,860
Infrastructure	21,925,222		4,532,532	26,457,754
Vehicles	8,069,148		53,610	8,122,758
Equipment	3,927,870		85,858	4,013,728
Total accumulated depreciation	47,703,840	-	5,677,260	53,381,100
Total capital assets being depreciated, net	65,602,289	-	5,677,260	59,925,029
Governmental activities capital assets, net	\$ 94,523,900	\$ 9,423,132	\$ 5,677,260	\$ 98,269,772

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

Governmental activities:	
General government	\$ 738,044
Public safety	1,305,769
Public works	2,725,085
Culture and recreation	510,954
Health	397,408
Total depreciation expense governmental activities	\$ 5,677,260

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 is 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, 2011.

Description	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations Bonds	\$42,982,000	\$10,625,000	\$2,806,000	\$50,801,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10. GENERAL LONG-TERM DEBT (continuation)

Long-term debt at June 30, 2011 is comprised of the following General and Special Obligation's issues:

Description	Balance June 30, 2011	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%	\$ 560,000	\$ 120,000
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%	1,380,000	660,000
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%	3,065,000	160,000
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%	1,940,000	155,000
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%	1,145,000	40,000
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%	255,000	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%	2,410,000	80,000
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%	175,000	5,000
Series 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%	1,490,000	50,000
Sub Total	12,420,000	1,280,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10. GENERAL LONG-TERM DEBT (continuation)

General and Special Obligations (Continuation)

Description	Balance June 30, 2011	Due within One year
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%	\$ 450,000	\$ 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%	240,000	115,000
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%	745,000	20,000
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%	3,165,000	\$ 85,000
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%	945,000	85,000
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%	1,905,000	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%	1,245,000	125,000
Sub Total	8,695,000	795,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10. GENERAL LONG-TERM DEBT (continuation)

General and Special Obligations Continuation)

Description	Balance June 30, 2011	Due within One year
Series of 2001 *Bonds with Secction 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%.	\$ 2,325,000	\$ 175,000
Series of 2007, \$290,000 payable in annual installments of \$5,000 to \$25,000 until 2032; with interest ranging from 3.93% to 7.5%	275,000	5,000
Series of 2008, \$4,390,000 payable in annual installments of \$70,000 to \$360,000 until 2032; with interest of 6.5% to 7%	4,240,000	80,000
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%.	305,000	30,000
Series of 2009, \$131,000 payable in anuual installments of \$15,000 to \$25,000 until 2015, with interest ranging from 2.43% to 7.5%.	101,000	15,000
Series of 2009, \$150,000 payable in annual intallem ents of \$15,000 to \$25,000 until 2015, with interest ranging from 2.43% to 7.5%.	115,000	20,000
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%.	1,485,000	25,000
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%.	1,390,000	40,000
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%.	1,350,000	25,000
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%.	375,000	43,000
Sub-Total	11,961,000	458,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. RETIREMENT PLAN

Plan Description

Regular full time 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, "Retirement Pensions, Disability and Death Benefits", 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 42005, 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 (LAW 447)

Eligibility

Pension Benefits

Age 55 and 30 years
Of service

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

Under 55 and 30 years
Of service

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

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

No benefit is payable if the participant receives a refund of his accumulated contributions.

Additional information of ERS is provided in its financial statements for the year ended June 30, 2011 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10. GENERAL LONG-TERM DEBT (continuation)

General and Special Obligations Continuation)

Description	Balance June 30, 2011	Due within One year
Series of 2001 *Bonds with Secction 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%.	\$ 2,325,000	\$ 175,000
Series of 2007, \$290,000 payable in annual installments of \$5,000 to \$25,000 until 2032; with interest ranging from 3.93% to 7.5%	275,000	5,000
Series of 2008, \$4,390,000 payable in annual installments of \$70,000 to \$360,000 until 2032; with interest of 6.5% to 7%	4,240,000	80,000
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%.	305,000	30,000
Series of 2009, \$131,000 payable in anuual installments of \$15,000 to \$25,000 until 2015, with interest ranging from 2.43% to 7.5%.	101,000	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%.	115,000	20,000
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%.	1,485,000	25,000
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%.	1,390,000	40,000
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%.	1,350,000	25,000
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%.	375,000	43,000
Sub-Total	11,961,000	458,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10. GENERAL LONG-TERM DEBT (Continuation)

Description	Balance June 30, 2011	Due within One year
Series of 2010, \$170,000 payable in annual installments of \$20,000 to \$30,000 until 2016; with interest ranging from 5.0% to 7.5%	\$ 150,000	\$ 20,000
Series of 2010, \$505,000 payable in annual installments of \$20,000 to \$55,000 until 2024; with interest ranging from 4.75% to 7.5%	485,000	20,000
Series of 2010, \$355,000 payable in annual installments of \$40,000 to \$60,000 until 2016; with interest ranging from 5% to 7.5%	315,000	45,000
Series of 2010, \$4,110,000 payable in annual installments of \$60,000 to \$350,000 until 2034; with interest ranging from 5% to 7.5%	4,050,000	65,000
Series of 2010, \$2,110,000 payable in annual installments of \$80,000 to \$225,000 until 2024; with interest ranging from 6% to 7.5%	2,030,000	85,000
Series of 2010, \$2,315,000 payable in annual installments of \$35,000 to \$200,000 until 2035; with interest ranging from 6% to 7%	2,315,000	35,000
Series of 2011, \$4,575,000 payable in annual installments of \$125,000 to \$500,000 until 2028; with interest ranging from 6% to 7%	4,575,000	125,000
Series of 2010, \$2,520,000 payable in annual installments of \$35,000 to \$215,000 until 2035; with interest ranging from 6% to 7.5%	2,520,000	35,000
Series of 2010, \$780,000 payable in annual installments of \$10,000 to \$70,000 until 2035; with interest ranging from 6% to 7%	780,000	10,000
Series of 2011, \$505,000 payable in annual installments of \$20,000 to \$55,000 until 2011; with interest ranging from 4.75% to 7.5%	505,000	20,000
Sub-Total	17,725,000	460,000
TOTAL	50,801,000	2,348,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

The annual debt service requirements for the bonded debt outstanding as June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 2,998,000	\$ 3,185,185	\$ 6,183,185
2013	2,451,000	3,077,260	5,528,260
2014	3,160,000	3,672,116	6,832,116
2015	2,628,000	2,735,055	5,363,055
2016	2,613,000	2,539,000	5,152,000
Subsequent years	36,951,000	13,092,043	50,043,043
TOTAL	\$ 50,801,000	\$ 28,300,659	\$ 79,101,659

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10. GENERAL LONG-TERM DEBT (Continuation)

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	\$ 4,617,551
General funds	122,869
Municipal sales tax	599,509
Hud programs	1,033,871
TOTAL	\$ 6,373,800

Expenditures for year 2010-2011 were as follows:

Principal	\$ 2,806,000
Interest	2,108,599
TOTAL	\$ 4,914,599

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. RETIREMENT PLAN

Plan Description

Regular full time 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, "Retirement Pensions, Disability and Death Benefits", 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 42005, 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 (LAW 447)

Eligibility

Pension Benefits

Age 55 and 30 years
Of service

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

Under 55 and 30 years
Of service

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

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

No benefit is payable if the participant receives a refund of his accumulated contributions.

Additional information of ERS is provided in its financial statements for the year ended June 30, 2011 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. RETIREMENT PLAN (Continuation)

NEW PLAN (REFORMA 2000)

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 plans, the employees are vested when attaining ten years of plan participation. Disability and death benefits 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.

Reforma 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under Reforma 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

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.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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	527,171
Total U.S. Department of Agriculture:			<u>527,171</u>
<u>U.S Department of Transportation Federal Transit Administration</u>			
<u>Direct Program:</u>			
Federal Transit - Capital Investment Act	20.500	PR-90-X197 to 267	119,136
Total U.S Department of Transportation			<u>119,136</u>
TOTAL FEDERAL ASSISTANCE			<u><u>\$ 11,051,177</u></u>

See notes to the schedule of expenditures of federal awards.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. RETIREMENT PLAN (Continuation)

Contribution Requirements

The Municipality's total payroll for the fiscal year 2011 amounted to approximately \$13,995,600. Common wealth legislation requires employees to contribute 5.775% of gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600. Municipality is required to contribute 9.275% of gross salary annually during year 2011. Municipality is required and actual contribution under Act 447 and Reforma 2000 were \$316,063 and \$218,229 respectively.

Actuarial Valuation

As of June 30, 2010, the ERS has an unfunded accrual liability of approximately \$17.1 billion, representing a 9.7% funding ratio. This information is not available by each participating government agency or municipalities.

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 | 7.5% a year |
| b) Salary increases | 3.0% year |
| c) Pre-retirement Mortality | For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. |
| Post-retirement Health Mortality | Gender-specific mortality rates were developed based on a study of plan's experience from 2003 to 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA. |
| Post-retirement Disabled Mortality | RP 2000 Disabled Annuitant Mortality Rates, without projection. |

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

d) Termination

Withdrawal rates vary by employee category. The annual rate of termination is as follows:

For general employees	2.0%
For police and fire	1.6%
For Mayors	3.0%

e) Disability

Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, adjusted as set forth in the table below. Rates of disability cease to apply once a member is eligible for the 75% of the Highest Salary maximum benefit.

Adjustment to 1987 CGDT		
Act	Members Covered under Act 127	Other Members
447	100%	75%
1	100%	75%
2000	100% if more than 10 years from retirement eligibility. 300% if at or past retirement eligibility. Interpolated from 100% to 300% in the 10 years leading up to retirement eligibility.	75%

100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127. For other members, 90% of disabilities occurring while in active service are assumed to be occupational and 10% are assumed to be non-occupational.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

f) Retirement

Rates of retirement vary by employment category, Act, and by age and years of Creditable Service.

Act 447 General Employees (Includes General Hazardous Employees)			
	Service Condition		
Age	10 years	25 years	30 years
45 to 49			10.0%
50 to 53			15.0
54			20.0
55 to 57		10.0%	20.0
58	5.0%	10.0	20.0
59 to 64	10.0	15.0	20.0
65 to 69	15.0	15.0	20.0
70	100.0	100.0	100.0

System 2000 General Employees		
Age	Non-hazardous	Hazardous
60 to 66	15.0%	12.0%
67	100.0	100.0

Act 447 Police & Fire			
	Service Condition		
Age	10 years	25 years	30 years
45 to 48			10.0%
49			15.0
50		7.0%	15.0
51 to 56		15.0	20.0
57		20.0	30.0
58	2.5%	20.0	100.0
59 to 64	10.0	25.0	
65 to 69	10.0	30.0	
70	100.0	100.0	

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

System 2000 Police & Fire			
	Service Condition		
Age	10 years	25 years	30 years
45 to 48			9.0%
49			13.5
50		6.3%	13.5
51 to 56		13.5	18.0
57		18.0	27.0
58	2.25%	18.0	27.0
59 to 64	9.0	22.5	27.0
65 to 69	9.0	27.0	31.5
70	100.0	100.0	100.0

- g) Proportion of participants with spouses 50% of participants assumed to be married at retirement, with females assumed to be four years younger than males.
- h) Number of employees electing high contributions 15% of retiring employees assumed to pay retroactive contributions at retirement.
- i) Cost-of-living adjustments 3% every third year

Accordingly, the pension expense for fiscal year 2011 was approximately \$588,551 that represented 100% of the contributions required by funding policies of the Plan.

13. LONG TERM LIABILITIES

Compensated Absences

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, 2011 are as follows:

Governmental activity	June 30, 20010	Net decrease	June 30, 2011	Due within One year
Compensated Absences	\$2,325,446	\$130,032	\$2,195,414	\$314,045

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 expenditures for the year ended June 30, 2011, were approximately \$92,345 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 \$1,236,487 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.

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 operations by the Comptroller's Office.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 advice of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are by the amount of \$40,000 at June 30, 2011.

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

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB (GASB 18), "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has to perform a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations.

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 sublease. 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, 2010 and shall secure the Facility against unauthorized disposal.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

The estimated Closure and Post-closure cost for the twenty-five acres of the Landfill is as follows:

<u>Closure Cost</u>		<u>Post Closure and Maintenance Cost</u>	
Final Cover	\$ 2,707,384	Revegetation	\$ 91,000
Revegetation	285,999	Erosion Control	91,000
Landfill Gas Monitoring and Control	1,945,000	Monitoring	53,700
Groundwater Monitoring/Remediation	78,200	Remediation/Control	50,000
Leachate Control	210,000	Drainage	60,600
Drainage	1,495,492	Security	5,500
Security	28,500	Inspection/Reporting	60,000
Structure Removal/Abandonment	15,000	Other	30,000
Documents/Reports	680,000		
Subtotal	7,445,575	Subtotal	441,800
10% Contingency	744,558	Total Postclosure Maintenance Cost (30 years)	\$13,254,000
Total Closure Cost	\$8,190,133		
		TOTAL COST	\$ 21,444,133

Estimates are based on current costs in 2011. These costs may be adjusted in the future for inflation.

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-processed 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 \$2,160,483 during the year ended June 30, 2011.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

18. RESTATEMENT OF 2010 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2011 **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, 2010, as previously reported, had been increased by \$3,128,430 and the fund balance of various funds at June 30, 2010, as previously reported, general fund had been increased by \$926,343 and the Capital Project increase by 32,050 fund.

	Net	General	Capital
	Assets	Fund	Project
			Funds
Beginning balance at			
June 30, 2010	\$ 31,956,096	\$ (7,290,064)	\$ 1,735,133
Accounts payable from			
prior year cancelled		926,343	32,050
Adjustment for the			
landfill cost accrual	3,128,430	-	-
Beginning balance, as			
restated June 30, 2010	\$ 35,084,526	\$ (6,363,721)	\$ 1,767,183

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**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

We 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, 2011 and have issued my report thereon dated March 27, 2012. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on timely basis.

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

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.

We noted certain matters that I reported to management of Municipality of Vega Baja Puerto Rico in a separate letter dated March 20, 2012.

This 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
March 20, 2012

The stamp number 2628911
was affixed to the
original of this report



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2013

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

Independent Auditor's Report

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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's management. My responsibility is to express an opinion on 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, Local Governments and Non-Profit Organizations". Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether 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's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Municipality of Vega Baja's compliance with those requirements.

In my opinion, Municipality of Vega Baja, Puerto Rico, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Vega Baja internal control over compliance. Accordingly, I 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 and correct, 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 in internal control over compliance is a deficiency, or combination of deficiencies, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

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

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
March 20, 2012

The stamp number 2628912
was affixed to the
original of this report



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2013

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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>			
<u>Direct Program:</u>			
Community Planning and Development Community Development Block Grant (Entitlement Grants) CDBG - 2005-2010	14.218	B-05 to 10 MC-72-0014	\$ 1,063,747 <u>1,063,747</u>
<u>Direct Program:</u>			
ARRA - Community Development Block Grant Program ARRA Entitlement Grant	14.253	B-09-MY-72-0014	119,083 <u>119,083</u>
<u>Direct Program:</u>			
Community Development Block Grant - Section 108 loan guarantee	14.248	B-94-98 MC-72-0014	89,298 <u>89,298</u>
<u>Direct Program:</u>			
ARRA - Homeless Prevention & Rapid Re-housing Program	14.257	S-09-MY-72-0014	354,425 <u>354,425</u>
<u>Direct Program:</u>			
Public and Indian Housing Section 8 Housing Choice Voucher	14.871	RQ-032-V-0004/5	1,712,745
Housing Opportunities for Persons with AIDS	14.241	RQ-032-HOPWA	48,379 <u>1,761,124</u>
Passed-through Commonwealth of Puerto Rico Governors Office			
Federal Emergency Management			
Emergency Shelter Grant	14.231	S-03-MC-72-0015	3,702
Emergency Shelter Grant	14.231	S-02-MC-72-0015	6,230 <u>9,932</u>
Total U.S. Of Housing and Urban Development			<u>3,397,609</u>
<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	6,418,792
Maternal and Child Health Service Block Grant to the States (Escuela Maternal)	93.994	N/A	46,609
Maternal and Child Health Service Block Grant to the States (Cuidado del Niño)	93.994	N/A	206,295
ARRA - Head Start	93.708	N/A	73,403
ARRA - Child Care Development Block Grant	93.713	N/A	38,741 <u>6,783,840</u>
<u>Administration on Aging</u>			
Passed-through Commonwealth of Puerto Rico Governors Office for the elderly			
Special Program for the Aging Title III Part C Nutrition Nutrition Services	93.045	Title III	223,421 <u>7,007,261</u>
Total U.S. Department of Health and Human Services			<u>7,007,261</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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	527,171
Total U.S. Department of Agriculture:			<u>527,171</u>
<u>U.S. Department of Transportation Federal Transit Administration</u>			
<u>Direct Program:</u>			
Federal Transit - Capital Investment Act	20.500	PR-90-X197 to 267	119,136
Total U.S. Department of Transportation			<u>119,136</u>
TOTAL FEDERAL ASSISTANCE			<u><u>\$ 11,051,177</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, 2011

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, U.S. Department of Agriculture and **American Recovery and Reinvestment Act Programs** represent the major federal financial awards of the Municipality. Major federal awards represent 96% of total expenditures.

(3) FEDERAL CFDA NUMBER

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

(4) RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

Description	Hud Programs	Head Start Programs	Other Programs	Total
Federal Programs Expenditures	\$ 3,097,609	\$ 7,007,261	\$ 946,307	\$ 11,051,177
State & Municipal Expenditures	-	-	4,601,762	\$ 4,601,762
TOTAL	\$ 3,097,609	\$ 7,007,261	\$ 5,548,069	\$ 15,652,939

**MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Part I – Financial Statements

- | | | |
|--|------------------|-----------------|
| 1. Type of auditor’s report issued | Qualified | |
| 2. Internal control over financial reporting: | | |
| Material weakness (es) identified? | ___ 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. | Unqualified | |
| 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>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
10.558	Child and Adult Care Food Program
14.253	ARRA – Community Development Block Grant Program
	ARRA Entitlement Grant
14.257	ARRA – Homeless Prevention & Rapid Re-housing Program
93.708	ARRA – Head Start
93.713	ARRA – Child Care Development Block Grant
93.045	Special Program for the Aging Title III Part C Nutrition Services

Dollar threshold used to distinguish between type A and type B programs:
Auditee qualified as low-risk auditee?

\$331,535
X Yes ___ No

**MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Program: Accounting and Finance Department
General Fund – Deficit
Year ended June 30, 2011**

Ref. No.	Finding / Noncompliance	Questioned Cost
2011-01	<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 Regulations for Municipal Administration; 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 Regulation for Municipal Administrator; 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, 2011**

**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, 2011**

Ref. No.	Finding / Noncompliance	Questioned Cost
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2011-2	<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.</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 will return the amount before June 30, 2011.</p>	-0-

**MUNICIPALITY OF VEGA BAJA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

2010 Finding No. 1: Accounting and Finance Department
General Fund - Deficit
Year ended June 30, 2010
Finding reported again.

2010 Finding No. 2: 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, 2010.
Finding corrected.

2010 Finding No. 3: 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, 2010
Finding corrected.

2010 Finding No. 4: U.S. Department of Homeland Security
CFDA No. 97.036
Grant No. Disaster Grant Public Assistance
Year ended June 30, 2010
Finding reported again.

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2011**

Ref. No.	<u>Finding /Corrective Action</u>	<u>Anticipated Completion Date</u>
2011-01	<u>Planned/Person Responsible:</u> <u>Statement of Condition:</u> The General Fund is not complying with budget balances and criteria established by the Standards of Financial Management Management System for Regulations for Municipal Administrator, 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. <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. <u>Person Responsible:</u> Francisco R. Rivera Hernández Finance Director	On or before of 2011-12 fiscal year
2011-02	<u>Planned/Person Responsible:</u> <u>Statement of Condition:</u> Effective control and accountability must be maintained for before the grant. Administrative personnel must verify all program transactions and must assure that are solely for authorized purpose, necessary and reasonable and allocate to federal awards. <u>Corrective Action Planned:</u> The Municipality returned the balance due on August 2010 to the program and made improvement to the control procedure to comply with programs regulations. <u>Person Responsible:</u> Noel F. Rosario Finance Director	<u>Anticipated Completion Date</u> On or end of 2011-12 fiscal year