

Financial Statements

MUNICIPALITY OF VEGA BAJA

OMB Circular A-133 Audit for the year ended June 30, 2012,
and Independent Auditors' Report

MUNICIPALITY OF VEGA BAJA

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Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Jorge Aquino Barreto, CPA, CVA
Jerry De Córdova, CPA, JD
Eduardo González Green, CPA, CFE

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, Members of the
Municipal Legislature and People 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 of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements on pages 12 to 47. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The inadequacy for the Municipality's accounting records did not permit us to extend our auditing procedures sufficiently to satisfy ourselves about the carrying value of \$475,000 in certificate of deposits and the prior period adjustment amounting to \$2,960,023, as of June 30, 2012. Also, we were unable to satisfy ourselves about the transaction eliminating a due to/from balances between the general fund and other funds as of June 30, 2102 (stated at \$1,920,846).

The Municipality did not provide the information as to capital assets beginning balance during our audit. Therefore, we were unable to perform audit procedures to satisfy ourselves of the amount of capital assets, accumulated depreciation and depreciation expenses (stated at \$156,076,089, \$59,045,354 and \$5,664,254, respectively) as of and for the year ended June 30, 2012 recorded in the accompanying financial statements of the governmental activities.

In our opinion, except for the effects of the matters discussed above in the third and fourth paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison – general fund information on pages 3 through 11 and on pages 48 and 50 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's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information have 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 basic financial statements as a whole.

March 25, 2013

Aquino, De Cordova, Alfaro & Co. LLP

Stamp number E48842
has been affixed to
the original report



Aquino, De Córdoba, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Management of the Municipality of Vega Baja of the Commonwealth of Puerto Rico (the "Municipality") provides this *Management's Discussion and Analysis* of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

During fiscal year ended June 30, 2004, the Municipality implemented the new required financial reporting standards established by Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued by the Governmental Accounting Standards Board (commonly known as "GASB 34"). According to this statement, significant required changes in content and structure have been made in the accompanying Municipality's basic financial statements as of and for the fiscal year ended June 30, 2012, which make the accompanying basic financial statements not easily comparable to the Municipality's general purpose financial statements issued in prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Municipality's financial position and results of operations.

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

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

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

FINANCIAL HIGHLIGHTS

- The Municipality has reported assets and net assets amounting to \$120,668,082 and \$34,816,33, respectively, in the accompanying statement of net assets, of which the most significant assets are net capital assets amounting to \$97,030,735 (80.4 percent of total Municipality's assets).
- The Municipality has reported total liabilities amounting to \$85,241,709 in the accompanying statement of net assets, of which the most significant liabilities are: (1) account payables and accrued liabilities of \$3,142,451, (2) intergovernmental payable of \$1,558,561 and (3) bonds and notes payable of \$46,585,000. These liabilities account for 60.1 percent of the Municipality's total liabilities at June 30, 2012.
- The Municipality has reported total revenues amounting to \$43,299,725 in the accompanying statement of activities, of which the most significant revenues are: (1) municipal license tax of \$4,929,294, (2) restricted capital and operating grants of \$7,458,862, (3) property taxes of \$9,202,039 and (4) intergovernmental grants and contributions of \$13,627,977. These revenues represent 81.3 percent of total revenues.
- The Municipality has reported a negative net change in net assets by \$3,477,203 in the accompanying statement of activities.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FINANCIAL HIGHLIGHTS - CONTINUED

- The Municipality's governmental funds reported combined ending fund balances of \$11,541,970 of which \$10,440,165 represent the fund balances of the general fund, Head Start Funds and the debt service fund combined (jointly known as the Municipality's major funds).
- The Municipality reported in the general fund (the primary operating fund) a decrease in the deficit of \$3,359,279 for an ending general fund deficit of \$1,849,612.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from the previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2012 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS - CONTINUED

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2012. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

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

Fund Financial Statements

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

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

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

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year (June 30, 2012). This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS - CONTINUED

Fund Financial Statements - (continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has four major funds: (1) the general fund, (2) the debt service fund, (3) the capital project funds and (4) Head Start Fund.

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (modified approach), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. The Municipality's net assets (excess of assets over liabilities) amounted to \$34,816,373 at June 30, 2012.

The largest portions of the Municipality's net assets are invested in capital assets net of their related debt, which amount to \$50,445,735. The Municipality's restricted net assets amounted to \$13,391,582 that are mainly restricted for (1) future debt service payments and (2) the future acquisition or construction of capital assets. In addition, the Municipality's net assets reported a negative unrestricted net assets of \$29,020,944.

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

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

Condensed Statement of Net Assets:

	<u>2012</u>	<u>2011</u>
Assets		
Capital assets	\$ 97,030,735	\$ 98,269,772
Other assets	23,637,347	28,390,625
Total assets	<u>120,668,082</u>	<u>126,660,397</u>
Liabilities		
Current liabilities	12,095,377	19,759,297
Noncurrent liabilities	73,756,332	71,442,547
Total liabilities	<u>85,851,709</u>	<u>91,201,844</u>
Net assets		
Invested in capital assets, net of related debt	52,210,735	56,757,907
Restricted	13,391,582	15,322,028
Unrestricted	<u>(30,785,944)</u>	<u>(36,621,382)</u>
Total net assets	<u>\$ 34,816,373</u>	<u>\$ 35,458,553</u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE - CONTINUED

Net Assets - (continued)

The Municipality's revenues increased during the year by \$3,780,926. Approximately 36.2 percent of the Municipality's total revenues came from general tax revenues, while 48.7 percent resulted from grants and contributions. The Municipality's expenses cover a range of services. The largest expenses were for general government (39.2 percent), urban and economic development (49.1 percent), and culture, recreation and education (21.4 percent).

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

Condensed Statement of Activities:

	2012	2011
Program revenues:		
Charges for services	\$ 2,558,567	\$ 52,536
Operating grants & contributions	6,583,139	7,559,964
Capital grants & contributions	875,723	3,319,243
	10,017,429	10,931,743
General revenues:		
Property taxes	9,202,039	10,327,019
Municipal license tax	4,929,494	4,791,326
Municipal sales tax	2,939,081	2,759,992
Construction excise tax	1,299,500	853,474
Grants and contributions not restricted to specific programs	13,627,977	9,405,012
Miscellaneous	1,284,205	450,233
	33,282,296	28,587,056
Total program and general revenues	43,299,725	39,518,799
Expenses:		
General government	18,322,318	18,727,659
Urban and economic development	8,957,332	5,608,027
Culture, recreation and education	10,016,399	8,779,254
Health and Sanitation	1,753,960	1,633,896
Public safety	2,378,539	2,287,337
Public housing and welfare	3,233,215	-
Interest on long-term debt	2,115,165	2,108,599
Total expenses	46,776,928	39,144,772
Change in net assets	(3,477,203)	374,027
Net assets at beginning of year, as restated	38,293,576	31,956,096
Net assets at end of year	\$ 34,816,373	\$ 32,330,123



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Municipality's governmental *funds* is to provide information on near-term inflows, outflows, and balance of spendable *resources*. Such information is useful in assessing the Municipality's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

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

Condensed Balance Sheet - Governmental funds:

	2012	2011
Total assets - major funds	\$ 22,972,600	\$ 27,236,148
Total assets - nonmajor funds	2,585,593	2,195,880
Total assets	<u>\$ 25,558,193</u>	<u>\$ 29,432,028</u>
Total liabilities - major funds	\$ 12,532,435	\$ 15,516,101
Total liabilities - nonmajor funds	1,483,788	2,284,576
Total liabilities	<u>14,016,223</u>	<u>17,800,677</u>
Total fund balances - major funds	10,440,165	11,720,047
Total fund balances - nonmajor funds	1,101,805	(88,696)
Total fund balances	<u>11,541,970</u>	<u>11,631,351</u>
Total liabilities and fund balances - major funds	22,972,600	27,236,148
Total liabilities and fund balances - nonmajor funds	2,585,593	2,195,880
Total liabilities and fund balances	<u><u>\$ 25,558,193</u></u>	<u><u>\$ 29,432,028</u></u>

Condensed Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental

Total revenues - major funds	\$ 34,458,495	\$ 33,929,970
Total revenues - nonmajor funds	8,841,230	5,588,829
Total revenues	<u>43,299,725</u>	<u>39,518,799</u>
Total expenditures - Major Funds	34,959,438	38,295,889
Total expenditures - Nonmajor Funds	10,239,668	7,400,755
Total expenditures	<u>45,199,106</u>	<u>45,696,644</u>
Expenditures over revenues - major	(500,943)	(4,365,919)
Expenditures over revenues - nonmajor	(1,398,438)	(1,811,926)
Other financing sources - major funds	1,810,000	11,403,905
Changes in fund balances	<u><u>\$ (89,381)</u></u>	<u><u>\$ 5,226,060</u></u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

GENERAL FUND BUDGETARY HIGHLIGHTS

The Municipality approved an original budget for the general fund of \$20,873,713. Over the course of the year, the Municipality revised the budget in order to include any changes in revenues or expenditures that were identified based on current events. During the year, there was no amendment in appropriations between the original and final budget.

The accompanying budgetary comparison schedule of the general fund reported an excess of actual revenues over actual expenditures of \$2,172,956.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$156,076,089 of which \$55,027,799 represents infrastructure assets at June 30, 2012. The related accumulated depreciation and amortization of capital assets amounted to \$59,045,354, of which \$30,947,045 is related to infrastructure assets at June 30, 2012. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Actual expenditures to purchase or construct capital assets were \$4,425,217 for the year ended June 30, 2012. Depreciation charges amounted to \$5,664,254 for the year ended June 30, 2012.

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

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

CAPITAL ASSETS AND DEBT ADMINISTRATION - CONTINUED

Debt Administration - (continued)

The Municipality is required under applicable laws and regulations to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT BUDGETS AND RATES

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities.

Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

Those factors were considered when preparing the Municipality's budget for the 2011-2012 fiscal years. There were no significant changes between the budgets for fiscal year 2011-2012.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and demonstrate the Municipality's accountability. If you have any questions about the report or need additional financial information, contact the Municipality's Director of Finance, Waleska Rivera, at Apartado 4555, Vega Baja, Puerto Rico, 00694.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 4,970,556
Cash with fiscal agent	1,923
Certificate of deposits	475,000
Receivables, net	
Municipal license taxes	123,774
Intergovernmental	141,041
Other receivables	163,000
Restricted assets:	
Cash in commercial banks	1,892,737
Cash with fiscal agent	15,869,316
Capital assets:	
Non-depreciable capital assets	41,934,165
Depreciable capital assets, net	55,096,570
Total Assets	<u>120,668,082</u>
LIABILITIES	
Accounts payable and other accrued liabilities	2,020,693
Intergovernmental payable	1,558,561
Accrued interest on bonds and notes payable	1,121,758
Deferred municipal license tax	4,201,365
Bonds and notes payable	3,193,000
Noncurrent liabilities:	
Due within one year	3,521,734
Due in more than one year	70,234,598
Total Liabilities	<u>85,851,709</u>
NET ASSETS	
Invested in capital assets, net of related debt	52,210,735
Restricted for:	
Debt service	4,228,601
Capital projects	8,061,176
Other purposes	1,101,805
Unrestricted	(30,785,944)
Total Net Assets	<u>\$ 34,816,373</u>

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Functions/Programs	Program Revenues				Net Expenses and Changes in Net Assets
	Expenses	Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 18,322,318	\$ 2,558,567	\$ 997,730	\$ 376,989	\$ (14,389,032)
Urban and economic development	8,957,332	-	1,474,917	276,365	(7,206,050)
Health & sanitation	1,753,960	-	36,597	-	(1,717,363)
Public safety	2,378,539	-	71,604	-	(2,306,935)
Public housing and welfare	3,233,215	-	2,949,243	222,369	(61,603)
Culture, recreation and education	10,016,399	-	1,053,048	-	(8,963,351)
Interest on long term obligations	2,115,165	-	-	-	(2,115,165)
Total governmental activities	\$ 46,776,928	\$ 2,558,567	\$ 6,583,139	\$ 875,723	\$ (36,759,499)
General revenues:					
Property taxes					9,202,039
Municipal license tax					4,929,494
Municipal sales tax					2,939,081
Construction excise tax					1,299,500
Grants and contributions not restricted to specific programs					13,627,977
Interest					56,065
Miscellaneous					1,228,140
Total general revenues					33,282,296
Change in net assets					(3,477,203)
Net assets at beginning of year, as restated					38,293,576
Net assets at end of the year					\$ 34,816,373

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Debt Service Fund	Capital Project Funds	Head Start Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 4,970,556	\$ -	\$ -	\$ -	\$ -	\$ 4,970,556
Cash with fiscal agent	1,923	-	-	-	-	1,923
Certificate of deposits	475,000	-	-	-	-	475,000
Accounts receivable, net:						
Municipal license tax	123,774	-	-	-	-	123,774
Intergovernmental	-	-	-	87,712	53,329	141,041
Other	163,000	-	-	-	-	163,000
Due from other funds	1,114,434	-	-	-	806,412	1,920,846
Restricted assets:						
Cash and cash equivalents	-	-	-	166,885	1,725,852	1,892,737
Cash with fiscal agent	-	7,808,140	8,061,176	-	-	15,869,316
Total assets	<u>\$ 6,848,687</u>	<u>\$ 7,808,140</u>	<u>\$ 8,061,176</u>	<u>\$ 254,597</u>	<u>\$ 2,585,593</u>	<u>\$ 25,558,193</u>
LIABILITIES						
Account payable and accrued expenses	\$ 1,792,994	\$ -	\$ -	\$ 192,946	\$ 34,753	\$ 2,020,693
Intergovernmental payable	1,558,561	-	-	-	-	1,558,561
Accrued on bonds and notes payable	-	1,036,539	-	-	85,219	1,121,758
Due to other funds	1,145,379	-	-	61,651	713,816	1,920,846
Matured bonds and notes payable	-	2,543,000	-	-	650,000	3,193,000
Deferred municipal license tax	4,201,365	-	-	-	-	4,201,365
Total Liabilities	<u>8,698,299</u>	<u>3,579,539</u>	<u>-</u>	<u>254,597</u>	<u>1,483,788</u>	<u>14,016,223</u>
FUND BALANCES (DEFICIT)						
Restricted	-	4,228,601	8,061,176	-	1,101,805	13,391,582
Unassigned	(1,849,612)	-	-	-	-	(1,849,612)
Total fund balances (deficit)	<u>(1,849,612)</u>	<u>4,228,601</u>	<u>8,061,176</u>	<u>-</u>	<u>1,101,805</u>	<u>11,541,970</u>
Total liabilities and fund balances (deficit)	<u>\$ 6,848,687</u>	<u>\$ 7,808,140</u>	<u>\$ 8,061,176</u>	<u>\$ 254,597</u>	<u>\$ 2,585,593</u>	<u>\$ 25,558,193</u>

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2012**

	General Fund	Debt Service Fund	Capital Project Funds	Head Start Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Property taxes	\$ 4,864,846	\$ 4,337,193	\$ -	\$ -	\$ -	\$ 9,202,039
Municipal license tax	4,929,494	-	-	-	-	4,929,494
Municipal sale tax	2,228,562	710,519	-	-	-	2,939,081
Construction excise tax	1,299,500	-	-	-	-	1,299,500
Rent	106,124	-	-	-	38,489	144,613
Interest	44,544	5,602	-	-	5,919	56,065
Intergovernmental:						
Local	8,566,888	-	-	-	2,654,973	11,221,861
Federal	-	-	-	6,485,357	5,938,188	12,423,545
Miscellaneous	865,475	-	-	14,391	203,661	1,083,527
Total revenues	<u>22,905,433</u>	<u>5,053,314</u>	<u>-</u>	<u>6,499,748</u>	<u>8,841,230</u>	<u>43,299,725</u>
EXPENDITURES:						
Current:						
General administration	12,659,442	\$ -	539	180	1,392,328	14,052,489
Urban and economic development	3,404,124	-	976,988	-	1,863,781	6,244,893
Culture, recreation and education	2,047,022	-	-	6,405,989	1,052,434	9,505,445
Health and sanitation	1,320,315	-	-	-	36,597	1,356,912
Public safety	1,001,145	-	-	-	71,625	1,072,770
Public housing and welfare	61,395	-	-	-	3,171,820	3,233,215
Capital outlays:	239,034	-	2,270,319	-	1,915,864	4,425,217
Debt service:						
Principal	-	2,543,000	-	-	650,000	3,193,000
Interest on bonds and notes	-	2,029,946	-	-	85,219	2,115,165
Total expenditures	<u>20,732,477</u>	<u>4,572,946</u>	<u>3,247,846</u>	<u>6,406,169</u>	<u>10,239,668</u>	<u>45,199,106</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,172,956</u>	<u>480,368</u>	<u>(3,247,846)</u>	<u>93,579</u>	<u>(1,398,438)</u>	<u>(1,899,381)</u>
OTHER FINANCING SOURCES (USES):						
Proceeds from bond issued	1,810,000	-	-	-	-	1,810,000
Transfer in	-	123,679	-	-	-	123,679
Transfer out	(623,677)	-	-	-	499,998	(123,679)
Total other financing sources (uses)	<u>1,186,323</u>	<u>123,679</u>	<u>-</u>	<u>-</u>	<u>499,998</u>	<u>1,810,000</u>
NET CHANGE IN FUND BALANCES (DEFICIT)	<u>3,359,279</u>	<u>604,047</u>	<u>(3,247,846)</u>	<u>93,579</u>	<u>(898,440)</u>	<u>(89,381)</u>
FUND BALANCES (DEFICIT) AT BEGINNING						
OF YEAR, AS RESTATED	<u>(5,208,891)</u>	<u>3,624,554</u>	<u>11,309,022</u>	<u>(93,579)</u>	<u>2,000,245</u>	<u>11,631,351</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ (1,849,612)</u>	<u>\$ 4,228,601</u>	<u>\$ 8,061,176</u>	<u>\$ -</u>	<u>\$ 1,101,805</u>	<u>\$ 11,541,970</u>

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	11,541,970
Amounts reported for governmental activities in the statemet of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		97,030,735
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	(2,509,316)	
Bonds and notes payable	(46,585,000)	
Municipal solid waste landfill post-closure cost	(21,444,133)	
Legal claims	(3,217,883)	
	<u>(73,756,332)</u>	
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>34,816,373</u>

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

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

Net change in fund balances (deficit) as reported in the accompanying statement of revenues, expenditures and changes in fund balances (deficit) - governmental funds.	\$ (89,381)
Governmental funds report capital outlays as expenditures. However, in the accompanying statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	4,425,217
Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Depreciation expense	(5,664,254)
Change in legal Claims	(3,217,883)
Change in compensated absences	(313,902)
The repayment of bond and notes principal is recorded as expenditures in the governmental funds, however, are recorded as reductions of long-term liabilities in the statement of net assets.	3,193,000
The issuance of long-term debt provides current financial resources to governmental funds. This amount is the proceeds from issuance of bonds.	<u>(1,810,000)</u>
Net change in net assets as reported in the accompanying statement of activities	<u>\$ (3,477,203)</u>

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government Background Information

The Municipality of Vega Baja of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1776 with full legislative, fiscal and administrative powers to operate as a government. The Municipality assumes responsibility for public safety, health and sanitation, public housing and welfare, culture and education, urban development and many other general and administrative duties.

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

B. Financial Reporting Entity

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

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

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

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Financial Reporting Entity - (continued)

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

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations considered component units of the Municipality according to GAAP as of June 30, 2012 nor for the year then ended.

C. Financial Reporting Model

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

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

1. **Management's Discussion and Analysis ("MD&A")** – MD&A is a required supplementary information used to introduce the basic financial statements and provide an analytical overview of the Municipality's financial activities for the year ended June 30, 2012 based on the Municipality's management knowledge of the transactions, events and conditions reflected in the basic financial statements and the fiscal policies that control the Municipality's operations.
2. **Government-Wide Financial Statements ("GWFS")** – GWFS is a set of financial statements composed of: (1) a statement of net assets and (2) a statement of activities.

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



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Financial Reporting Model - (continued)

The statement of net assets provides short-term and long-term information about the Municipality's financial position, which assist management to determine the Municipality's economic condition at June 30, 2012 by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Net assets are reported in the following three categories:

- **Invested in Capital Assets, Net of Related Debt** – This consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debts that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted Net Assets** – These results when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Municipality's policy to use restricted resources first, and then unrestricted resources as they are needed.
- **Unrestricted Net Assets** – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designed to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities presents financial information showing how the Municipality's net assets changed during the year ended June 30, 2012.

The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, segment or operational unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. The Municipality does not allocate general government (indirect) expenses to other functions.

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Financial Reporting Model - (continued)

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

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

Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions. In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB 54 in an effort to improve the consistency in reporting fund balance components, enhance fund balance presentation, improve the usefulness of fund balance information, and clarify the definitions of the governmental fund types.

Pursuant to the provisions set for by GASB 54, the Municipality maintains the minimum number of funds consistent with legal and self-imposed managerial requirements. For financial reporting purposes, the Municipality classifies its funds within the following governmental fund categories:

General Fund – The general fund is the main operating fund used to account for all financial resources and governmental activities of the Municipality, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality’s activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a fund other than the general fund.

Special Revenue Funds – The special revenue funds are used to account for specific revenues derived from grants or other revenue sources (other than major capital projects) that are either committed by the Municipality or legally restricted by outside parties for use in specific purposes. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Financial Reporting Model - (continued)

3. Fund Financial Statements ("FFS") – (continued)

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

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

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

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

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

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

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



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

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

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

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

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

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



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - (continued)

In December 1998, the Governmental Accounting Standards Board issued Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* ("GASB 33"), effective for financial statement for periods after June 15, 2000, which the Municipality adopted on July 1, 2003. This statement established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The statement groups non-exchange transactions of governments into four classes, based on their principal characteristics: (a) derived tax revenue; (b) imposed non-exchange revenue; (c) government mandated- non-exchange transactions; and (d) voluntary non-exchange transactions. The adoption of this statement altered significantly the basis of accounting used by the Municipality for the recognition of revenue and expenditures and related assets and liabilities, as described above. The effect of the adoption of this pronouncement has been reported as changes in accounting principles in the accompanying basic financial statements. Accordingly, the cumulative effects of such transactions have been reported retroactively as restatements of fund balances at July 1, 2003.

E. Major and Non-major Funds

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

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

Based on the above-mentioned criteria, the Municipality's general fund, the debt service fund, the capital project funds, and the Head Start Fund are the only four funds that qualify as major funds for the fiscal year ended June 30, 2012, and accordingly, have been reported as major funds in the accompanying fund financial statements. All other governmental funds of the Municipality are considered non-major for financial reporting purposes.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Cash and Cash Equivalents

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

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

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

G. Certificate of Deposits

The Municipality's certificate of deposits are a nonparticipating interest-earning investment contracts with maturities of less than one year and are reported at cost, which approximates fair value.

H. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of inter-fund loans).

Tax receivables in the general fund represent amounts owed by taxpayers principally for municipal license taxes and construction excise taxes. A portion of these tax receivables is recognized when they become measurable and available based on actual collections during the 90 days (60 days for property taxes) following the fiscal year-end related to tax returns due before year-end. Tax receivables also include amounts owed by taxpayers from taxable years prior to June 30, 2012, estimated to be collectible but not currently available, as a result of the adoption of GASB 33.

Accounts receivables are stated net of estimated allowances for doubtful accounts, which are determined based upon past collection experience and current economic conditions. Intergovernmental receivables mainly represent amounts owed to the Municipality by the Commonwealth and the federal government of the United States of America for: (1) intergovernmental contributions, and (2) for reimbursement of expenditures incurred pursuant to federally funded programs, respectively.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Receivables and Payables - (continued)

In the accompanying government-wide financial statements, receivables consist principally of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include municipal license taxes and construction excise taxes, among others.

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

I. Restricted Assets

Certain cash and cash equivalents set aside by the debt service fund, the capital projects fund, Head Start Fund and other governmental funds are classified as restricted assets since their use is limited for: (a) the compliance with debt service requirements of bonds and notes payable as established in the respective debt agreements, (b) the construction and acquisition of capital assets, and (c) the financing of federal and state sponsored programs.

J. Interfund Transactions

The Municipality has the following types of transactions recorded among funds in the accompanying fund financial statements:

- *Operating Transfers* - Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Inter-fund transfers are reported when incurred as other financing uses (Transfers-out) in the governmental fund making transfers and as other financing sources (Transfers-in) in the governmental fund receiving transfers.
- *Intra-Entity Transactions* - Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the governmental fund that made the loan.

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Capital Assets

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

All capital assets are reported in the accompanying government-wide statement of net assets at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs were used to value the majority of the assets acquired prior to June 30, 2002. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

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

Buildings	50 years
Improvements	20 to 40 years
Infrastructure	60 years
Vehicles	5 to 25 years
Machinery and equipment	5 to 20 years

In addition, the Municipality assigned 10% residual value on most capital assets. Equipment held under capital leases is depreciated under the shorter of its estimated useful life of the asset or the lease term.

L. Deferred Revenue

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



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

M. Long-Term Debt

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

Bonds and notes premiums and discounts, as well as, issuance costs, are deferred and amortized over the life of the debt in the accompanying government-wide financial statements.

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

N. Compensated Absences

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

Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. According to GASB 16, the liability for compensated absences recorded in the accompanying government-wide statement of net assets is strictly limited to leave that: (1) is attributable to services already rendered on or before June 30, 2012, and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes, Medicare taxes, employer contributions to retirement system and others).

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



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 when they mature (generally, when payment is due). Those liabilities are recorded in the accompanying statement of net position as incurred, pursuant to the provisions of FASB Accounting Standards Codification 450, *Contingencies*.

P. Estimated Liability for Municipal Solid Waste Landfill Closure and Post-closure Costs

The estimated liability for municipal solid waste landfill closure and post-closure care costs (including monitoring and maintenance) include an estimate of all post-closing care costs to be incurred after the close of the Municipality's solid waste landfill under the provisions of GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs* (GASB No. 18).

In the accompanying government-wide statement of net assets, this liability was recognized over the useful life of the landfill prior to its closing, even though such costs are being incurred after the close of the landfill. The estimate of closing and post closing costs were determined using current costs. The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the governmental funds' level, landfill closure and post-closure care costs are recorded in the statement of revenues, expenditures and changes in fund balances (deficit) - governmental funds as expenditures when they mature (generally, when payment or related disbursements are due).

Q. Fund Balances

The Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB 54, the accompanying governmental funds financial statements report fund balance amounts that are considered nonspendable. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

1. *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long-term balances of loans and notes receivable.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Q. Fund Balances - (continued)

2. *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
3. *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipality's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar ordinance or resolution, no later than the end of fiscal year.
4. *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended.
5. *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2012.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources as they are needed.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

R. Risk Financing

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

S. Use of Estimates

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

2. DEPOSITS AND CERTIFICATE OF DEPOSITS

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

The Municipality's bank balance of deposits and certificate of deposits with financial institutions are categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2012. Risk categories are described as follows:

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

2. DEPOSITS AND CERTIFICATE OF DEPOSITS - CONTINUED

The carrying amount (book balance) and the bank balance of deposits and certificate of deposit with financial institutions of the Municipality at June 30, 2012 consist of the following:

	Carrying Amount	Bank Balance
Deposits in commercial banks	\$ 6,863,293	\$ 7,608,415
Deposits in governmental banks	15,871,239	15,871,239
Certificate of deposits	475,000	475,000
Total	\$ 23,209,532	\$ 23,954,654
 Bank balances of deposits and certificate of deposits:		
Category 1		\$ 15,871,239
Category 2		8,083,415
Total bank balances and certificate of deposits		\$ 23,954,654

3. PROPERTY TAXES

The Municipality is authorized by law to impose and collect property taxes from any natural or legal person that at January 1 of each year (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns a residential real property with a value in excess of \$150,000 (at 1957 market prices).

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (levy date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. At June 30, 2012, the total personal property tax rate in force was 6.38 percent (of which taxpayers pay 6.18 percent and .20 percent is reimbursed by the PRTD).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 (levy date) and is based on estimated current values of the property deflated at 1957 market prices. At June 30, 2012, the total real property tax rate in force was 8.38 percent (of which 8.18 percent is paid by taxpayers).

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



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

3. PROPERTY TAXES - CONTINUED

Included within the total personal and real property tax rates, there is a portion of the tax rate in the amount of 1.35 percent that is restricted for debt service requirements of the Municipality and is retained by GDB for such purposes. Accordingly, such amount is recorded as revenues in the debt service fund when collected and reported by the CRIM.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to CRIM is recorded at June 30. The difference between the advances and the final settlement from CRIM for fiscal year 2012 resulted in a liability of \$751,769 recorded as intergovernmental payable.

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

- i. Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- ii. An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35 percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

4. MUNICIPAL LICENSE TAXES

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with volume of business of \$3 million or more must include audited financial statements together with the tax return.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4. MUNICIPAL LICENSE TAXES - CONTINUED

During the fiscal year ended June 30, 2012, the municipal tax rates imposed by the Municipality were 1.50 percent for financing institutions and 0.30 percent for any other taxpayers. Any taxpayers, who have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth, ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

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

Any municipal license tax collected in advance (that is, prior to June 30 but pertaining to the next fiscal year) is recorded as deferred revenues.

5. MUNICIPAL SALES TAX

The Municipality imposes a sales and usage tax within the territorial limits of the Municipality pursuant to the Internal Revenue Code of the Commonwealth of Puerto Rico. This is a self-assessed tax consisting of 1.5 percent on the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. It is collected monthly in a tax return that is due ten calendar days after the end of each month.

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

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



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

6. INTERFUND BALANCES

On July 1, 2001 the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures, issued by the Governmental Accounting Standards Board*. This statement requires the disclosure of the flow of resources between funds and to assess the collectibles of inter-fund balances.

Inter-fund receivables and payables at June 30, 2012 are summarized as follows:

<u>DUE FROM:</u>	<u>DUE TO:</u>			
	General Fund	Head Start Fund	Other Governmental Funds	Total
General Fund	\$ 374,913	\$ 61,651	\$ 677,870	\$ 1,114,434
Other Governmental Funds	770,466	-	35,946	806,412
	<u>\$ 1,145,379</u>	<u>\$ 61,651</u>	<u>\$ 713,816</u>	<u>\$ 1,920,846</u>

At June 30, 2012 all amounts due among funds are considered collectible by the Municipality's management.

7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, was as follows:

<u>Governmental Activities:</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Balance June 30, 2012</u>
Capital assets, not being depreciated				
Land	\$ 10,455,899	\$ -	\$ -	\$ 10,455,899
Construction in progress	27,888,844	4,425,217	(835,795)	31,478,266
Total capital assets, not being depreciated	<u>38,344,743</u>	<u>4,425,217</u>	<u>(835,795)</u>	<u>41,934,165</u>
Capital assets, being depreciated				
Buildings, structures and building improvements	45,207,114	-	8,397	45,215,511
Infrastructure	55,027,799	-	-	55,027,799
Vehicles	8,492,088	-	245,817	8,737,905
Machinery and Equipment	4,579,128	-	581,581	5,160,709
Total capital assets being depreciated	<u>113,306,129</u>	<u>-</u>	<u>835,795</u>	<u>114,141,924</u>
Less accumulated depreciation for:				
Buildings, structures and building improvements	14,786,860	968,296	-	15,755,156
Infrastructure	26,457,754	4,489,291	-	30,947,045
Vehicles	8,122,758	62,651	-	8,185,409
Machinery and Equipment	4,013,728	144,016	-	4,157,744
Total accumulated depreciation	<u>53,381,100</u>	<u>5,664,254</u>	<u>-</u>	<u>59,045,354</u>
Total capital assets being depreciated, net	<u>59,925,029</u>	<u>(5,664,254)</u>	<u>835,795</u>	<u>55,096,570</u>
Governmental activities capital assets, net	<u>\$ 98,269,772</u>	<u>\$ (1,239,037)</u>	<u>\$ -</u>	<u>\$ 97,030,735</u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

7. CAPITAL ASSETS - CONTINUED

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

General government	\$ 738,044
Public safety	1,305,769
Health and sanitation	397,048
Culture, recreation and education	510,954
Urban and economic development	<u>2,712,439</u>
 Total depreciation expense	 <u><u>\$ 5,664,254</u></u>

8. INTERGOVERNMENTAL PAYABLES

Intergovernmental payables at June 30, 2012 are summarized as follows:

	<u>General Fund</u>	<u>Governmental Activities</u>
Intergovernmental payable:		
CRIM	751,769	751,769
Puerto Rico Aqueduct and Sewer Authority	581,380	581,380
Employees Retirement System of the Government of Puerto Rico	126,288	126,288
Department of Labor	87,782	87,782
Department of Treasury	11,292	11,292
General Service Administration	50	50
Total	<u><u>\$ 1,558,561</u></u>	<u><u>\$ 1,558,561</u></u>

9. DEFERRED MUNICIPAL LICENSE TAX

The deferred revenue amounting to \$4,201,365 in the accompanying government-wide statement of net assets and balance sheet - governmental funds, respectively, are related to municipal license tax collected in fiscal year 2012 that will be earned in fiscal year 2013.



**COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

10. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2012 was as follows:

	Balance at July 1, 2011, as restated	Borrowings or Additions	Payments or Deductions	Balance at June 30, 2012	Due Within One Year
Bonds and notes payable	\$ 47,968,000	\$ 1,810,000	\$ (3,193,000)	\$ 46,585,000	\$ 2,490,000
Landfill obligation	21,444,133	-	-	21,444,133	-
Compensated absences	2,195,414	313,902	-	2,509,316	1,031,734
Legal claims	-	3,217,883	-	3,217,883	-
Total	\$ 71,607,547	\$ 5,341,785	\$ (3,193,000)	\$ 73,756,332	\$ 3,521,734

A. Bonds and notes payable

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

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are subject to legal debt margin requirement, which is equal to 10% of the total assessment of the property located within the Municipality plus the balance of the special ad valorem taxes in the debt service fund.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2012, the Municipality is in compliance with the debt limitation requirements.

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of major capital facilities and equipment, as well as, to cover certain operating needs. Long-term debt at June 30, 2012 is composed of the following debts:

Description	Balance at June 30, 2012
Series of 1994, \$1,635,000 payable in annual installments of \$55,000 to \$160,000 until 2014; with interest ranging from 6.5% to 7.706%	\$ 310,000
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%	2,730,000
Series of 1999, \$3,115,000 payable in annual installments of \$70,000 to \$290,000 until 2019; with interest ranging from 5.69% to 6.51%	1,615,000
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%	1,060,000



**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2012**

10. LONG - TERM DEBT - CONTINUED

Description	Balance at June 30, 2012
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%	\$ 235,000
Series of 2003, \$2,900,000 payable in annual installments of \$50,000 to \$230,000 until 2027; with interest ranging from 2.7% to 5.6%	2,245,000
Series of 2003, \$215,000 payable in annual installments of \$5,000 to \$15,000 until 2027; with interest ranging from 5% to 6.5%	165,000
Series of 2004, \$1,760,000 payable in annual installments of \$30,000 to \$130,000 until 2028; with interest ranging from 2.36% to 6%	1,390,000
Series of 2003, \$545,000 payable in annual installments of \$10,000 to \$45,000 until 2027; with interest ranging from 5.0% to 6.5%	420,000
Series 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%	705,000
Series 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%	2,990,000
Series of 2005, \$1,375,000 payable in annual installments of \$65,000 to \$125,000 until 2019; with interest ranging from 6% to 5%.	770,000
Notes payable Series 2010 A, HUD section 108 \$1,905,000 payable in annual installments of \$300,000 to \$455,000 until 2015; with interest ranging from 5.26% to 7.66%	1,555,000
Notes payable Series 2010 A, HUD section 108 \$1,245,000 payable in annual installments of \$125,000 to \$185,000 until 2019; with interest ranging from 7.066% to 7.95%	1,120,000
Notes payable Series 2003 A, HUD section 108 \$3,200,000 payable in annual installments of \$175,000 to \$200,000 until 2023; with interest ranging from 2.41% to 5.69%.	2,150,000



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

10. LONG - TERM DEBT - CONTINUED

Description	Balance at June 30, 2012
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%	\$ 265,000
Series of 2008, \$4,390,000 payable in annual installments of \$70,000 to \$360,000 until 2032; with interest ranging from 6.5% to 7%	4,065,000
Series of 2008, \$360,000 payable in annual installments of \$25,000 to \$50,000 until 2018; with interest ranging from 2.43% to 7.5%.	245,000
Series of 2009, \$131,000 payable in annual installments of \$15,000 to \$25,000 until 2015; with interest ranging from 2.43% to 7.5%	64,000
Series of 2009, \$150,000 payable in annual installments of \$15,000 to \$25,000 until 2015; with interest ranging from 2.43% to 7.5%	75,000
Series of 2009, \$1,530,000 payable in annual installments of \$20,000 to \$130,000 until 2033; with interest ranging from 2.43% to 7.5%	1,430,000
Series of 2009, \$1,460,000 payable in annual installments of \$35,000 to \$135,000 until 2028; with interest ranging from 4.75% to 7.5%	1,310,000
Series of 2009, \$1,390,000 payable in annual installments of \$20,000 to \$120,000 until 2033; with interest ranging from 4.75% to 7.5%	1,300,000
Series of 2009, \$454,000 payable in annual installments of \$38,000 to \$65,000 until 2017; with interest ranging from 2.43% to 7.5%	286,000
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%	110,000
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%	445,000
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%	225,000
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%	3,915,000
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%	1,850,000



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

10. LONG - TERM DEBT – CONTINUED

Description	Balance at June 30, 2012
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%	\$ 2,245,000
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%	4,325,000
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%	2,445,000
Series of 2010, \$780,000 payable in annual installments of \$10,000 to \$70,000 until 2035; with interest ranging from 6% to 7%	760,000
Series of 2011-2012, \$ 1,810,000 payable in annual installments of \$45,000 to \$175,000 until 2029; with interest ranging from 6% to 7.5%	<u>1,765,000</u>
Total	<u>\$ 46,585,000</u>

Annual debt service requirements to maturity for bonds and notes payable are as follows:

Year ending June 30,	Principal	Interest
2013	\$ 2,490,000	\$ 2,911,593
2014	2,614,000	2,768,377
2015	2,630,000	2,620,639
2016	2,751,000	2,485,717
2017	2,345,000	2,218,358
2018-2022	12,005,000	7,896,380
2023-2027	11,890,000	6,197,334
2028-2032	7,605,000	2,600,393
2033-2037	2,255,000	433,537
	<u>\$ 46,585,000</u>	<u>\$ 30,132,328</u>

B. Closure and post-closure care cost and landfill obligation

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 Puerto Rico Land Authority, for the term of the contract to the landfill administrator. This transfer will be made free of cost to the administrator as sublessor. In the other hand the administrator will be responsible for the operation and management of the landfill and the rehabilitation work in relation to the horizontal expansion of the landfill.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

10. LONG - TERM DEBT - CONTINUED

B. Closure and post-closure care cost and landfill obligation - (continued)

The Municipality will pay a fixed amount of \$250,000 per annum for the first 200 daily tons of solid waste. In addition, the Municipality will pay \$30.00 for each ton of solid waste in excess of the 200 daily tons received by the administrator.

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

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

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

This cost may be adjusted in the future for inflation.

<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	441,800
Subtotal	7,445,575	Total post-closure maintenance costs (30 Years)	\$13,254,000
10%contingency	744,558		
Total closure cost	\$8,190,133	Total closure and post-closure costs	\$21,444,133

These costs may be adjusted in the future for inflation.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

10. LONG-TERM DEBT - CONTINUED

C. Compensated absences

The government-wide statement of net assets includes \$2,509,316 of accrued vacation benefits, accrued sick leave benefits and payroll related benefits representing the Municipality's commitment to fund such costs from future operations.

11. PENSION PLANS

A. Cost-Sharing Multi-Employer Defined Benefit Pension Plan

The Municipality's employees participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined benefit pension plan established by the Commonwealth and administered by the Retirement Systems Administration of the Commonwealth of Puerto Rico. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed. ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity

ERS members are eligible for a retirement annuity upon reaching the following age:

Policemen and firemen:	Other employees:
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

Merit Annuity

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

Deferred Retirement Annuity

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

11. PENSION PLANS - CONTINUED

Coordinated Plan

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- a) \$165 per month, if retired with 55 years of age and 30 years of credited service.
- b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.
- c) All other between \$82 and \$100 per month.
- d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

Non-Coordinated Plan

On the non-coordinated plan the participating employee does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled is eligible for a disability annuity of 50 percent of the compensation received at the time of disability.

Non-occupational Disability Annuity

A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

Death Benefits Occupational:

- a) **Surviving spouse** – annuity equal to 50 percent of the participating employee's salary at the date of the death.
- b) **Children** - \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

Non-occupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Refunds

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

11. PENSION PLANS - CONTINUED

B. Hybrid Defined Contribution Pension Plan

On September 24, 1999, Public Act No. 305 was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the defined benefit plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000. System 2000 is a hybrid defined contribution plan administered by the Retirement Systems Administration of the Commonwealth of Puerto Rico, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

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

Funding Policies

The authority under which obligations to contribute to ERS and System 2000 by the plans' members, employers and other contributing entities (i.e., state or municipal contributions) are established or may be amended by law by the House of Representatives, the Senate and the Governor of the Commonwealth of Puerto Rico.

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	
Coordination plan:	5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600.
Supplementation plan:	8.28 percent of gross salary. This is the only choice available to policemen, firemen and mayors



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

11. PENSION PLANS - CONTINUED

The contribution requirement to System 2000 is also established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent of gross salary in excess of \$6,600.

During the fiscal years ended June 30, 2012, the Municipality and the participating employees contributed at least 100 percent of the required contributions to ERS and System 2000. The annual pension cost and combined actual contributions made by the Municipality and its participating employees to ERS and System 2000 amounted to \$943,241 for the fiscal years ended June 30, 2012.

Historically, the government of the Commonwealth of Puerto Rico has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

12. COMMITMENTS AND CONTINGENCIES

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

With respects to pending or threatened litigation, the Municipality has reported liabilities of \$3,217,883 or awarded and anticipated unfavorable judgments as of June 30, 2012. This amount was reported within claims and judgments liabilities in the government-wide statement of net assets. Management believes that the ultimately liability in excess of amounts provided, if any, would not be significant.

The Municipality had several outstanding or planned construction projects as of June 30, 2012. These projects are evidenced by contractual commitment with contractors. The construction projects of the Municipality are commitments of the capital project funds that amount to \$8,061,176.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS

The Municipality's government-wide financial statements were misstated as a result of the following:

	Governmental Activities
Nest assets at beginning of the year, as previously reported	\$ 35,458,553
Adjustments:	
Overstatement of bonds and notes payable	2,833,000
Other	2,023
Total adjustments	2,835,023
Nest assets at beginning of the year, as restated	\$ 38,293,576

Accordingly, the net assets of the governmental activities as of June 30, 2011, in the statement of activities, as previously reported, have been restated to reflect an increase of \$2,835,023, which represents the correction of the errors described above.

In addition, the fund balances (deficit) of the general fund, debt service fund and other governmental funds as of June 30, 2011, in the statement of revenues, expenditures and changes in fund balances (deficit), as previously reported, have been restated to reflect an increase of \$1,066,944, \$116,862 and \$1,776,217, respectively, which represent reclassifications and the corrections of the errors as follows:

	General Fund	Debt Service Fund	Head Start Fund	Capital Project Funds	Bond Issued	HUD Program Fund	Other Governmental Funds	Total Governmental Fund
Fund balances (deficit) at beginning of the year, as previously reported	\$ (5,870,637)	\$ 2,351,764	\$ 79,812	\$ 1,462,870	\$ 10,717,286	\$ 639,217	\$ (708,984)	\$ 8,671,328
Reclassifications	(405,898)	1,155,928	(173,391)	9,846,152	(10,717,286)	(639,217)	933,012	-
Fund Balance Reclassified	(6,275,835)	3,507,692	(93,579)	11,309,022	-	-	224,028	8,671,328
Adjustments:								
Cash understatement (overstatement)	(1,161,730)	116,862	-	-	-	-	500,000	(544,868)
Over accrual	-	-	-	-	-	-	418,194	418,194
Mathematical error	-	-	-	-	-	-	(338,513)	(338,513)
Account payable overstatement	2,228,674	-	-	-	-	-	1,196,536	3,425,210
Total adjustments	1,066,944	116,862	-	-	-	-	1,776,217	2,960,023
Fund balances (deficit) at beginning of the year, as restated	\$ (5,208,891)	\$ 3,624,554	\$ (93,579)	\$ 11,309,022	\$ -	\$ -	\$ 2,000,245	\$ 11,631,351



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

14. SUBSEQUENT EVENTS

Subsequent events were evaluated by management through March 25, 2013 which is the same date of the financial statements were available to be issued.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2012

	<u>Budgetary Amounts</u>		<u>Actual amount</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Bugetary)</u>	<u>with final</u>
			<u>(basis)</u>	<u>budget positive</u>
				<u>(negative)</u>
Revenue:				
Property taxes	\$ 6,448,887	\$ 6,448,887	\$ 4,864,846	\$ (1,584,041)
Municipal sales tax	2,426,593	2,426,593	2,228,562	(198,031)
Municipal license tax	4,860,000	4,860,000	4,929,494	69,494
Construction excise tax	740,000	740,000	1,299,500	559,500
Rent	120,000	120,000	106,124	(13,876)
Licenses and permits	82,500	82,500	-	(82,500)
Intergovernmental revenue	5,980,733	5,980,733	8,566,888	2,586,155
Interest	105,000	105,000	44,544	(60,456)
Miscellaneous	110,000	110,000	865,475	755,475
	<u>20,873,713</u>	<u>20,873,713</u>	<u>22,905,433</u>	<u>2,031,720</u>
Expenditures:				
General government	13,357,742	13,357,742	12,898,476	(459,266)
Public safety	984,529	984,529	1,001,145	16,616
Urban and economic development	3,229,647	3,229,647	3,404,124	174,477
Health and sanitation	1,111,700	1,111,700	1,320,315	208,615
Culture, recreation and education	2,131,112	2,131,112	2,047,022	(84,090)
Public, housing and welfare	58,983	58,983	61,395	2,412
	<u>20,873,713</u>	<u>20,873,713</u>	<u>20,732,477</u>	<u>(141,236)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,172,956</u>	<u>\$ 2,172,956</u>

GENERAL FUND'S BUDGETED INFORMATION AND VARIANCE EXPLANATION

Variation of budgeted revenue versus the actual revenue received is due to the efficiency of the Municipality of Vega Baja in the collection of such revenues.

Decrease in expenses is due to an effort the Municipality had during the year to control the expenditures of the Municipality.

The Municipality of Vega Baja reported in the general fund, in the budgetary basis of accounting actual revenues of \$22,905,433 and actual expenditures of \$20,732,477 for an excess of revenues over expenditures of \$2,172,956.

The accompanying notes to budgetary schedule are an integral part of this schedule.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2012

1. STATUTORY (BUDGETARY) ACCOUNTING

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

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

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

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA BAJA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2012

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

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

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

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

The annual budget as presented in the accompanying Budgetary Comparison Schedule – General Fund is the budget ordinance at June 30, 2012 representing the original budget, as amended. There were no supplemental appropriations for the year ended June 30, 2012.



MUNICIPALITY OF VEGA BAJA

PART II

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





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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Vega Baja ("the Municipality"), as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Municipality is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, we identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a 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 a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 12-01 to 12-03.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the accompanying schedule of findings and questioned costs to be significant deficiencies as item 12-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 12-01.

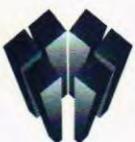
Municipality's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Honorable Mayor, the Municipal Legislature, management, federal awarding agencies, State Funding Agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 25, 2013

Aquino, De Cordova, Alfaro & Co. LLP

Stamp number E48843
has been affixed to the
original report



MUNICIPALITY OF VEGA BAJA

PART III

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

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

Compliance

We have audited the Municipality of Vega Baja's ("the Municipality") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2012. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

As described in items 12-04 in the accompanying schedule of findings and questioned costs, the Municipality's Fund did not comply with requirements regarding reporting that are applicable to its Head Start program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality 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, 2012.

Internal Control Over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance 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 *material weakness in internal control over compliance* is a deficiency, 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.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. No significant deficiency was noted.

This report is intended solely for the information and use of the Honorable Mayor, the Municipal Legislature, management, federal awarding agencies, state funding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 25, 2013

Aquino, De Cordova, Alfaro & Co. S.P.A.

Stamp number E48844
has been affixed to the
original report



MUNICIPALITY OF VEGA BAJA

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS



MUNICIPALITY OF VEGA BAJA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012
SUMMARY OF AUDITORS' RESULTS**

1. The independent auditors' report on the basic financial statements expressed a qualified opinion.
2. Significant deficiencies in internal control over financial reporting were identified.
3. Instances of noncompliance considered significant to the financial statements were disclosed by the audit.
4. Significant deficiencies in internal control over compliance with requirements that could have a direct and material effect on major federal award programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Municipality's major programs was:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Head Start	93.600
Community Development Block Grant	14.218

8. A threshold of \$397,441 was used to distinguish between Type A and Type B programs as those terms defined in OMB Circular A-133.
9. The Municipality did not qualify as a low-risk auditee as defined in OMB Circular A-133.



**MUNICIPALITY OF VEGA BAJA
 SCHEDULE OF FINDINGS AND QUESTIONED COST
 FOR THE YEAR ENDED JUNE 30, 2012**

Reference Number	Finding	Questioned Costs For the Year Ended June 30, 2012
Accounting and Finance Department		
12-01	Deficit in the Municipality's general fund at June 30, 2012	\$ -
12-02	The accounting records are not maintained up to date	
12-03	The Municipality has deficiencies in the execution of property management procedures.	
Head Start		
12-04	Head Start program did not comply with the reporting requirement	-
		<hr/>
		\$ -
		<hr/> <hr/>



MUNICIPALITY OF VEGA BAJA

PART V

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



Finding Number: 12-01
Department: Accounting and Finance
Category: Internal Control

Criteria

In accordance with the “Reglamento para la Administración de Municipios” Chapter IV, Section 19, the Finance Director has the responsibility of overseeing financial operations to prevent deficits in any municipal fund.

Condition

The Municipality closed its fiscal year ended June 30, 2012 with a fund deficit in the general fund of approximately \$1.8 million.

Effect

The continued occurrence of this situation may result in possible significant fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.

Cause

The above situation is primarily due to the lack of proper accounting and analysis in the Municipality’s accounting records.

Recommendation

The Municipality should make an effort in revising and amending the budget as current information related to collections of budgeted revenues becomes available in order to prevent incurring obligations in excess of available resources.

Views of Responsible Officials

Management agrees.



Finding Number: 12-02

Department: Accounting and Finance

Category: Internal Control

Criteria

Article 8.010 (c) of the Municipalities' Act states that the accounting system should provide: (a) complete information of the Municipality's operations; (b) proper and necessary financial information for the efficient administration of the Municipality; (c) effective controls and the accountability for all the funds, property and other municipal assets; and (d) necessary information for the preparation of accurate financial reports that could be used in the preparation of the municipal budget.

Condition

During the audit process, we noted that the accounting records were not maintained on a timely basis as follows:

General Fund

1. The Municipality had unreconciled differences in the bank account conciliations.
2. The general ledger of the Municipality showed \$475,000 in certificate of deposits, which were not confirmed by bank. Therefore, no sufficient evidential matter in connection with to above certificate of deposit was provided for examination.
3. The Municipality does not have procedures in place for the presentation of standard financial reporting.
4. During our auditing procedures we noted that some adjustments and reclassifications were made decreasing the beginning fund deficit without any supporting documents. Therefore, no sufficient evidential matter in connection with the prior period adjustments was provided for examination.
5. During our audit procedures we selected various disbursements for which the Municipality could not provide us supporting documents for examination.

Other Governmental Funds

6. The Municipality had in the Citizen Participation Fund ("Aportacion Ciudadana") a certificate of deposit amounting to \$50,000 that was erroneously deposited to a HUD-V bank account, which is a federal fund.
7. The Municipality has accounts receivable, that comes from prior years to 2009, which represents transfers between funds totalizing \$726,919 for which there are no supporting documents available for examination.
8. The Municipality has accounts payable totalizing \$639,041 that comes from prior years to 2009 which represents transfers from funds for which there are no supporting documents available for examination.
9. During our disbursement test we noted that a disbursement was made without the approval of the pre-intervention department the Municipality.
10. The accounts payable detail provided did not have a check number, invoice number, or reference that identify the transactions.



11. There is a debit balance in one of the revenues detail for \$23,436 for which no supporting documents were available for our examination.
12. The Municipality had unreconciled differences in the bank account conciliations amounting \$14,354.85 and a certificate of deposit for \$200,000 for which no supporting documents were available for examination.

Capital Project fund

13. During our disbursement test process we selected various disbursements for examination and found the following:
 - a. There were no supporting documents for a disbursement amounting to \$14,048.54.
 - b. There were various disbursements supporting documents without the approval signature of the representative of the Municipality.

General

14. The Municipality does not make periodical journal. Therefore, no journal entries were available for our examinations.
15. The Municipality does not have a financial or reporting closing procedures in place.
16. The Municipality does not perform physical inventories of their capital assets on annual basis.

Effect

Managerial decisions may be executed using unreliable assumptions on financial information.

Cause

This is caused by the lack of adequate procedures and infrastructure, including professionals with the adequate authority and responsibility for the supervision and analysis of the general accounting and records.



Recommendation

Management should maintain the accounting records on a timely basis and perform comparing, reviewing and monitoring procedures in order to have reliable financial information that can be used in the managerial decision process.

Views of Responsible Officials

Management agrees.



Finding Number: 12-03
Department: Property Management
Category: Internal Control

Criteria

Article 8.010 (c) of the Municipalities' Act states that the accounting system should provide: (a) complete information of the Municipality's operations; (b) proper and necessary financial information for the efficient administration of the Municipality; (c) effective controls and the accountability for all the funds, property and other municipal assets; and (d) necessary information for the preparation of accurate financial reports that could be used in the preparation of the municipal budget.

Chapter VII, Section 23 of the "Reglamento para la Administración de Municipios" also establishes that property physical inventories should be performed on an annual basis, as part of the overall property management control of the Municipality. Updated inventory lists should be compared and agreed with general ledger, and differences, if any, should be investigated and reconciled.

Chapter VII, Section 14 of the "Reglamento para la Administración de Municipios" establishes that the Municipality will assign a unit number for all municipal property acquired and owned by the Municipality. Before any payment made for property acquired by purchase, the Property Manager shall assign the number of unit of the property in the respective purchasing document.

Chapter VII, Section 15 of the "Reglamento para la Administración de Municipios" also establishes that the Property Manager shall have full control of property records of the Municipality and responds to the Finance Director. Also, after the unit number is assigned the Property Manager shall prepare a record of the property which must contain the following information: unit number, name, description of the property, cost or estimated value at the date of the acquisition, name and address of the supplier, brand name, serial number and location of the property.

Condition

The Municipality has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we noted that the Municipality's equipment acquired during the year is not properly and timely labeled and identified.

Effects

There is a significant risk of unauthorized appropriation, use, or disposition of property because there are no internal controls to ensure accountability of assets by department/division. This inadequate property control may expose the Municipality to cost disallowances by the federal government for lost or stolen property acquired with federal funds.



Cause

The Municipality does not maintain accurate records for acquisitions, transfers, returns and disposal of the assets acquired.

The Property Division has not enforced the requirement that departments perform property inventories to ensure the proper accountability of assets.

Recommendation

The Municipality's management should ensure that proper procedures are in place to ensure that property purchased is properly and timely identified and conduct periodic inventories and follow up any inventory discrepancies. In addition, the Municipality's management should review all disposals of property to ensure appropriate valuation.

Views of Responsible Officials

Management agrees



MUNICIPALITY OF VEGA BAJA

PART VI

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



Finding Number: 12-04
Federal Program: CFDA 93.600 Head Start
Federal Agency: Municipality of Vega Baja
Category: Compliance

Compliance Requirement: Reporting Requirements

Criteria

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires reporting of accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis of available documentation. The Federal awarding agency may accept identical information from the recipient in a machine-readable format, computer printout or electronic outputs in lieu of the prescribed formats.

The standard financial report form is as follows:

Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061)). Recipient use the FFR as a standardized to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10.c). Reference include its applicability as both an expenditure and a cash status report unless otherwise indicated.

Grantee did not provide us evidence of the reporting of cash received and disbursement that could match with the amounts reported in the Federal Financial Report.

Inadequate evidence was identified in 100 percent of the case, federal regulation dictate the method of reporting. Records must show the disbursement reporting in the Federal Financial Report.

Condition

As part of our audit procedures, we request all supporting documents related with the reporting requirements, however, even when the reports were available for our examination, we could not traced the amounts received and expended by quarter with the amount reported to the Federal agency.

Effect

Due to the significant amount of the federal funds received, the Municipality of Vega Baja could be exposing itself to significant disallowances from the grantors.

Questioned costs

Not identified

Recommendation

We recommend that the Municipality of Vega Baja reemphasize to grantees that the reporting requirements is to be properly documented and met.



MUNICIPALITY OF VEGA BAJA

PART VII

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**



MUNICIPALITY OF VEGA BAJA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR</u> <u>PROGRAM TITLE</u>	<u>FEDERAL</u> <u>CFDA</u> <u>NUMBER</u>	<u>Pass-through</u> <u>Number</u>	<u>2012</u> <u>EXPENDITURES</u>
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct programs:			
Community Development Block Grants/State's Program	14.228		\$ 1,610,941
Section 8 Housing Choice Vouchers	14.871		1,812,266
Supportive Housing Program	14.235		333,307
Emergency Shelter Grants Program	14.231		211,961
Community Development Block Grants Section 108- Loan Guarantees	14.248		84,753
Pass-through the Municipality of Vega Baja:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	*	39,482
Total US Department of Housing and Urban Development			<u>4,092,710</u>
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct programs:			
Adm Edificio Suarez Sandin	93.000		139,799
Pass-through from Commonwealth of Puerto Rico Governor's Office:			
Special Program for the Aging-Title III, Part C. Nutrition Services	93.045	*	269,345
Pass-through from Commonwealth of Puerto Rico Families and Child Administration:			
Child Care and Development Block Grant	93.575	*	801,966
Head Start	93.600	*	6,626,043
Pass-through Program Support Center:			
Surplus Property Utilization	93.291	*	384
Total US Department of Health and Human Services			<u>7,837,537</u>
<u>US DEPARTMENT OF AGRICULTURE</u>			
Pass-through from Commonwealth of Puerto Rico Department of Education			
Child and Adult Care Food Program	10.558	*	73,490
Pass-through Rural Business Cooperative Services			
Rural Economic Development Loans and Grants	10.854	*	696,338
			<u>769,828</u>
<u>FEDERAL TRANSPORTATION ADMINISTRATION</u>			
Pass-through Commonwealth of Puerto Rico Department of Transportation and Public Works			
Formula Grants for Other Than Urbanized Areas	20.509	*	260,117
<u>US DEPARTMENT OF HOMELAND SECURITY</u>			
Public Assistance Grant (FEMA)	97.036		258,214
<u>US DEPARTMENT OF JUSTICE</u>			
COPS 2006	16.710		19,714
<u>NATIONAL CREDIT UNION ADMINISTRATION</u>			
Community Development Revolving Loan Program for Credit Unions	44.002		9,926
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 13,248,046</u>

*Pass-through numbers were not available

See notes to the Schedule of Expenditures of Federal Awards.



MUNICIPALITY OF VEGA BAJA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

1. **Basis of Presentation**—The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality of Vega Baja (“the Municipality”), and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The Municipality government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, which conform to accounting principles generally accepted in the United State of America (“GAAP”) as applicable to governmental units. The accounts of the Municipality are presented on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for by individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

A reconciliation of amounts included in the Schedule of Expenditures of Federal Awards to the other governmental funds column in the fund financial statements follows:

Schedule of expenditures of federal awards (including Head Start)	\$ 13,248,046
Head Start (major program)	(6,406,169)
Nonfederal programs included in other governmental funds (excluding Head Start)	<u>3,397,793</u>
 Total other governmental funds columns in the governmental fund financial statements	 <u>\$ 10,239,670</u>

2. **Catalog of Federal Domestic Assistance (“CFDA”)**—The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget’s Catalogue of Federal Domestic Assistance.

3. **Reporting Entity**— The Municipality, for purposes of the Supplementary Schedule of Expenditure of Federal Awards, includes all the funds of the primary government as defined by GASB Statement No. 14. *The Financial Reporting Entity.*



MUNICIPALITY OF VEGA BAJA

PART VIII

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS



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

<u>Ref. No.</u>	<u>Finding/Noncompliance</u>
2011-01	Accounting and Finance Department General Fund-Deficit Year ended June 30, 2010 Finding not corrected
2011-02	U.S. Department of Homeland Security CFDA: 97.036 Grant no. Disaster Grant Public Assistance Year ended June 30, 2011 Finding not corrected

