COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF VEGA BAJA

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH ADDITIONAL REPORTS REQUIRED BY THE SINGLE AUDIT ACT)

For the Year Ended June 30, 2014

Municipality of Vega Baja
PO Box 371330, Vega Baja, Puerto Rico 00737
Hon. Marcos Cruz Molina

CONTENTS

CONTENTS (CONTINUED)

López-Vega, CPA, PSC
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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Vega Baja**, Puerto Rico (the Municipality), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United State of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Adverse Opinion on Governmental Activities

Due to the inappropriateness of the Municipality's accounting records over fixed assets, we were unable to obtain adequate audit evidence regarding the amounts at which capital assets, accumulated depreciation and net investment in capital assets, are recorded in the accompanying statement of net position at June 30, 2014, stated at $156,076,089, $59,045,354 and $57,384,959.

Management has not capitalized certain acquisitions of properties and equipment and the construction in progress in the governmental activities and, accordingly, such disbursements are recognized as expenses in the statement of activities. Also, no depreciation expense has been recorded for those assets in the fiscal year 2014. Accounting principles generally accepted in the United States of America require that those assets be capitalized and depreciated, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discusses in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the **Municipality of Vega Baja**, Puerto Rico, as of June 30, 2014, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Vega Baja,** Puerto Rico, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages **4 through 13** and Budgetary Comparison information on page **71**, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Vega Baja's** basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in pages **74 and 75** is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages **77** and **78** is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The Financial Data Schedule and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2015, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Municipality's internal control over financial reporting and compliance.

López Vega CPA PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 15, 2015

Stamp No. 2675890 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

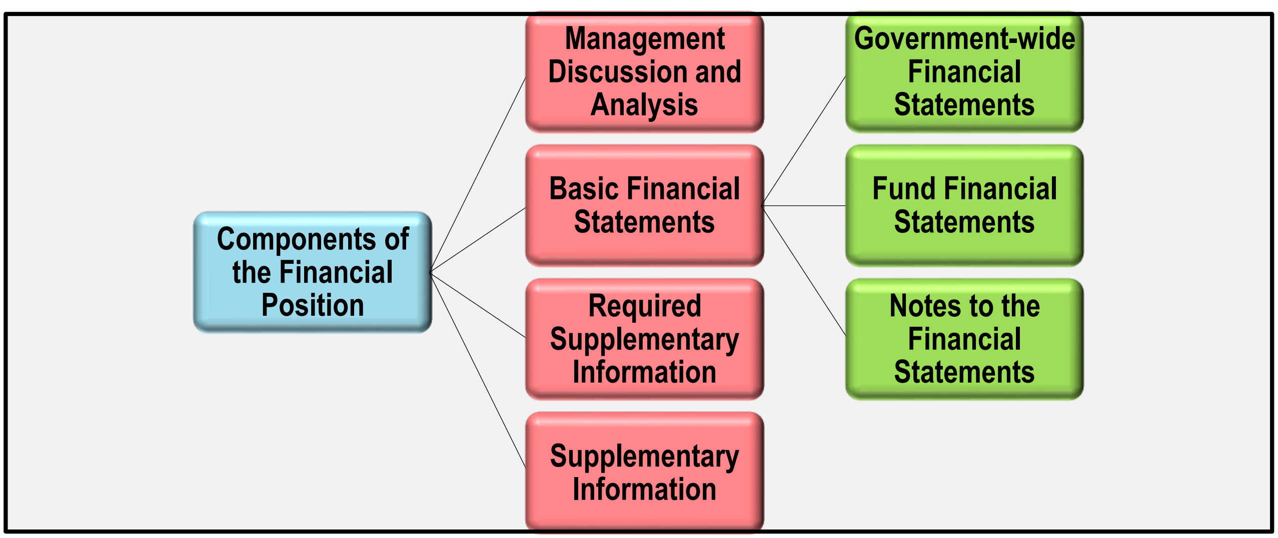
The discussion and analysis of the Municipality of Vega Baja's financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2014 by $34,450,213 (net position), an increase of 15% in comparison with 2013, as restated. Of this amount, the Municipality presented an unrestricted net position (deficit) of $32,359,508.
- Revenues increased 6% and expenses decreased 11% when compared with fiscal year 2013, as restated. Net position increased $4,474,541 in 2014.
- A positive net change in the fund balances of the Municipality's governmental funds of $3,752,069 in the fiscal year 2014 resulted in reported ending fund balances of $15,582,338.
- For the fiscal year 2014, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of $2,807,379. The unassigned fund balance amounts to $1,503,458 for an increase of 215% as compared to 2013, as restated.
- The investment in capital assets as of June 30, 2014 was $97,030,735 (net of depreciation).
- Long-term debt (total primary government) increased to $82,083,039 or approximately 1% with respect to the prior year, as restated.
- On a budgetary basis, actual revenues exceeded actual expenditures by $905,477.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- ***Government-Wide Financial Statements***

  The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement, the s*tatement of net position,* presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement, the *statement of activities*, presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

  The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, community, urban and economic development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

  The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well as by bond covenants.

  The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified-accrual basis of accounting. Under this approach, the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to financial statements***

  The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net position

The following table presents a summary of the Statements of Net Position as of June 30, 2014 and 2013:

TABLE 1

Summary Statement of Net Position
As of June 30,

	Governmental Activities	
	2014	**2013, as restated**
Assets		
Current and other assets	$ 30,218,876	$ 24,759,481
Capital assets	97,030,735	97,030,735
Total assets	$ 127,249,611	$ 121,790,216
Liabilities		
Current and other liabilities	10,716,359	10,144,927
Long-term liabilities	82,083,039	81,669,617
Total liabilities	92,799,398	91,814,544
Net Position		
Net investment in capital assets	57,384,959	52,661,273
Restricted	9,424,762	8,411,675
Unrestricted (deficit)	(32,359,508)	(31,097,276)
Total net position	$ 34,450,213	$ 29,975,672

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2014, assets exceeded its liabilities by $34,450,213. Of this amount, $(32,359,508) represents unrestricted net position (deficit). This deficit primarily arises from long-term obligations such as compensated absences, debts to CRIM, landfill, among other debts, for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as net investment in capital assets. Therefore, they are reported as part of the unrestricted net position section. Restricted net position represents resources that are subject to external restrictions on how they may be used. Net position reported an increase of 14% with respect to fiscal period 2013.

The largest portion of the Municipality's net position reflects its investment in capital assets (land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

Changes in net position

The following table summarizes the changes in net position for the fiscal years ended 2014 and 2013:

TABLE 2

Summary of Changes in Net Position
As of June 30,

	Governmental Activities	
	2014	**2013, as restated**
Program revenues:		
Fees, fines and charges for services	$ 5,580,644	$ 5,279,011
Operating grants and contributions	10,391,983	10,415,278
Capital grants and contributions	2,187,317	3,718,319
General revenues:		
Property taxes	11,009,032	9,321,118
Municipal license taxes	6,635,792	5,401,367
Sales and use taxes	3,021,923	3,450,883
Grants and contributions not restricted to specific programs	4,733,141	3,960,200
Interest	372,949	421,797
Miscellaneous	340,708	329,874
Total revenues	44,273,489	42,297,847
Expenses:		
General government	12,850,637	12,896,697
Public works and sanitation	8,975,445	13,345,345
Public safety	1,477,558	1,596,486
Culture and recreation	1,537,224	1,590,277
Health	1,217,833	1,133,447
Housing, welfare and community development	4,673,496	4,437,205
Urban and economic development	384,055	319,375
Education	6,294,754	5,658,726
Interest on long-term debt	2,387,946	3,882,262
Total expenses	39,798,948	44,859,820
Change in net position	4,474,541	(2,561,973)
Net position-beginning of year, as restated	29,975,672	32,537,645
Net position-end of year	$ 34,450,213	$ 29,975,672

The three major sources of revenues of the Municipality in fiscal year 2014 are: property taxes with 25% of total revenues, operating grants and contributions with 23% and municipal license taxes with 15%. Revenues increased 5% due mainly to an increase of 23%, 20% and 18% in municipal license taxes, unrestricted grants and contributions and property taxes, respectively, which were offset by a decrease of 41% and 12% in capital grants and contributions and sales and use taxes, respectively. The following chart illustrates the revenue comparison between 2014 and 2013:

Figure 1

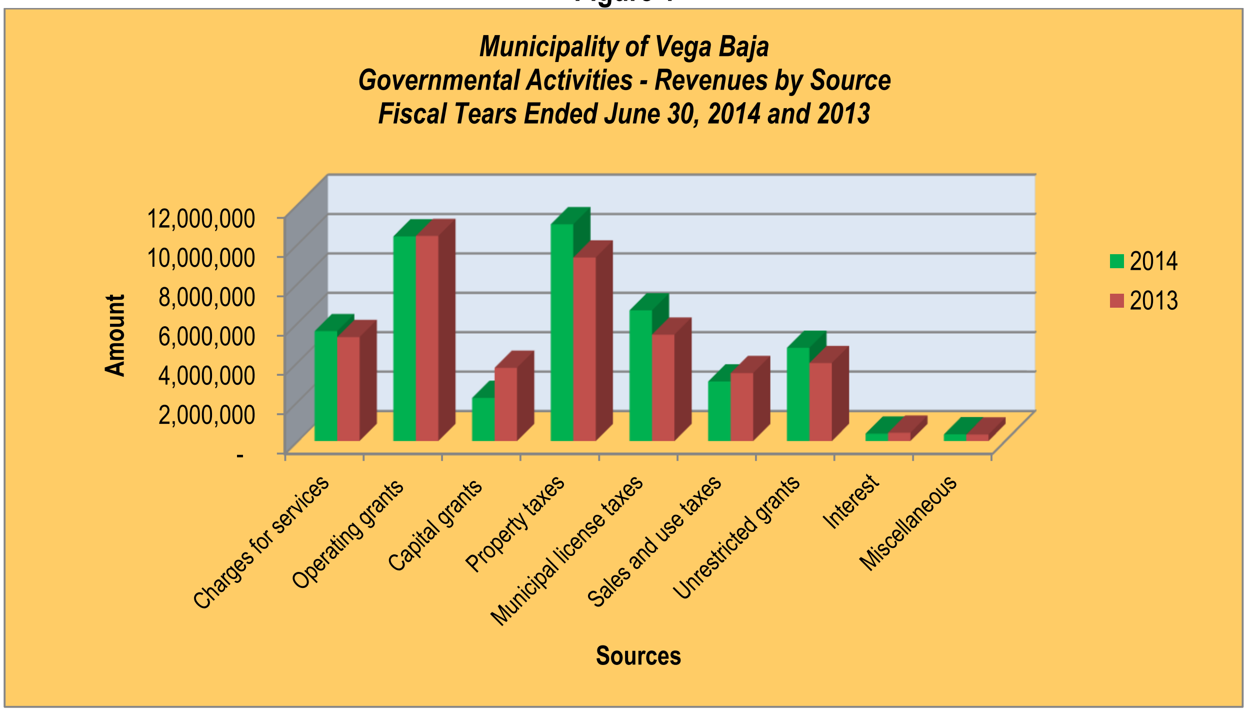
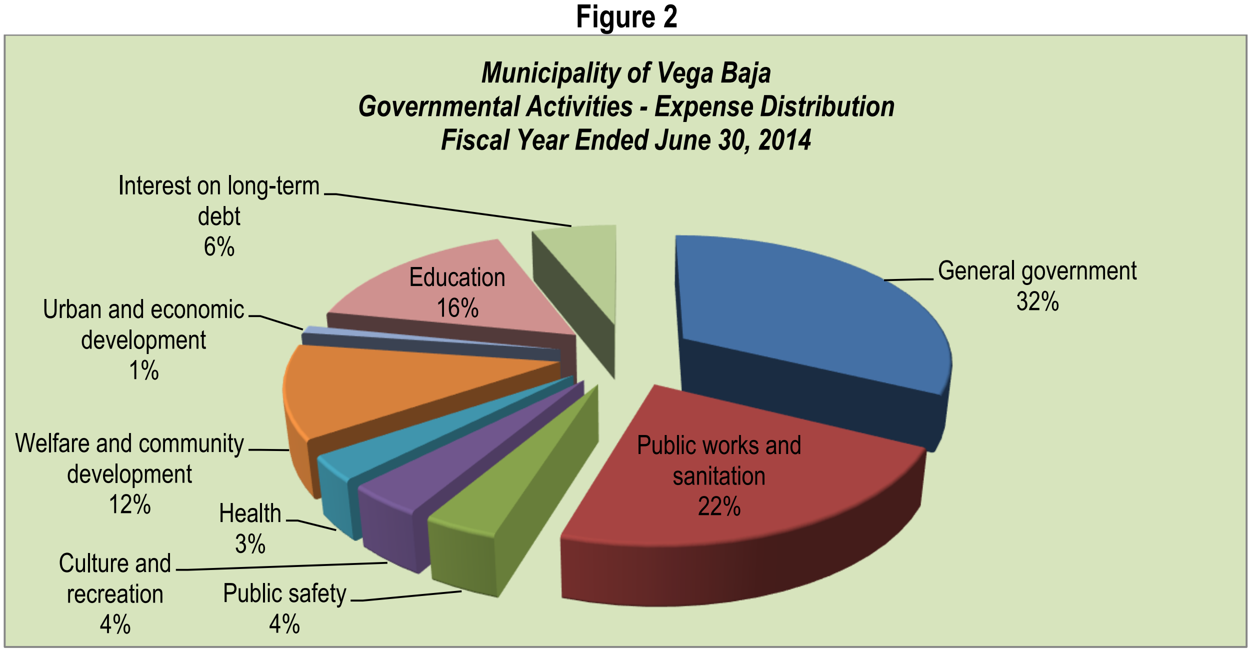


Figure 2



The Municipality's expenses cover a range of services. **Figure 2** illustrates the distribution of expenses in fiscal year 2014. As disclosed, the largest governmental activities expenses are general government with 32% and public works and sanitation with 22%. Total expenses decreased 11% when compared with fiscal year 2013.

The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following table discloses the 2014 expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3

Expenses Net of Program Revenues - Governmental Activities
Fiscal Year ended June 30, 2014

Net expenses	**2014**
General government	$ (7,333,727)
Public works and sanitation	(6,780,963)
Public safety	(1,190,856)
Culture and recreation	(1,459,271)
Health	(1,217,833)
Housing, welfare and community development	(1,089,065)
	(137,352)
Education	(41,991)
Interest on long term debt	(2,387,946)
Total expenses, net of program revenues	(21,639,004)
General revenues	
Taxes	20,666,747
Grants and contributions not restricted to specific programs	4,733,141
Interest and other	713,657
Total general revenues	26,113,545
Change in net position	$ 4,474,541

Expenses of governmental activities not covered by program revenues were finally covered by other general revenues.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party.

For the fiscal year ended June 30, 2014, the governmental funds reported ending fund balances of $15,582,338, a net increase of $3,752,069 or 32% due to an overall increase of 6% in total revenues and an 11% decrease in total expenditures. Of the total fund balances, $1,331,765 or 9% constitutes unrestricted fund balance, of which $(171,693) are unassigned funds with a net deficit. The remaining fund balance is restricted to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 10% of total ending fund balances. Of the total fund balance, 2% is restricted for public works. The remaining unrestricted fund balance of $1,503,458 is unassigned fund balance, which represents 98% of the total fund balance of the general fund. Unassigned fund balance increased 215% with respect to the prior year.

During the fiscal year, the fund balances of the general fund increased by $2,807,379. The main sources of revenues of the general fund in fiscal year 2014 are: taxes (property taxes, sales and use taxes and municipal license taxes) with 60%, and intergovernmental subsidies from the Commonwealth and charges for services, with 19% each. Revenues increased 16% in comparison to 2013 due to increases in taxes and intergovernmental revenues. The largest expenditures of the general fund are general government with 51% and public works and sanitation with 24%. Expenditures decreased 0.3%.

GENERAL FUND BUDGETARY HIGHLIGHTS

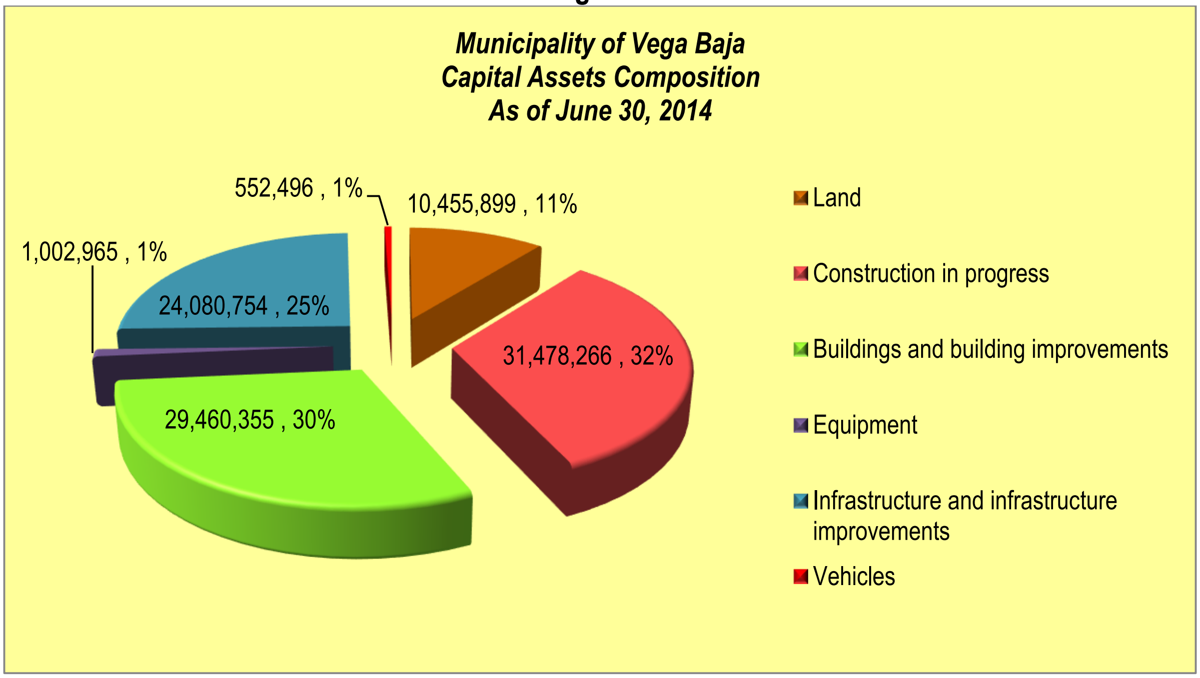
The general fund original budget for the fiscal year 2013-2014 presented a 5% decrease with respect to the prior year budget. Actual revenues exceeded revised budgeted revenues by $1,269,114 (net). However, the Municipality reported a negative variance of $363,637 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by $905,477.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested $97,030,735 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land, furniture, works of art and equipment. The following graphic discloses the capital assets balances composition as of June 30, 2014:

Figure 3



Long-term debt

The following is a summary of the Municipality's outstanding debt as of June 30, 2014 and 2013:

TABLE 4

Outstanding Long-term Debt
Fiscal years ended June 30,

	Governmental Activities	
	2014	**2013, as restated**
General and special obligation bonds and notes	$ 44,800,000	$ 43,370,000
General obligation bond anticipation notes	765,348	758,448
Section 108 Loan Guarantee notes payable	3,525,000	4,175,000
Mortgages payable	1,661,143	1,671,451
Notes payable to CRIM – Law 146	385,259	406,662
Payable to PREPA	1,884,515	1,062,381
Payable to CRIM – Property tax advances	92,624	732,111
Compensated absences	2,798,257	2,983,990
Christmas bonus payable	450,122	486,562
Claims and judgments	2,712,876	2,678,879
Landfill	23,007,895	23,344,133
Total	$ 82,083,039	$ 81,669,617

At year-end, the Municipality had outstanding $44,800,000 in general and special bonds and notes, a increase with respect to the prior year of $1,430,000, main due to the issuance of bonds and notes in the total amount of $3,450,000. The other significant change is in notes payable to CRIM – property tax advances, which decreased by $639,487 or 87%.

More detailed information about the Municipality's long-term liabilities is presented in Note 11 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing the fiscal year's 2014-2015 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate at June 2014 stands at 13.2%, and the Commonwealth rate stands at 13.1%.

For the fiscal year 2014-2015, the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are $21,403,519, a decrease of approximately 1% with respect to prior year estimates. Budgeted expenditures are expected to decrease according to the decrease of budgeted revenues. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of the 2014-2015 fiscal year. In addition to the general fund estimated budget, the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have any questions about this report or need any additional information contact the Finance Department at the Municipality of Vega Baja at P.O. Box 4555, Vega Baja, Puerto Rico 00694.

	Governmental Activities
Assets	
Cash and cash equivalents	$ 8,212,673
Accounts receivable, net:	
Municipal license taxes	3,611
Sales and use taxes	256,152
Construction permits	36,308
Others	64,805
Due from:	
Commonwealth Government	2,520,138
Federal Government	12,889
Restricted assets:	
Cash and cash equivalents	3,391,395
Cash with fiscal agents	15,720,905
Capital assets	
Land and construction in progress	41,934,165
Other capital assets, net	55,096,570
Total capital assets	97,030,735
Total assets	127,249,611
Liabilities	
Accounts payable and accrued liabilities	2,763,052
Interest payable	1,732,099
Due to:	
Commonwealth Government	265,157
Federal Government	3,175
Unearned revenues:	
Municipal license taxes	5,881,554
Federal grants	71,322
Noncurrent liabilities:	
Due within one year	5,979,625
Due in more than one year	76,103,414
Total liabilities	92,799,398
Net position	
Net investment in capital assets	57,384,959
Restricted for:	
Capital projects	170,999
Debt service	7,782,455
Other purposes	1,471,308
Unrestricted (deficit)	(32,359,508)
Total net position	$ 34,450,213

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

Functions/Programs	Expenses	Program Revenues: Fees, Fines and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Change in Net Position: Governmental Activities
Governmental Activities:					
General government	$ 12,850,637	$ 5,341,374	$ 175,536	$ -	$ (7,333,727)
Public works and sanitation	8,975,445	7,165	-	2,187,317	(6,780,963)
Public safety	1,477,558	135,693	151,009	-	(1,190,856)
Culture and recreation	1,537,224	63,048	14,905	-	(1,459,271)
Health	1,217,833	-	-	-	(1,217,833)
Welfare and community development	4,673,496	-	3,584,431	-	(1,089,065)
Urban and economic development	384,055	33,364	213,339	-	(137,352)
Education	6,294,754	-	6,252,763	-	(41,991)
Interest on long-term debt	2,387,946	-	-	-	(2,387,946)
	$ 39,798,948	$ 5,580,644	$ 10,391,983	$ 2,187,317	$ (21,639,004)

General revenues:	
Taxes:	
Property taxes	11,009,032
Municipal license taxes	6,635,792
Sales and use taxes	3,021,923
Grants and contributions not restricted to specific programs	4,733,141
Interest	372,949
Miscellaneous	340,708
Total general revenues	26,113,545
Change in net position	4,474,541
Net position - beginning, as restated	29,975,672
Net position - ending	$ 34,450,213

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

	Major Funds					
	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Head Start Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 8,212,673	$ -	$ -	$ -	$ -	$ 8,212,673
Accounts receivable, net:						
Municipal license taxes	3,611	-	-	-	-	3,611
Sales and use taxes	184,806	71,346	-	-	-	256,152
Construction permits	36,308	-	-	-	-	36,308
Others	-	-	-	-	64,805	64,805
Due from:						
Commonwealth Government	2,093,582	53,786	-	104,222	268,547	2,520,137
Federal Government	-	-	-	-	12,889	12,889
Other funds	1,259,638	-	-	-	9,802	1,269,440
Restricted assets:						
Cash and cash equivalents	-	-	-	393,916	2,997,479	3,391,395
Cash with fiscal agents	35,838	8,738,280	6,946,787	-	-	15,720,905
Total assets	$ 11,826,456	$ 8,863,412	$ 6,946,787	$ 498,138	$ 3,353,522	$ 31,488,315
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts payable and accrued liabilities	$ 2,036,871	$ -	$ 257,241	$ 75,275	$ 393,665	$ 2,763,052
Matured bonds, notes and interest payable	-	3,404,957	-	-	-	3,404,957
Due to:						
Commonwealth Government	262,177	-	-	2,980	-	265,157
Federal Government	3,175	-	-	-	-	3,175
Other funds	9,802	-	-	419,883	839,755	1,269,440
Unearned revenues:						
Municipal license tax	5,881,554	-	-	-	-	5,881,554
Federal grant revenues	-	-	-	-	71,322	71,322
Total liabilities	8,193,579	3,404,957	257,241	498,138	1,304,742	13,658,657
Deferred Inflows of Resources						
Unavailable revenues - Commonwealth Government	2,093,581	-	-	-	43,068	2,136,649
Unavailable revenues - Federal Government	-	-	-	-	110,671	110,671
Total deferred inflows of resources	2,093,581	-	-	-	153,739	2,247,320
Fund Balances						
Restricted	35,838	5,458,455	6,689,546	-	2,066,734	14,250,573
Unassigned	1,503,458	-	-	-	(171,693)	1,331,765
Total fund balances	1,539,296	5,458,455	6,689,546	-	1,895,041	15,582,338
Total liabilities, deferred inflows of resources and fund balances	$ 11,826,456	$ 8,863,411	$ 6,946,787	$ 498,138	$ 3,353,522	$ 31,488,315

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

	Major Funds					
	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Head Start Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Property taxes	$ 6,324,493	$ 4,777,163	$ -	$ -	$ -	$ 11,101,656
Municipal license taxes	6,635,792	-	-	-	-	6,635,792
Sales and use taxes	2,241,642	780,281	-	-	-	3,021,923
Intergovernmental:						
Commonwealth Government	4,750,066	-	207,926	-	1,083,441	6,041,433
Federal Government	-	-	-	6,252,763	4,805,792	11,058,555
Fees, fines and charges for services	4,758,510	-	-	-	-	4,758,510
Interest	365,561	6,370	1,018	-	-	372,949
Miscellaneous	221,450	-	-	-	194,899	416,349
Total revenues	25,297,514	5,563,814	208,944	6,252,763	6,084,132	43,407,167
Expenditures						
Current:						
General government	12,777,558	-	15,280	-	177,355	12,970,193
Public works and sanitation	5,254,698	-	-	-	1,496,735	6,751,433
Public safety	1,413,015	-	-	-	64,543	1,477,558
Culture and recreation	1,514,154	-	-	-	23,070	1,537,224
Health	1,217,833	-	-	-	-	1,217,833
Welfare and community development	1,053,881	-	-	-	3,663,502	4,717,383
Urban and economic development	171,595	-	-	-	212,460	384,055
Education	41,991	-	-	6,252,763	-	6,294,754
Capital outlays	-	-	2,560,250	-	-	2,560,250
Debt service:						
Principal	-	2,324,000	-	-	650,000	2,974,000
Interest	-	2,081,927	-	-	145,388	2,227,315
Total expenditures	23,444,725	4,405,927	2,575,530	6,252,763	6,433,053	43,111,998
Excess (deficiency) of revenues over expenditures	1,852,789	1,157,887	(2,366,586)	-	(348,921)	295,169
Other financing sources (uses)						
Proceeds from the issuance of bonds	-	-	3,450,000	-	-	3,450,000
Proceeds from bond anticipation note issuance	-	-	-	-	6,900	6,900
Transfers in	956,214	-	-	-	1,624	957,838
Transfers (out)	(1,624)	(873,493)	-	-	(82,721)	(957,838)
Total other financing sources (uses)	954,590	(873,493)	3,450,000	-	(74,197)	3,456,900
Net change in fund balances	2,807,379	284,394	1,083,414	-	(423,118)	3,752,069
Fund balance (deficit), beginning, as restated	(1,268,083)	5,174,061	5,606,132	-	2,318,159	11,830,269
Fund balance at end of year	$ 1,539,296	$ 5,458,455	$ 6,689,546	$ -	$ 1,895,041	$ 15,582,338

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

Total governmental fund balances		**$ 15,582,338**
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		97,030,735
Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Due from Commonwealth Government:		
P.R. Electric Power Authority (PREPA)	$ 1,884,515	
P.R. Department of Labor - Law Num. 52	43,068	
P.R. Administration for the Care and Integral Development of Children - Child Care Program	17,035	
P.R. Administration for the Socialeconomic Development of Families - TANF Program	44,401	
P.R. Office of Ombudsman Administration - Special Program for the Aging-Title III, Part C	49,235	
Christmas bonus reimbursement	209,067	2,247,321
Interest liabilities are not due and payable in the current period and, therefore, are not reported in the funds		(651,142)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	42,476,000	
General obligation bond anticipation note	765,348	
Section 108 Loan Guarantee notes payable	3,525,000	
Mortgages payable	1,661,143	
Note payable to CRIM - Law No. 146	385,259	
Payable to PREPA	1,884,515	
Payable to CRIM - property tax advances	92,624	
Compensated absences	2,798,257	
Christmas bonus	450,122	
Claims and judgments	2,712,876	
Landfill	23,007,895	(79,759,039)
Net position of governmental activities		**$ 34,450,213**

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

Net change in fund balances - total governmental funds		**$ 3,752,069**
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Christmas bonus reimbursement (current year)	$ 209,067	
P.R. Electric Power Authority (PREPA)	1,554,201	
P.R. Department of Labor - Law Num. 52	43,068	
Federal grants - TANF	44,401	
Federal grants - Child Care	17,035	
Federal grants - Special Program for the Aging-Title III, Part C	49,235	1,917,007
Revenues reported in the funds that are not reported as revenues in the Statement of Activities:		
Property taxes - General Fund (current year)	(92,624)	
P.R. Electric Power Authority (PREPA)	(732,067)	
Christmas bonus reimbursement (prior year)	(225,993)	(1,050,684)
Proceeds from general obligation bonds and notes are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position		(3,450,000)
Proceeds from general obligation bond anticipation notes are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position		(6,900)
Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:		
Matured bonds and notes principal payments (net change)		304,000
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:		
General obligation bonds and notes	2,020,000	
Other long-term liabilities	4,757,052	6,777,052
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:		
Christmas bonus	(450,122)	
Claims and judgments	(859,526)	
Payable to the P.R. Electric Power Authority (PREPA)	(2,331,302)	
Accrued interest (net change)	(127,053)	(3,768,003)
Change in net position of governmental activities		**$ 4,474,541**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Vega Baja** (the Municipality) was founded in 1776. The Municipality‘s governmental system consists of an executive and legislature branch elected for a four-year term during the general elections of Puerto Rico. The Mayor is the executive officer and the legislative branch consists of sixteen members of the Municipal Legislature. The Municipality provides a comprehensive range of services to its citizens such as: general government administration; public works and sanitation; public safety; health; welfare programs; community, urban and economic development; culture and recreation activities and educational services.

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its governmental accounting and financial reporting standards which, along with subsequent GASB Statements and Interpretations, constitute GAAP for governmental entities.

A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Vega Baja (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management‘s professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity‘s financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit‘s relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

1. The primary government appoints a voting majority of the entity’s governing body, and either:

    - A financial benefit/ burden exist between the primary government and the entity or
    - The primary government can impose its will on the entity.

2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.

3. It would be necessary to include the entity as a component unit since the primary government’s financial statements would be misleading without it.

In addition, “special criteria” applies when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate, tax-exempt organizations that do not meet the above special criteria should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government (*"blended component units"*). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:

   - A financial benefit/ burden exist between the primary government and the entity or
   - Management of the primary government has operational responsibility for the primary government.

2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.

3. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units do not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government (*"discretely component units"*). Legally separate, tax-exempt organizations that meet the special criteria should be included as *discretely component units*.

Based on the above criteria, there are no potential component units which should be included as part of the financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management's Discussion and Analysis

It provides a narrative introduction and analytical overview of the Municipality's financial activities.

Basic financial statements

The basic financial statements include both the government-wide and fund financial statements. Both sets of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

Government-wide Financial Statements (GWFS)

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the *economic resources* measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the *accrual basis of accounting*. Revenues are recognized in the period earned and expenses in the period in which the associated liability is incurred, regardless of the timing of related cash flows.. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. Program revenues must be directly associated with the function.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Fund Financial Statements (FFS)

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criteria, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality’s official’s criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for and report all financial resources not accounted for and reported in another fund.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund – This fund is used to account for and report financial resources that are restricted for expenditure for the payment of principal and interest of general obligation bonds and notes issued by the Municipality. This fund accounts for the resources of three individual funds: 1) "CAE Fund," the sinking fund which accounts for the 2% of property taxes collected by the Municipal Revenue Collection Center (CRIM); 2) "Municipal Redemption Fund," the sinking fund that accounts for the 0.2% of the 0.5% collected from the sales and use tax that is, by law, deposited in the Governmental Development Bank (GDB) for the financing of loans to Municipalities; and 3) operational loans that are paid from the general fund's operating revenues.

Bond Issuances for Capital Projects Fund – This fund is used to account fund and report the financial resources received from the issuance of general obligations bonds and notes for capital outlays, including the acquisition, development and improvement of capital assets.

Head Start Fund – This fund is used to account for and report revenues sources received from the U.S. Department of Health and Human Services that are restricted for expenditure for the activities performed under the Head Start program. These activities consist of providing services to pregnant women and children (birth to 5 years-old) and their families that are under the poverty line or are eligible for public assistance.

The FFS are accounted for using the *current financial resources* measurement focus and the *modified-accrual basis of accounting*. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both *measurable* and *available*). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues susceptible to accrual include property taxes, recognized as revenue in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized at the time of receipt or earlier, if the susceptible-to-accrual criterion is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible-to-accrual criterion is met.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants, if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case, amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits, which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the GWFS, the expense and related accrual liability for long-term portions of debt must be included).

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds of the FFS. Likewise, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

Since the FFS are presented on a different measurement focus and basis of accounting than the GWFS, reconciliation is necessary to explain the adjustments needed to transform the FFS into the GWFS. This reconciliation is part of the financial statements.

Notes to financial statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial reporting presentation

The accounts of the Municipality are organized 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. Fund types are as follows:

General Fund – Is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental 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) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Special Revenue Fund – Is a governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Capital Projects Fund – is a governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

Debt Service Fund – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and investments

The Municipality's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the GDB.

E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico, which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represents the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

F. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the general and debt service funds represent property tax revenues of the current fiscal year collected by the CRIM on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the special revenue or capital project funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inter-fund receivables and payables

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). All other outstanding balances among funds are reported as “due from/to other funds”.

Advances between funds, as reported in the fund financial statements, if any, are reported as “nonspendable” in the fund balance section of the Balance Sheet to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

I. Capital assets

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items. The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than $100 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Description	Useful Life
Buildings and site improvements	40 years
Infrastructure	40 years
Works of art	10 years
Vehicles	5 years
Furniture and fixtures	5 years
Machinery and equipment	3 to 5 years

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with current accounting standards, capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

J. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met –** Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

2. **Unavailable revenue reported under the modified-basis of accounting –** Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

K. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Position, include general and special obligation bonds and notes, liabilities for compensated absences, claims and judgments, landfill closure and post-closure costs and long-term liabilities to other governmental entities.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

L. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment, the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996, effective July 1, 1997, the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

M. 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 matured (generally, when payment is due). The accompanying government-wide financial statements include an amount estimated as a contingent liability for liabilities as incurred.

N. Net position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

O. Net position flow assumption

Sometimes, the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

P. Fund balances

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") establishes accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonspendable: Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted: Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed: Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

Assigned: Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.

Unassigned: Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the 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 balances amounts as of for the fiscal year ended June 30, 2014.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund balance flow assumptions

Sometimes, the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

R. Accounting for pension costs

The Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a multi-employer hybrid defined contribution plan in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

S. Inter-fund and intra-entity transactions

The Municipality has the following types of transactions among funds:

1. **Operating transfers -** Legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

2. **Intra-entity transactions -** Transfers between the funds of the primary government are reported as inter-fund transfers with receivables and payables presented as amounts due to and due from other funds.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Risk financing

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law Num. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance and health plan coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums is financed through a payment plan made with an insurance financing company, and the monthly payments are deducted from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The annual premium is also deducted from the monthly advances issued by the CRIM.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability or death because of work or employment-related accidents or due to a non-occupational disability. The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks worked by each employee covered by law.

U. Use of estimates

The preparation of the basic financial statements in conformity with USGAAP requires management to make 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 revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

1. **GASB Statement No. 68 "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).

2. **GASB Statement No. 69 "Government Combinations and Disposals of Government Operations."** The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).

3. **GASB Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees."** The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013 (fiscal year ended June 30, 2015).

4. **GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date."** The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 (fiscal year ended June 30, 2015).

The impact of these statements on the Municipality's financial statements, if any, has not yet been determined.

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and in the Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as it's custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial

2. CASH AND CASH EQUIVALENTS (CONTINUED)

paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant.

Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2014.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: 1) not including debt investments in its investment portfolio at June 30, 2014, 2) limiting the weighted average maturity of its investments to three months or less, and 3) keeping most of its bank deposits in interest-bearing accounts generating interests at prevailing market rates. At June 30, 2014, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value.

Therefore, the Municipality's management has concluded that, at June 30, 2014, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits with the GDB are uninsured and uncollaterized. However, no losses related to defaults by the GDB on deposit transactions have been incurred by the Municipality through June 30, 2014.

Therefore, the Municipality's management has concluded that, at June 30, 2014, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2014.

Deposits – At year-end, the Municipality's bank balance of deposits in commercial banks amounting to $12,261,187 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amounts to $15,720,905 as of June 30, 2014.

3. RECEIVABLES

A. Municipal license taxes

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15.

During the fiscal year ended June 30, 2014, the tax rates were as follows:

- Financial business – 1.50% of gross revenues
- Other organizations - .50% of gross revenues

Municipal license taxes receivable as of June 30, 2014 follows:

Description	Amount
Total municipal license tax receivable	$ 3,611
Less: allowance for uncollectible accounts	-
	$ 3,611

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of $5,881,554 is recorded as unearned revenues.

B. Sales and use taxes

On July 4, 2006, the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80) which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

3. RECEIVABLES (CONTINUED)

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. Effective January 1, 2011, the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050, the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue $2,241,642 in the general fund corresponding to the 1% imposition and $780,281 in the debt service fund corresponding to the Municipal Redemption Fund (of which $419,768 corresponds to the Municipal Development Fund).

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable of $184,806 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts; $38,510 and $32,836 represent amounts of Municipal Development Fund and Municipal Redemption Fund, respectively, collected on June from individuals, organizations and entities but paid by the PRDT subsequent to June 30, which together comprise the $71,346 receivable reported in the debt service fund.

On June 30, 2013, the Commonwealth approved Act No. 40 which among other things, reduces the municipal sales and use tax from 1.5% to 1% and increasing the Commonwealth sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the

3. RECEIVABLES (CONTINUED)

Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation, the municipalities of Puerto Rico may improve their credit capacity along with maintaining sufficient resources for operations.

Act No. 18 of January 24, 2014

The purpose of this Act is to create a special fund called Municipal Administration Fund (FAM) under custody of the Government Development Bank of Puerto Rico (GDB) that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, during a transitory period from February 1, 2014 to June 30, 2014, the Commonwealth will deposit $43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

After July 1, 2014 the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Vega Baja signed the agreement to be covered.

For municipalities covered by the agreement, the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities have the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

3. RECEIVABLES (CONTINUED)

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long-term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

Act No. 19 of January 24, 2014

The purpose of this Act is to create the Municipal Finance Corporation (COFIM), a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be $65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

C. Construction permits receivable

The Municipality assesses a construction permit fee of generally 5% of the total construction cost of any project to be realized within the Municipality's boundaries (for projects related to residential homes that are not part of a residential development project, the fee ranges from 0% to 5%, depending on the total construction cost). As of June 30, 2014, the Municipality had net construction permits receivable of $36,308 that was collected within the availability period.

3. RECEIVABLES (CONTINUED)

D. Other receivables

The $64,805 reported as other accounts receivable corresponds to rent and administrative fees owed by other Public Housing Authorities (PHAs) on portability-in vouchers administered by the Municipality under the federal Section 8 Housing Choice Voucher Program as of June 30, 2014.

4. DUE FROM (TO) GOVERNMENTAL ENTITIES

A. Amounts due from governmental entities as of June 30, 2014 are as follows:

	Commonwealth Government	Federal Government
Major fund – General fund:		
P.R. Electric Power Authority (PREPA)	$ 1,884,515	$ -
P.R. Department of Treasury – Christmas bonus reimbursement	209,067	-
Major fund – Debt service fund:		
Municipal Revenue Collection Center (CRIM) – property taxes	53,786	-
Major fund – Head Start:		
P.R. Department of Family - Administration for the Care and Integral Development of Children	104,222	-
Other Governmental Funds:		
P.R. Department of Labor and Human Resources – Law No. 52	131,380	-
P.R. Department of Family - Socioeconomic Development Administration - TANF	61,135	-
P.R. Department of Family - Administration for the Care and Integral Development of Children – Child Care Development Block Grant	17,035	-
P.R. Department of Education – Child and Adult Care Food Program	9,762	-
P.R. Office of Ombudsman Administration (OAP)-OAP-Special Program for the Aging-Title III, Part C Nutrition Services	49,235	-
U.S. Department of Housing and Urban Development – Supportive Housing	-	11,341
Others	-	1,548
	$ 2,520,137	**$ 12,889**

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related note 8.

4. DUE FROM (TO) GOVERNMENTAL ENTITIES (CONTINUED)

B. Amounts due to governmental entities as of June 30, 2014 are as follows:

Description	Commonwealth Government	Federal Government
Major fund – General fund:		
P.R. Employees Retirement System (ERS)	$ 121,359	$ -
P.R. Department of Labor – unemployment and drivers' insurance	19,384	-
P.R. Aqueduct and Sewer Authority (PRASA)	65,482	-
P.R. Telephone Company	33,949	-
Association of Employees of the Commonwealth of Puerto Rico	18,932	-
Internal Revenue Service	-	3,175
Others	3,071	-
Major fund – Head Start:		
P.R. Department of Family - Administration for the Care and Integral Development of Children	2,980	-
	$ 265,157	**$ 3,175**

5. INTERFUND TRANSACTIONS

A. Due from/to other funds

Amounts due from/to other funds in the general fund represent advances to other funds to finance payroll, payroll taxes and other expenditures as follows:

Receivable Fund	Payable Funds	Amount
General Fund	**Major Funds:**	
	Head Start	$ 419,883
	Other Governmental Funds:	
	Special Revenue State & Local – Law No. 52	264,697
	Special Revenue Federal – Section 8 HCVP	7,626
	Special Revenue Federal – Child Care and Development Block Grant	206,792
	Special Revenue Federal – Supporting Housing	12,643
	Special Revenue Federal - Special Program for the Aging-Title III, Part C Nutrition Services	174,008
	Special Revenue Federal - Emergency Solutions Grants Program	61,200
	Special Revenue Federal - TANF	54,050
	Special Revenue State & Local – Others	16,151
	Special Revenue Federal – Others	19,341
	Capital Projects Federal – CDBG	23,247
		$ 1,259,638

5. INTERFUND TRANSACTIONS (CONTINUED)

Receivable Fund	Payable Funds	Amount
Other Governmental Funds	**Major Funds:**	
	General Fund	$ 9,802
	Total	**$ 1,269,440**

B. Transfers-in (out)

Transfers among individual funds were made for operational purposes as follows:

Originating Fund	Receiving Fund	Purpose	Amount
General Fund	Other Governmental Funds	Funding of expenditures not covered by federal grants	$ 1,624
Debt Service Fund	General Fund	Interest earned on restricted cash with fiscal agent	5,191
Debt Service Fund	General Fund	Transfer of excess funds available in sinking fund for use in operating activities	868,302
Other Governmental Funds	General Fund	Reimbursement of expenditures paid with operating funds	82,721
Total			**$ 957,838**

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2014 are detailed as follows:

	General Fund	Bond Issuances for Capital Projects Fund	Head Start Fund	Other Governmental funds	Total
Accounts payable - vendors	$ 1,965,098	$ 257,241	$ 75,275	$ 393,665	$ 2,691,279
Accrued liabilities – payroll withholdings	71,773	-	-	-	71,773
Total	**$ 2,036,871**	**$ 257,241**	**$ 75,275**	**$ 393,665**	**$ 2,763,052**

7. UNEARNED REVENUES

The amounts reported as unearned revenues as of June 30, 2014 are detailed as follows:

		Amount
Major fund – General fund:		
Municipal license taxes collected in the fiscal year 2013-2014 that correspond to the 2014-2015 fiscal year budget	**$**	**5,881,554**
Other Governmental Funds:		
Federal grants received for which qualifying expenditures have not been incurred:		
CDBG Entitlement	$	4,460
Disaster Grants – Public Assistance (Presidentially-Declared Disasters)		6,022
Section 108 Loan Guarantees		4,551
Emergency Solutions Grants Program		2,998
Child and Adult Care Food Program		31,272
Housing Opportunities for Persons with AIDS (HOPWA)		9,719
Others		12,300
	$	**71,322**

8. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	Commonwealth Government	Federal Government
Major fund - General fund:		
P.R. Electric Power Authority (PREPA)	$ 1,884,515	$ -
P.R. Department of Treasury – Christmas bonus reimbursement	209,066	-
Other governmental funds:		-
P.R. Department of Labor – Law No. 52	43,068	-
P.R. Department of Family – TANF	-	44,401
P.R. Department of Family – Child Care	-	17,035
P.R. Office of Ombudsman Administration	-	49,235
	$ 2,136,649	**$ 110,671**

9. FUND BALANCE

A. Fund balance classifications

The governmental fund balance classifications and amounts at June 30, 2014 are shown in the following table:

	General Fund	Debt Service Fund	Bond Issuances For Capital Projects Fund	Head Start Fund	Other Governmental Funds	Total Governmental Funds
Restricted:						
General public works and sanitation	$ 33,915	$ -	$ -	$ -	$ 1,212,055	$ 1,245,970
Public safety	-	-	-	-	83,872	83,872
Sports, culture and recreation	-	-	-	-	16,840	16,840
Housing, welfare and community development	-	-	-	-	290,816	290,816
Urban and economic development	-	-	-	-	31,398	31,398
Education	-	-	-	-	409,021	409,021
Debt service	-	5,458,455	-	-	-	5,458,455
Capital outlays	-	-	6,689,546	-	-	6,689,546
General government and other purposes	1,923	-	-	-	22,732	24,655
	35,838	5,458,455	6,689,546	-	2,066,734	14,250,573
Unassigned	1,503,458	-	-	-	(171,693)	1,331,765
Total Fund Balance	**$ 1 ,539,296**	**$ 5,458,455**	**$ 6,689,546**	**$ -**	**$ 1,895,041**	**$ 15,582,338**

9. FUND BALANCE (CONTINUED)

B. Fund balance (deficits)

Certain special funds included in the fund statements disclosed fund balance (deficits). The most significant balances follow:

Funds	Amount
Other Governmental Funds	
P.R. Department of Labor – Law No. 52	$ 43,068
P.R. Department of Family – TANF	$ 44,401
P.R. Department of Family – Child Care	$ 17,035
P.R. Office of Ombudsman Administration	$ 49,235

The deficits result (1) from the recognition of deferred inflows of resources for unavailable revenues. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven grants) on fund statements when all applicable eligibility requirements have been met and the resources are available and (2) certain funds with cash shortfalls or without sufficient resources to cover their costs.

10. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2014 is as follows:

Governmental Activities:	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital asset, not being depreciated:				
Land	$ 10,455,899	$ -	$ -	$ 10,455,899
Construction in progress	31,478,266	-	-	31,478,266
Total capital assets not being depreciated	41,934,165	-	-	41,934,165
Capital assets, being depreciated:				
Buildings and building improvements	45,215,511	-	-	45,215,511
Equipment	5,160,709	-	-	5,160,709
Infrastructure and infrastructure improvements	55,027,799	-	-	55,027,799
Vehicles	8,737,905	-	-	8,737,905
Total capital assets being depreciated	114,141,924	-	-	114,141,924
Less accumulated depreciation for:				
Buildings and building improvements	(15,755,156)	-	-	(15,755,156)
Equipment	(4,157,744)	-	-	(4,157,744)
Infrastructure and infrastructure improvements	(30,947,045)	-	-	(30,947,045)
Vehicles	(8,185,409)	-	-	(8,185,409)
Total accumulated depreciation	(59,045,354)	-	-	(59,045,354)
Total capital assets being depreciated, net	55,096,570	-	-	55,096,570
Governmental activities capital assets, net	**$97,030,735**	**$ -**	**$ -**	**$97,030,735**

11. LONG-TERM LIABILITIES

A. Summary of long-term debt activity

Long-term liability activity for the year ended June 30, 2014, was as follows:

Description	Beginning Balance, as restated	Increases	Decreases	Other	Ending Balance	Due Within One Year
General and special obligation bonds payable	$ 36,690,000	$ 2,440,000	$ (1,685,000)	$ 4,351,000	$ 41,796,000	$ 1,858,000
General and special obligation notes payable	6,680,000	1,010,000	(335,000)	(4,351,000)	3,004,000	466,000
General obligation bond anticipation notes	758,448	6,900	-	-	765,348	-
Section 108 Loan Guarantee notes payable	4,175,000	-	(650,000)	-	3,525,000	700,000
Mortgages payable	1,671,451	-	(10,308)	-	1,661,143	10,943
Notes payable to CRIM – financing of delinquent accounts (Law No. 146)	406,662	-	(21,403)	-	385,259	21,403
Payable to PREPA	1,062,381	2,331,302	(1,509,168)	-	1,884,515	1,107,415
Payable to CRIM- property tax advances	732,111	92,624	(732,111)	-	92,624	-
Compensated absences	2,983,990	-	(185,733)	-	2,798,257	429,616
Christmas bonus	486,562	450,122	(486,562)	-	450,122	450,122
Claims and judgments	2,678,879	859,526	(825,529)	-	2,712,876	936,126
Landfill obligation	23,344,133	-	(336,238)	-	23,007,895	-
Total	**$81,669,617**	**$ 7,190,474**	**$(6,777,052)**	**$ -**	**$82,083,039**	**$5,979,625**

11. LONG-TERM LIABILITIES (CONTINUED)

B. Legal debt margin

For general obligation debt, the Municipality is subject to a legal debt margin requirement of 10% of the total assessment value of the property located within the Municipality. For special obligation debt, this debt margin cannot exceed 10% of the average recurring operating revenues generated by the Municipality within the last two preceding fiscal years. For obligations to be financed through the "Municipal Redemption Fund IVU," the debt margin is determined based on the repayment capacity of each Municipality. Long-term debt, except for general and special obligation bonds and notes, general obligation bond anticipation notes (BANs), Section 108 Loan Guarantee notes payable and mortgages payable, is paid with unrestricted funds.

C. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2014 amount to $41,796,000 and $3,004,000, respectively. All these bonds and notes are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. The Municipality levies an annual additional special ad valorem tax of three and a half percent (3.50%) of the assessed value of personal and real property. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" at the GDB to finance loans to Municipalities subject to restrictions imposed by law. The proceeds of the additional special ad valorem tax and of 0.2% sales and use tax are deposited in sinking funds established at GDB to redeem the bonds and notes payable of the Municipality in minimum annual or semiannual principal and interest payments, whereby sufficient funds are set aside in order to cover the projected debt service requirements, before any new bonds are issued.

Principal and interest payments on long-term debt are made through CAE sinking fund except general and special obligation bonds and notes $2,520,000, $780,000, $4,390,000, $454,000 and $630,000, which are made through the "Municipal Redemption Fund (IVU)". During the year, the Municipality issued bonds and notes in the amounts of $2,440,000 and $1,010,000, respectively. Also, the $4,390,000 and $454,000 special obligation notes were converted to special obligation bonds with a maturity period of 25 and 7 years, respectively, from their original issuance date.

These bonds and notes are mainly issued to provide funds for the acquisition of equipment, construction of major capital facilities and for road paving.

A detail of the general and special obligation bonds and notes outstanding as of June 30, 2014 follows:

11. LONG-TERM LIABILITIES (CONTINUED)

Bonds Payable

Description	Outstanding Balance
1994 series, $1,635,000 bond for capital improvements, payable in annual installments of $35,000 to $160,000 through July 1, 2014; with interest rates ranging from 6.11% to 7.71% (7.71% at June 30, 2014)	$ 160,000
1997 series, $4,340,000 bond for capital improvements, payable in annual installments of $55,000 to $375,000 through July 1, 2022; with interest rates ranging from 4.87% to 6.71% (6.19% at June 30, 2014)	2,540,000
1998 series, $3,115,000 bond for capital improvements, payable in annual installments of $60,000 to $290,000 through July 1, 2019; with interest rates ranging from 4.87% to 6.51% (6.19% at June 30, 2014)	1,435,000
2001 series, $1,410,000 bond for capital improvements, payable in annual installments of $20,000 to $120,000 through July 1, 2026; with interest rates ranging from 2.70% to 5.60 (4.73% at June 30, 2014)	1,015,000
2001 series, $310,000 bond for capital improvements, payable in annual installments of $5,000 to $25,000 through July 1, 2026; with interest rates ranging from 2.70% to 5.60% (4.73% at June 30, 2014)	225,000
2002 series, $2,900,000 bond for capital improvements, payable in annual installments of $50,000 to $230,000 through July 1, 2027; with interest rates ranging from 2.70% to 5.60% (4.80% at June 30, 2014)	2,155,000
2002 series, $545,000 bond for capital improvements, payable in annual installments of $10,000 to $45,000 through July 1, 2027; with interest rates ranging from 4.17% to 5.31% (4.45% at June 30, 2014)	405,000
2002 series, $215,000 bond for capital improvements, payable in annual installments of $5,000 to $15,000 through July 1, 2027; with interest rates ranging from 4.17% to 5.31% (4.45% at June 30, 2014)	160,000
2003 series, $1,760,000 bond for capital improvements, payable in annual installments of $30,000 to $130,000 through July 1, 2028; with interest rates ranging from 2.36% to 5.31% (4.45% at June 30, 2014)	1,335,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2004 series, $1,375,000 bond for capital improvements, payable in annual installments of $65,000 to $125,000 through July 1, 2019; with interest rates ranging from 4.17% to 4.80% (4.45% at June 30, 2014)	675,000
2005 series, $815,000 bond for capital improvements, payable in annual installments of $10,000 to $65,000 through July 1, 2030; with interest rates ranging from 4.23% to 5.31% (4.45% at June 30, 2014)	685,000
2005 series, $3,530,000 bond for capital improvements, payable in annual installments of $65,000 to $260,000 through July 1, 2030; with interest rates ranging from 1.48% to 6.60% (1.50% at June 30, 2014)	2,895,000
2007 series, $290,000 bond for capital improvements, payable in annual installments of $5,000 to $25,000 through July 1, 2032; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2014)	260,000
2008 series, $4,390,000 bond for capital improvements, payable in annual installments of $70,000 to $360,000 through July 1, 2032; with interest rates ranging from 1.48% to 7.00% (1.50% at June 30, 2014)	3,965,000
2008 series, $454,000 bond for capital improvements, payable in annual installments of $38,000 to $65,000 through July 1, 2017; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2014)	236,000
2008 series, $1,530,000 bond for capital improvements, payable in annual installments of $20,000 to $130,000 through July 1, 2033; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2014)	1,400,000
2009 series, $1,460,000 bond for capital improvements, payable in annual installments of $35,000 to $135,000 through July 1, 2028; with interest rates ranging from 4.75% to 7.50% (4.75 at June 30, 2014)	1,265,000
2009 series, $1,390,000 bond for capital improvements, payable in annual installments of $20,000 to $120,000 through July 1, 2033; with interest rates ranging from 4.75% to 7.50% (4.75% at June 30, 2014	1,275,000
2009 series, $505,000 bond for the payment of operating expenses, payable in annual installments of $20,000 to $55,000 until July 1, 2024; with interest rates ranging from 4.75% to 7.50% (4.75% at June 30, 2014)	420,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2009 series, $4,110,000 bond for capital improvements, payable in annual installments of $60,000 to $350,000 through July 1, 2034; with interest rates ranging from 5.00% to 7.50% (5.00 at June 30, 2014)	3,840,000
2010 series, $2,110,000 bond for the payment of operating expenses, payable in annual installments of $80,000 to $225,000 through July 1, 2024; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	1,750,000
2010 series, $2,315,000 bond for capital improvements, payable in annual installments of $35,000 to $200,000 through July 1, 2035; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	2,205,000
2010 series, $2,520,000 bond for the payment of operating expenses, payable in annual installments of $35,000 to $215,000 through July 1, 2035; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	2,400,000
2010 series, $780,000 bond for capital improvements, payable in annual installments of $10,000 to $70,000 through July 1, 2035; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	745,000
2011 series, $4,575,000 bond for capital improvements, payable in annual installments of $125,000 to $500,000 through July 1, 2028; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	4,200,000
2012 series, $1,810,000 bond for the payment of operating expenses, payable in annual installments of $45,000 to $175,000 through July 1, 2029; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	1,710,000
2013 series, $2,440,000 bond for capital improvements, payable in annual installments of $55,000 to $225,000 through July 1, 2033; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	2,440,000
Total	**$ 41,796,000**

11. LONG-TERM LIABILITIES (CONTINUED)

The annual debt service requirements to maturity for bonds payable as of June 30, 2014 are as follows:

June 30,	Principal	Interest
2015	$ 1,858,000	$ 2,573,473
2016	1,812,000	2,565,485
2017	1,931,000	2,503,343
2018	2,070,000	2,367,806
2019	2,140,000	2,218,223
2020-2024	11,095,000	8,883,870
2025-2029	12,235,000	4,840,672
2030-2034	7,375,000	1,489,928
2035-2039	1,280,000	36,375
Total	**$ 41,796,000**	**$ 27,479,175**

Notes Payable

Description	Outstanding Balance
2008 series, $360,000 note for capital assets acquisition, payable in annual installments of $25,000 to $50,000 through July 1, 2018; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2014)	$ 210,000
2008 series, $131,000 note for capital assets acquisition, payable in annual installments of $15,000 to $23,000 through July 1, 2015; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2014)	44,000
2008 series, $150,000 note for capital assets acquisition, payable in annual installments of $15,000 to $25,000 through July 1, 2015; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2014)	50,000
2009 series, $170,000 note for capital assets acquisition, payable in annual installments of $20,000 to $30,000 through July 1, 2016; with interest rates ranging from 5.00% to 7.50% (5.00% at June 30, 2014)	85,000
2009 series, $355,000 note for capital assets acquisition, payable in annual installments of $40,000 to $60,000 through July 1, 2016; with interest rates ranging from 5.00% to 7.50% (5.00% at June 30, 2014)	175,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2012 series, $980,000 note for capital assets acquisition, payable in annual installments of $110,000 to $170,000 through July 1, 2019; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	870,000
2012 series, $630,000 note for capital assets acquisition, payable in annual installments of $70,000 to $110,000 through July 1, 2019; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	560,000
2013 series, $1,010,000 note for capital assets acquisition, payable in annual installments of $110,000 to $175,000 through July 1, 2020; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	1,010,000
Total	**$ 3,004,000**

The annual debt service requirements to maturity for notes payable as of June 30, 2014 are as follows:

June 30,	Principal	Interest
2015	$ 466,000	$ 185,714
2016	518,000	151,500
2017	495,000	114,375
2018	435,000	81,750
2019	470,000	46,500
2020-2024	620,000	13,125
Total	**$ 3,004,000**	**$ 592,964**

11. LONG-TERM LIABILITIES (CONTINUED)

D. Other long-term liabilities

	Outstanding Amount
General obligation bond anticipation notes – The Municipality has issued $765,348 in general obligation bond anticipation notes to Rural Development ("RD"). They are part of a total note of $3,500,000 to be issued to finance the construction of a school of fine arts and an electronic library financed by RD. The notes bear interest at 3.75%, due on the date of the final payment issued by RD to the Municipality, but not exceeding 10 years from the date of the notes. The Municipality intents to refinance these notes on a long term basis through a $3,500,000 general obligation bond issuance approved by the Municipal Legislature and the Governmental Development Bank for Puerto Rico, payable from the additional special ad valorem tax sales and used taxes deposited in the CAE sinking fund. Issuance will occur after the construction project is finished.	$ 765,348
Section 108 Loan Guarantee notes payable – The Municipality entered into various financing agreements with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The first agreement was issued on August 7, 2004 in the amount of $3,200,000 for public improvements and municipal facilities reconstruction project. This note is payable in annual installments of $175,000 to $200,000 through August 1, 2023, bearing interest rates ranging from 2.41% to 5.69% (4.83% at June 30, 2014). The second and third agreements were issued on July 21, 2010 in the amounts of $1,905,000 and $1,245,000, respectively, as part of a refinancing agreement of the principal amounts owed on two outstanding loans issued for the original amounts of $6,455,000 and $2,370,000, respectively. The $6,455,000 loan was issued on August 1, 1996 for a public facilities and housing rehabilitation project. The $2,370,000 was issued on August 1, 2000 for the Casa Portela Museum and recreational areas project. The $1,905,000 note is payable in annual installments of $350,000 to $455,000 through August 1, 2015, bearing interest rates ranging from 0.56% to 2.20% (1.34% at June 30, 2014). The $1,245,000 note is payable in annual installments of $125,000 to $185,000 through August 1, 2019, bearing interest rates from 0.56% to 3.30% (1.34% at June 30, 2014). The payment of principal and interest of these notes are made from appropriation of funds from the Community Development Block Grants/Entitlement Grants Program and from the program income generated from the projects financed with the loans. Debt service requirements in future years are as follows:	$ 3,525,000

11. LONG-TERM LIABILITIES (CONTINUED)

June 30,	Principal	Interest
2015	$ 700,000	$ 128,941
2016	755,000	109,086
2017	300,000	92,066
2018	300,000	79,415
2019	360,000	65,373
2020-2023	1,110,000	137,492
Total	**$ 3,525,000**	**$ 612,373**

	Outstanding Amount
Mortgages payable – On 2004, the Municipality formed the Municipality of Vega Baja Home Investment Partnership Program to acquire, rehabilitate, own and operate an apartment project (elderly home) located in Vega Baja. The Municipality has agreed to maintain all apartment units as both rent restricted and occupied by low-income tenants for a period of 20 years beginning 2006. The construction of the apartment structure was primarily financed under the National Housing Act through an issuance of a demand note in the amount of $1,107,120 from the P.R. Department of Housing on February 25, 2004. Subsequently, on January 19, 2006, the P.R. Department of Housing subordinated its rank in the mortgage in favor of the P.R. Housing Finance Authority. This note accrues interest annually at a rate of 5% and the total amount accrued as of June 30, 2014 was $576,625. In addition, on January 19, 2006, the Municipality issued a second HUD – insured mortgage note in the amount of $610,000 from the P.R. Housing Finance Authority to complete the construction of the apartment building. This note is payable in monthly installments of $3,657, including interest at 6% per annum, until February 1, 2038. Accrued interest as of June 30, 2014 amounts to $2,770. Substantially, all of the rental property and equipment is pledged as collateral on these mortgage notes. Debt service requirements in future years for are as follows:	**$ 1,661,143**

11. LONG-TERM LIABILITIES (CONTINUED)

Year	Principal	Interest
First Mortgage - Demand Note	$ 1,107,120	$ -
Second Mortgage		
June 30, 2015	10,943	32,944
2016	11,618	32,269
2017	12,335	31,552
2018	13,096	30,791
2019	13,904	29,983
2020-2024	83,489	135,946
2025-2029	112,613	106,822
2030-2034	151,899	67,536
2035-2038	144,126	16,793
Total	**$ 1,661,143**	**$ 484,636**

	Outstanding Amount
Note payable to CRIM (Law No. 42) – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico owe to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On July 1, 2007 the Municipality entered into the financing agreement with the CRIM for a total amount of $535,143, bearing interest at 2.04% and due on July 1, 2032. Debt service requirements in future years are as follows:	**$ 385,259**

June 30,	Principal	Interest
2015	$ 21,403	$ 9,647
2016	21,403	9,111
2017	21,403	8,575
2018	21,403	8,039
2019	21,403	7,503
2020-2024	107,016	29,477
2025-2029	107,016	16,078
2030-2032	64,212	3,215
Total	**$ 385,259**	**$ 91,645**

11. LONG-TERM LIABILITIES (CONTINUED)

	Outstanding Amount
Payable to PREPA - As required by Act No. 83 of May 2, 1941, the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2013, the Municipality's annual energy charges amounted to $2,744,702 but the CELI obligation amounted to $413,400. The excess amount of $2,331,302 was recorded as a payable and a receivable for the same amount and will be amortized over a three-year period. As of June 30, 2014 the outstanding amount of $1,884,515 includes the unamortized balances of $1,554,201 and $330,314 from fiscal years 2013 and 2012, respectively, and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:	**$ 1,884,515**

June 30	Principal
2015	$ 1,107,415
2016	777,100
Total	**$ 1,884,515**

	Outstanding Amount
Payable to CRIM – property tax advances - The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. 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. If actual collections exceed the advances, a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The final settlement made by CRIM for the fiscal year 2013-2014 reported an excess of advances over actual collections. The resulting payable will be amortized in the 2015-2016 fiscal year through withholdings from the monthly advances to be received by the Municipality in that fiscal year.	**$ 92,624**

11. LONG-TERM LIABILITIES (CONTINUED)

		Outstanding Amount
Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds.	$	2,798,257
Christmas bonus - represents the accrued portion corresponding to the fiscal year 2014 of the Christmas bonus to be paid in December 2014.	$	450,122
Claims and judgments - represents the estimated loss of legal cases to be paid subsequent to June 30, 2014 The awarded amount, if any, will be paid with unrestricted funds.	$	2,712,876
Landfill Obligation- State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stops accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized as other long-term debt the current estimate for landfill closure and post-closure costs as of June 30, 2014. Of this estimate, the portion attributable to post-closure costs has been assessed to be approximately $13,512,569 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. No sinking fund has been established for the payment of these costs.	$	23,007,895

12. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2014 are 8.53% for personal property and 10.53% for real property. The distribution of these rates follows:

12. PROPERTY TAXES (CONTINUED)

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.50%	3.50%
Total tax rate:	8.53%	10.53%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	**8.33%**	**10.33%**

Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than $3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of $50,000 to retailers with annual net sales of less than $150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government.

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. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long-term debt. The Municipality has a net payable of $92,624 resulting from the final settlement of fiscal year 2014 recorded as other long-term debt in the Statement of Net Position.

On December 9, 2013, Law No. 145 "Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes" was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2013-2014. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years. During the fiscal year 2013-14, the Municipality received revenues from this property tax amnesty in the amount of $650,444.

13. INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND

A. Intergovernmental revenues in the general fund are comprised of the following:

	Amount
Amount of municipal equalization fund sent by CRIM	$4,192,073
Reimbursement from P.R. Department of Treasury - Christmas Bonus reimbursement	243,601
Amount received from the Office of Management and Budget (OMB) to subsidy part of the costs related to the 2013-14 postemployment benefits (see note 15)	314,392
	$ 4,750,066

B. Fees, fines and charges for services revenues reported in the general fund are comprised of the following:

	Amount
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	$ 3,821,151
Construction permits	564,626
Medical emergency services	124,085
Rental income	131,311
Licenses and permits	51,565
Traffic fines	11,608
Other	54,164
	$ 4,758,510

14. PENSION PLAN

A. Act No. 447 and System 2000 (until June 30, 2013)

As of June 30, 2014 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

14. PENSION PLAN (CONTINUED)

The System operates under *Act 447, approved on May 15, 1951* effective on January 1, 1952 and *Act 1 of February 16, 1990* for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of $200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended *Act. No. 447 of 1951* and *Act 1 of February 16, 1990* to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was $10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to $6,600 plus 8.275% of gross salary in excess of $6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 11.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent

14. PENSION PLAN (CONTINUED)

increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

B. Act No. 3 of 2013 (beginning July 1, 2013)

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.

- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment)

- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.

- Increased employee contributions from 8.275% to a minimum of 10.000%.

- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.

14. PENSION PLAN (CONTINUED)

- Retirement age was modified as follows:

  ✓ Act 447 regular employees: age 58 to 61,

  ✓ Act 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,

  ✓ Act 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

  Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- Due to changes to Special Laws (see note 15), the minimum monthly pension for current retirees was increased from $400 to $500.

- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of $5,000. Therefore, the maximum monthly employee contribution will be $12.50 ($5,000 x .25%).

- Survivor benefits were modified.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

Fiscal year ended:	Law No. 447 & System 2000	Law No. 3
2014	$ -	$ 527,179
2013	$ 594,087	$ -
2012	$ 943,241	$ -

C. Act 32 of 2013 (beginning July 1, 2013)

On June 25, 2013, Act 32 was approved in order to amend Act 447 of 1957 by creating a new Article 5-117 *Additional Uniform Contribution* (AUC), with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

14. PENSION PLAN (CONTINUED)

Act 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars ($140,000,000)

- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars ($1,000,000,000). If, for any fiscal, the certified AUD is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

For the fiscal year 2013-2014, $41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)). For the fiscal year ended June 30, 2014, the AUC subsidy received by the Municipality from OMB was $157,792, which covered 80% of the total contribution required of $197,240.

15. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 14, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

15. POSTEMPLOYMENT BENEFITS (CONTINUED)

- Reduction in the Christmas bonus from $600 to $200 (current retirees),
- Elimination of summer bonus of $100 (current retirees),
- No change in medical plan contribution of up to $1,200 and medicine bonus of $100 (current retirees)
- Eliminated all Special Law benefits to future retirees.

Act 3 also established that employers will contribute $2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

For the fiscal year 2013-2014, $20 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of net incremental cost of the $2,000 contribution per retiree for any municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on the same two parameters evaluated for the Additional Uniform Contribution (AUC) subsidy (financial indicators and population). For the fiscal year ended June 30, 2014, the subsidy received from OMB was $156,600, which partially covered the costs related to these post-employment benefits of $416,302. These benefits are recorded as expenditures in the general fund.

16. COMMITMENTS

A. Operating leases

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to $126,135. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

B. Encumbrances

As of June 30, 2014 the Municipality has encumbrances outstanding totaling $559,065, which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. As required by current standards, outstanding encumbrances as of June 30, 2014 are reported as unassigned amounts in the general fund. Purpose classification follows:

16. COMMITMENTS (CONTINUED)

Purpose	General Fund-unassigned fund balance
General public works and sanitation	$ 210,178
Culture and recreation	86,723
Public Safety	9,895
General government and other purposes	252,269
	$ 559,065

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

17. CONTINGENCIES

A. Federal and State grants

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

B. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of various legal cases as of June 30, 2014 and not to be covered by insurance, the Municipality accrued an estimated loss of $2,712,876 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

17. CONTINGENCIES (CONTINUED)

C. Remedial action project for the Municipality of Vega Baja's former solid waste disposal site

The Municipality of Vega Baja's former solid waste disposal site (the Site) covers approximately 72 acres in the Brisas del Rosario community. From 1948-1979, the Site was owned by the P.R. Land Authority and used by the Municipality as an open burning dump for residential, commercial and industrial waste. Approximately 55 acres of the Site are residential and the remaining 17 acres are undeveloped and heavily vegetated. On July 2, 1999, the U.S. Environmental Protection Agency (EPA) listed the Site on the National Priorities List pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §9601 et seq. ("CERCLA" or "Superfund"), thereby designating the Site for cleanup. The EPA identified as responsible parties Allied Waste of Puerto Rico, Inc., Pfizer, Inc. and Motorola Solutions, Inc. ("Private-sector Parties"); the P.R. Land Authority, the P.R. Electric and Power Authority and the P.R. Housing Department (the "Public-sector Parties"); and finally, the Municipality of Vega Baja.

In June 2009, the EPA issued a claim in the amount of $7.976 million dollars against the responsible parties for the initial remedy actions taken by the Agency at the Site. Both the Private and Public-sector Parties made payments to EPA in partial reimbursement of these costs as part of the settlements documented by Consent Decrees signed between the parties and the Agency. The Municipality of Vega Baja did not issue any reimbursement for these costs.

On September 30, 2010, the EPA issued a Record of Decision ("ROD") selecting a Remedial Action for the Site that will be conducted by contractors engaged by the Private-sector Parties under the oversight of the EPA and the P.R. Environmental Quality Board ("PREQB"). Long-term operation and maintenance of the Remedial Action and implementation of institutional controls will be undertaken by the Public-Sector Parties. The total costs for the Remedy Action are estimated at approximately $7 million dollars, which brings the total costs for the cleanup and restauration of the Site to approximately $15 million dollars.

In December 2014, the Private-sector Parties offered the Municipality of Vega Baja a settlement in the amount of $3 million dollars as reimbursement for the Municipality's share of the Remedy Action's costs. Their claim is based on the fact that the Municipality was the operator of the Site during its 30-year useful life, and, therefore, is responsible for a significant portion of the cleanup and restauration costs. However, the Municipality has declined this offer and will issue a counter-offer in which they will provide services and not a cash payment during the operation and maintenance of the Remedial Action process. An allowance for the Municipality's share of the cleanup and remediation costs has not been recognized in the financial statements since its management and legal counsel has indicated that an estimate of the Municipality's financial responsibility on this matter cannot be reasonably determined at this time.

18. RESTATEMENT OF FUND BALANCE AND NET POSITION

The following table disclosed the net change in fund balances and net position at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

Description	Fund Balance: General	Fund Balance: Debt Service	Fund Balance: Other Governmental Funds	Net Position: Government-Wide Statements
Fund balance / net position, at beginning of year, as previously reported	**$ (877,860)**	**$ 5,492,767**	**$ 1,429,117**	**$ 36,818,889**
Reclassification of fund balances	(365,762)	-	365,762	-
Correction of errors:				
Overstatement of due from governmental entities	-	(389,433)	(840,048)	(1,229,481)
Understatement of sales and use taxes receivable	186,928	70,727	-	257,655
Overstatement of due to general fund	(76,356)	-	76,356	-
Understatement of accounts payable	(135,033)	-	-	(135,033)
Understatement of restricted cash balance	-	-	562,937	562,937
Overstatement of unearned revenues – Federal Government	-	-	660,878	660,878
Understatement of other accounts receivable	-	-	63,157	63,157
Understatement of intergovernmental revenues	-	-	-	1,288,374
Understatement of Section 108 Loan Guarantee notes payable	-	-	-	(650,000)
Understatement of general obligation bonds and notes payable	-	-	-	(2,020,000)
Understatement of notes payable to CRIM – Law No. 146	-	-	-	(406,662)
Understatement of payable to P.R.E.P.A.	-	-	-	(1,062,381)
Understatement of Christmas Bonus debt	-	-	-	(486,562)
Understatement of payable to CRIM – property tax advances	-	-	-	(732,111)
Understatement of general obligation bond anticipation notes	-	-	-	(758,448)
Understatement of mortgages payable	-	-	-	(1,671,451)
Understatement of accrued mortgage interest payable	-	-	-	(524,089)
Fund balance / net position, at end of year, as restated	**$ (1,268,083)**	**$ 5,174,061**	**$ 2,318,159**	**$ 29,975,672**

19. SUBSEQUENT EVENTS

Implementation of Acts No. 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014 (see note 3). The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM).

For those municipalities that signed the agreement to be covered by these Acts (including the Municipality of Vega Baja), the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be $65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincon) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

19. SUBSEQUENT EVENTS (CONTINUED)

On the other hand, the Governing Board of COFIM has not established an implementation date for the remaining 62 municipalities. However, for those municipalities that voluntary decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014. For those municipalities that want to be certified as collection agents for COFIM, the implementation date was January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base. The Municipality of Vega Baja has been certified by COFIM as a collection agent and the implementation of the new collection system will begin on March 1, 2015.

	Budgeted Amounts		Actual Amounts Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property taxes	$ 6,606,721	$ 6,606,721	$ 6,606,721	$ -
Municipal license taxes	6,035,812	6,035,812	6,671,201	635,389
Sales and use taxes	2,225,000	2,225,000	2,237,958	12,958
Intergovernmental	2,941,521	2,941,521	3,212,015	270,494
Fees, fines and charges for services	3,298,669	3,298,669	3,531,527	232,858
Interest	30,000	30,000	30,552	552
Miscellaneous	475,000	475,000	591,863	116,863
Total revenues	21,612,723	21,612,723	22,881,837	1,269,114
EXPENDITURES:				
Current:				
General government	11,138,820	11,582,734	12,020,675	(437,941)
Public works and sanitation	4,180,656	4,637,199	4,601,171	36,028
Public safety	1,724,125	1,385,743	1,382,277	3,466
Culture and recreation	1,783,669	1,615,077	1,586,665	28,412
Health	1,217,833	1,217,833	1,217,833	-
Welfare and community development	1,304,295	990,296	984,028	6,268
Urban and economic development	202,462	141,850	141,720	130
Education	60,863	41,991	41,991	-
Total expenditures	21,612,723	21,612,723	21,976,360	(363,637)
Excess (deficiency) of revenues over expenditures	$ -	$ -	$ 905,477	$ 905,477

The accompanying notes are an integral part of this required supplementary information.

1. BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1991, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis encumbrances outstanding at year- end are reported in the governmental funds statements as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

2. BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

NOTE 2 - BUDGET TO GAAP RECONCILIATION - Continued

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	**$ 905,477**
Budget to GAAP differences:	
Entity differences:	
Non-budgeted funds recorded as revenues for financial reporting purposes	1,586,629
Non-budgeted funds recorded as expenditures for financial reporting	(1,142,628)
Non-budgeted transfers-in	868,302
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis	1,186,876
Revenues recorded for budgetary basis purposes but not in financial reporting	(825,063)
Expenditures recorded for financial reporting purposes but not in budgetary basis	(67,494)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes	530,654
Prior year encumbrances recorded as expenditures for financial reporting purposes	(235,374)
Net change in fund balance (GAAP basis):	**$ 2,807,379**

Financial Data Schedule
Balance Sheet
For the Fiscal Year Ended June 30, 2014

Line Item #			
Assets	**Current Assets Cash:**		
111	Cash - Unrestricted	$	43,747
113	Cash - Other Restricted	$	102,729
100	**Total Cash**	$	146,476
	Receivables:		
121	Accounts Receivable - PHA Projects	$	18,515
128	Fraud Recovery	$	46,290
120	**Total Receivables, Net of Allowances for Doubtful Accounts**	$	64,805
150	**Total Current Assets**	$	211,281
	NonCurrent Assets		
	Fixed Assets:		
164	Furniture, Equipment & Machinery - Administration	$	69,822
166	Accumulated Depreciation	$	(41,310)
160	**Total Capital Assets, Net of Accumulated Depreciation**	$	28,512
180	**Total Non-Current Assets**	$	28,512
190	**Total Assets**	$	239,793
290	**Total Assets and Deferred Outflow of Resources**	$	239,793
Liabilities and Equity	**Liabilities**		
	Current Liabilities:		
312	Accounts Payable <= 90 days	$	8,033
332	Accounts Payable - PHA Projects	$	1,648
333	Accounts Payable - Other Government	$	7,626
310	**Total Current Liabilities**	$	17,307
300	**Total Liabilities**	$	17,307
Equity	**Equity**		
508.4	Net Investment in Capital Assets	$	28,512
511.4	Restricted Net Position	$	125,874
512.4	Unrestricted Net Position	$	68,100
513	**Total Equity - Net Assets/Position**	$	222,486
600	**Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position**	$	239,793

Financial Data Schedule
Income Statement
For the Fiscal Year Ended June 30, 2014

Line Item #		
70600	HUD PHA Operating Grants	$ 1,602,672
71400	Fraud Recovery	$ 21,943
71500	Other Revenue	$ 95,654
70000	**Total Revenue**	$ 1,720,269
	Expenses	
	Administrative:	
91100	Administrative Salaries	$ 117,665
91500	Employee Benefit Contributions - Administrative	$ 47,060
91600	Office Expenses	$ 25,219
91000	**Total Operating - Administrative**	$ 189,944
96900	**Total Operating Expenses**	$ 189,944
97000	**Excess of Operating Revenue over Operating Expenses**	$ 1,530,325
97300	Housing Assistance Payments	$ 1,417,620
97350	HAP Portability-In	$ 83,648
97400	Depreciation Expense	$ 10,562
90000	**Total Expenses**	$ 1,701,774
10000	**Excess (Deficiency) of Total Revenue Over (Under) Total Expenses**	$ 18,495
	Memo Account Information:	
*11030	Beginning Equity	$ 144,421
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	$ 59,570
*11170	Administraive Fee Equity	$ 96,612
*11180	Housing Assistance Payments Equity	$ 125,874
*11190	Unit Months Available	3,324
*11210	Number of Unit Months Available	3,085

The accompanying notes are an integral part of this required supplementary information.

1. BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It is prepared using the accrual basis of accounting, as required by REAC regulations.

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Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Community Facilities Loans and Grants	10.766	N/A	$ 18,318
Rural Economic Development Loans and Grants	10.854	N/A	20,487
Pass-through programs from:			
P.R. Department of Education			
Child and Adult Care Food Program	10.558	Not Available	852,883
Subtotal U.S. Department of Agriculture			**891,688**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	1,094,101
Supportive Housing Program	14.235	N/A	298,774
Community Development Block Grants Section 108 Loan Guarantees	14.248	N/A	195,820
Section 8 Housing Choice Vouchers	14.871	N/A	1,602,672
Pass-through programs from:			
P.R. Department of Family			
Emergency Solutions Grants Program	14.231	Not Available	10,550
P.R. Department of Housing - (Puerto Rico Public Housing Administration "PRPHA"):			
HOME Investment Partnerships Program	14.239	Not Available	71,624
Municipality of San Juan			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	41,687
Subtotal U.S. Department of Housing and Urban Development			**3,315,228**
U.S. DEPARTMENT OF JUSTICE			
Pass-through programs from:			
P.R. Department of Justice			
Public Safety Partnership and Community Policing Grants	16.710	Not Available	34,535
Subtotal U.S. Department of Justice			**34,535**
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-through programs from:			
P.R. Department of Transportation and Public Works			
Formula Grants for Rural Areas	20.509	Not Available	191,973
Subtotal U.S. Department of Transportation			**191,973**

The accompanying notes are an integral part of this schedule.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through programs from:			
P.R. Office of Ombudsman Administration (OAP):			
Special Program for the Aging-Title III, Part C. Nutrition Services	93.045	Not Available	178,614
P.R. Department of Family - Socialeconomic Development Administration			
Temporary Assistance for Needy Families (TANF)	93.558	Not Available	82,416
P.R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant	93.575	Not Available	435,742
P.R. Department of Family - Administration for the Care and Integral Development of Children			
Head Start	96.300	Not Available	6,249,783
Subtotal U.S. Department of Health and Human Services			**6,946,555**
Total Expenditures of Federal Awards			**$ 11,379,979**

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Municipality, known as "pass–through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass–through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

3. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Head Start	Other Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	$ 6,249,783	$ 5,130,196	$ 11,379,979
Additional amount recorded as expenditures under modified-accrual basis for Section 8 HCV Program	-	88,540	88,540
Non-federal awards expenditures	2,980	-	2,980
Reimbursement of program awards surplus to the federal agency	-	1,214,317	1,214,317
Total expenditures, fund statements	**$ 6,252,763**	**$ 6,433,053**	**$ 12,685,816**

4. LOAN GUARANTEES AND MORTGAGES PAYABLE

The Municipality entered into various financing agreements with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The first agreement was issued on August 7, 2004 in the amount of $3,200,000 for public improvements and municipal facilities reconstruction project. The second and third agreements were issued on July 21, 2010 in the amounts of $1,905,000 and $1,245,000, respectively, as part of a refinancing agreement of the principal amounts owed on two outstanding loans issued for the original amounts of $6,455,000 and $2,370,000, respectively. The $6,455,000 loan was issued on August 1, 1996 for a public facilities and housing rehabilitation project. The $2,370,000 was issued on August 1, 2000 for the Casa Portela Museum and recreational areas project.

On 2004, the Municipality formed the Municipality of Vega Baja Home Investment Partnership Program to acquire, rehabilitate, own and operate an apartment project (elderly home) located in Vega Baja. The construction of the apartment structure was primarily financed under the National Housing Act through an issuance of a demand note in the amount of $1,107,120 from the P.R. Department of Housing on February 25, 2004. In addition, on January 19, 2006, the Municipality issued a second HUD – insured mortgage note in the amount of $610,000 from the P.R. Housing Finance Authority to complete the construction of the apartment building.

The following represents the loans outstanding balance as of June 30, 2014:

CFDA No.	Program Name	Loan Outstanding Balance
14.248	Community Development Block Grants-Section 108 Loan Guarantee	**$ 3,525,000**
14.239	Home Investment Partnership Program HUD-Insured Loans	**$ 1,661,143**

INDEPENDENT AUDITOR'S 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 the Municipal Legislature
Municipality of Vega Baja
Vega Baja, Puerto Rico

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Vega Baja,** Puerto Rico, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Municipality of Vega Baja's** basic financial statements and have issued our report thereon dated February 15, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Municipality of Vega Baja's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Vega Baja's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Vega Baja's** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and reportable instances of noncompliance.

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 considered the deficiencies described in in the accompanying schedule of findings and questioned costs as item **2014-001** to be material weaknesses.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITOR'S 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 (CONTINUED)*

Internal Control over Financial Reporting (Continued)

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. During our audit, we did not identify any additional deficiencies in internal control that we considered significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Vega Baja's** financial statements are free from 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 item **2014-001.**

Municipality of Vega Baja's Response to Findings

Municipality of Vega Baja's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Municipality of Vega Baja's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

López Vega CPA PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 15, 2015

Stamp No. 2675891 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the **Municipality of Vega Baja's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Vega Baja's** major federal programs for the year ended June 30, 2014. **Municipality of Vega Baja's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality of Vega Baja's** major federal programs based on our audit of the types of compliance requirements referred to above. 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 **Municipality of Vega Baja'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 on compliance for each major federal program. However, our audit does not provide a legal determination of **Municipality of Vega Baja's** compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

Basis for Qualified Opinion on Head Start Program

As described in the accompanying schedule of findings and questioned costs, the **Municipality of Vega Baja** did not comply with requirements regarding **CFDA 93.600 Head Start** as described in finding numbers **2014-005** for **Accounting Records** and **2014-006** for **Reporting – Financial Administration**. Compliance with such requirements is necessary, in our opinion, for the **Municipality of Vega Baja** to comply with the requirements applicable to that program.

Qualified Opinion on Head Start Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the **Municipality of Vega Baja** complied, in all material aspects, with the types of compliance requirements referred to above that could have a direct and material effect on the **93.600 Head Start** for the year ended June 30, 2014.

Unqualified Opinion on Each of the Other Major Federal Programs

In our opinion, the **Municipality of Vega Baja** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **2014-002** to **2014-004**. Our opinion on each major federal program is not modified with respect to these matters.

Municipality of Vega Baja's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Municipality of Vega Baja's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of **Municipality of Vega Baja** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Municipality of Vega Baja's** internal control over

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 **Municipality of Vega Baja'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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. We considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2014-005** and **2014-006** to be material weaknesses.

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. We considered the deficiencies in internal control over compliance in the accompanying schedule of findings and questioned costs as items **2014-002** through **2014-004** to be significant deficiencies.

Municipality of Vega Baja's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Municipality of Vega Baja's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirement of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose

López Vega CPA PSC

LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 15, 2015

Stamp No. 2675892 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	GWFS - Adverse	FFS - Unmodified
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered being material weaknesses?	Yes	None X
Noncompliance material to financial statements noted?	Yes X	No

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered being material weaknesses?	Yes X	No
Type of auditor's report issued on compliance for major programs:	Unmodified, except for qualified Head Start Cluster	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
20.509	Formula Grants for Rural Areas
93.575	Child Care and Development Block Grant Program
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs	$341,399	
Auditee qualified as low-risk auditee?	Yes	No X

Section II – Financial Statements Findings

This significant deficiency in internal controls is considered a material weakness (MW) and an instance of noncompliance (NC).

Finding Reference **2014-001**

Requirement **Capital Assets and Expenditures – Subsidiary Ledger (MW) (NC)**

Statement of Condition The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net position, and expenses of the governmental activities is not determinable.

Criteria Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Position and that these assets must be depreciated during its useful life.

Cause of Condition Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.

Effect of Condition The Municipality's Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality.

Recommendation We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, necessary to comply with the requirements of the GASB Statement No. 34.

Questioned Cost None

Management Response and Corrective Action We concur with the auditors' recommendations. The Municipality is evaluating the actual administrative procedures followed to establish better procedures to comply with the requirements of the GASB Statement No. 34. On October 1, 2014, we started the compilation of the documents to support the value of the capital assets to be reported.

Implementation Date: During the 2014-2015 fiscal year

Responsible Persons: Ms. Waleska Rivera Coira
Finance Department Director

Section III – Major Federal Award Program Findings and Questioned Costs

The significant deficiencies in internal controls over compliance reported in items 2014-005 and 2014-006 are considered material weaknesses (MW).

Finding Reference	**2014-002**
Program	**Child and Adult Care Food Program (CFDA. No. 10.558), U.S. Department of Agriculture, Pass-through the P.R. Department of Education**
Requirement	**Reporting – Noncompliance with pass-through agency requirements**
Statement of Condition	During our audit, we identified that the Municipality submitted the semiannual financial management report for the six-month period ended on March 31, 2014, on May 1, 2014, a delay of sixteen (16) days with the state agency's due date requirement of April 15, 2014. The other semiannual report for the six-month period ended on September 30, 2014, due on October 15, 2014, was submitted on November 5, 2014, a delay of twenty-one (21) days. Finally, the annual closing report, due on January 15, 2015, was submitted on February 12, 2015.
Criteria	7 CFR Part 3016, Subpart C, Section 3016.41 (b) (1) and (4), state that grantee will use standard financial reports established by the regulatory agency to report the status of funds for all non-construction grants. Also, when reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. In case of pass-through grants, the due dates will be established by the state regulatory agency. For the P.R. Department of Education, the required financial reports are to be submitted semiannually, within 15 days of the closing of the reporting period. For the annual closing financial report, the subrecipients have until January 15 following the termination of the program year (September 30).
Cause of Condition	The Program does not have effective internal controls to ensure that the required financial reports are submitted on time to the pass-through agency.
Effect of Condition	The Program is not in compliance with 7 CFR Part 3016, Subpart C, Section 3016.41 (b) (1) and (4).
Recommendation	Management should take the necessary steps to ensure that the Program submits its financial reports within the time frame required by the state pass-through agency.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-002 (Continued)**

Questioned Costs None

Management Response and Corrective Action

The Head Start Agency of Vega Baja will establish the following program procedures to review and report the financial information as required:

- The auxiliary accountant will deliver the completed monthly reconciliation and payments on or before the 3rd day of the next month.
- The accountant will review and audit the monthly report prepared by the auxiliary accountant. She will also prepare every 7th month a report for the previous six months for the P.R. Education Department. This will be delivered to the Agency Director by the 8th day of the 7th month. This will allow a full fiscal month for completion and review of the report prior to its deadline thus ensuring its accuracy.
- The Agency Director will review and approve the report.
- The report will be delivered by the administrative manager to the P.R. Education Department by no later than the 13th day of the following months: April, October and January.

Implementation Date: During the fiscal year 2014-2015.

Responsible Persons: Mrs. Alba Arroyo, Interim Director
Head Start Program
Mrs. Judith Meléndez, Accountant
Head Start Program

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2014-003**
Program	**Federal Transit – Formula Grants (Urbanized Area Formula Program) (CFDA 20.507), U.S. Department of Transportation**
Requirement	**Reporting - Accounting Records**
Statement of Condition	During our audit procedures, we detected that the Program's accounting records do not adequately report the federal and local share expenditures in accordance with the eighty-twenty (80%-20%) matching requirement established for the Program. Therefore, the financial information reported in the quarterly Financial Reports does not correctly present the Program's operating transactions.
Criteria	The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.
Cause of Condition	Adequate internal controls do not exist to ensure the proper recognition of financial information in the Program's accounting records.
Effect of Condition	The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).
Recommendation	We recommend the Program establishes monitoring procedures to ensure the accuracy of accounting records and correct preparation and submission of the quarterly financial reports.
Questioned Costs	None
Management Response and Corrective Action	The Federal Program Office's employees do not record exactly the amount of the local share (20%) disbursement. Corrective measures regarding this issue were taken obtaining accurate disbursement records of the federal and local s=using and FTA Disbursement Log. Implementation Date: During the fiscal year 2014-2015 Responsible Persons: Mr. Carlos Larroy, Director Federal Programs Office Mrs. Tania Ortega, Employee In-charge Federal Transit – Formula Grants Program

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2014-004**
Program	**Head Start (CFDA. No. 93.600), U.S. Department of Health and Human Services; Pass through the P.R. Department of Family – Administration for the Care and Integral Development of Children (ACUDEN)**
Requirement	**Matching, Level of Effort, Earmarking - Matching**
Statement of Condition	The Municipality is not in compliance with the requirement of contributing at least twenty percent (20%) of cost of the program through cash or in kind contributions. Based on the annual settlement of program funds report submitted to the pass through agency, the Municipality only contributed nineteen percent (19%) in cash and in-kind contributions for the program year 2014.
Criteria	45 CFR Subpart C Section 1301.20 states that federal financial assistance granted under the act for a head Start program shall not exceed 80 percent of the total costs of the program. The non-federal share will not be required to exceed 20 percent of the total costs of the program. Clause eleven of the grant agreement with the state agency requires that the Municipality's local share, whether it be in cash, in-kind contributions or a combination of both, cannot be less than twenty percent (20%) of the total combined funds.
Cause of Condition	Adequate internal controls and proper monitoring procedures do not exist to ensure the Municipality's compliance with the Program's matching requirement.
Effect of Condition	The program is not in compliance with 45 CFR Subpart C Section 1301.20 and clause eleven of the grant agreement.
Recommendation	We recommend the Program establishes monthly monitoring procedures and appropriate internal controls in order to ensure the Municipality's compliance with the Program's matching requirements.
Questioned Costs	None

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-004 (Continued)**

Management Response and Corrective Action

In-kind reports for the year 2013-2014 were performed in accordance to guidelines from contractors of the P.R. Administration for the Care and Integral Development of Children (ACUDEN). The Municipality of Vega Baja contributed the deficiency to complete the required amount for in-kind funds. The Program performs local monitoring and currently communicates monthly to the Finance Director, Ms. Waleska Rivera, what has been received and any deficiency identified.

Implementation Date: During the fiscal year 2014-2015

Responsible Persons: Mrs. Alba Arroyo, Interim Director
Mrs. Judith Meléndez, Accountant
Head Start Program

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-005**

Program **Head Start (CFDA. No. 93.600), U.S. Department of Health and Human Services; Pass through the P.R. Department of Family – Administration for the Care and Integral Development of Children (ACUDEN)**

Requirement **Accounting Records (MW)**

Statement of Condition During our audit, we noted that the Program did not maintain an adequate set of accounting records for the Head Start Program to fairly present the financial position of the program and results of its operations. No general ledger was prepared for the recording of the Program's programmatic and administrative expenditures. The financial information reported in the monthly request for funds is based on accounting information compiled from different sources and not from a complete set of accounting records.

Criteria 45 CFR Part 92, Subpart C Section 92.20 (a) (1) and (2) and (b) (1) and (2), *Standards for Financial Management Systems*, establishes that fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to: permit preparation of reports required by this part and the statutes authorizing the grant; and the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The financial management system of other grantees and sub-grantees must meet the following standards:

- *Financial reporting:* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.
- *Accounting records:* Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Cause of Condition Adequate internal controls and proper monitoring procedures do not exist to ensure the maintenance of a complete set of accounting records as required by the Program's regulations and grant agreement. Also, the accounting personnel does not possess the adequate training to ensure a proper recognition of the Program's financial transactions.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-005 (Continued)**

Effect of Condition The Program is not in compliance with 45 CFR Part 92, Subpart C Section 92.20 (a) (1) and (2) and (b) (1) and (2*), Standards for Financial Management Systems*.

Recommendation Management should take necessary steps to establish and maintaining proper internal controls and periodic monitoring procedures to ensure the correct recognition of the Program's financial and budgetary transactions in a complete set of accounting records, using the double-entry system. The Program must give financial training to the personnel in charge of the accounting record-keeping and preparation of the financial reports to ascertain that: (1) the accounting system complies with state and federal laws, (2) all the transactions related to assets, liabilities, revenues and expenditures is recorded and reconciled in a timely manner.

Questioned Costs None

Management Response and Corrective Action The Head Start Agency of Vega Baja will establish the following program procedures to review and prepare the reports, as required:

- The auxiliary accountant will complete the monthly reconciliation for the data recorded in the SIMA accounting system. The employee will validate the result from the match between both accounting systems (SIMA & Abila). If a variance is identified, the employee will partner with the Program's accountant to investigate the differences and address the problem.
- The accountant will complete the monthly reconciliation for the accounting data recorded in the Abila system.
- Auxiliary Accountant to meet the following deadlines:

Implementation Date: During the 2014-2015 fiscal year

Responsible Persons: Mrs. Alba Arroyo, Interim Director
Mrs. Judith Meléndez, Accountant
Head Start Program

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-006**

Program **Head Start (CFDA. No. 93.600), U.S. Department of Health and Human Services; Pass through the P.R. Department of Family – Administration for the Care and Integral Development of Children (ACUDEN)**

Requirement **Reporting – Financial Administration (MW)**

Statement of Condition In our Reporting Test, we could not trace the amounts reported in the monthly Financial Reports to the Program's accounting records since the Municipality does not maintain a general ledger. As an alternate procedure, we compared the amounts reported as federal expenditures in the monthly Financial Reports and the amounts detailed in the supporting accounting documentation used for the preparation of these reports and there were significant differences between the amounts reported and the ones detailed in such documentation.

Criteria The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.

Cause of Condition Adequate internal controls do not exist to ensure the correctness of the quarterly reports submitted to the federal agency.

Effect of Condition The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).

Recommendation We recommend the Program establishes monitoring procedures to ensure the accuracy and completeness of accounting records and correct preparation and submission of the monthly financial reports.

Questioned Costs None

Management Response and Corrective Action During the 2013-2014 year, the Agency did not have the proper tools to record the Program's financial information and was forced to gather it in Excel worksheets. This included the General Ledger. Since the beginning of the new fiscal year, all financial data is being recorded digitally in the SIMA (Municipality) and Abila (Federal) accounting systems.

Implementation Date: During the 2014-2015 fiscal year

Responsible Persons: Mrs. Alba Arroyo, Interim Director
Mrs. Judith Meléndez, Accountant
Head Start Program

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
12-02	14.218	During the audit process, we noted that the accounting records were not maintained on a timely basis as follow: 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 ("Aportación 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 fund totalizing $726,919 for which there are no supporting documents available for examination. 8) The Municipality has account 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 $14,048.58. 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 examintions. 15) The Municipality does not have a financial or reporting closing procedures in place. 16) The Municipality does not perfom physical inventories of their capital assets on annual basis.

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		Corrective action was taken. A similar situation was not identified during fiscal year ended June 30, 2013.
12-03	14.871	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. Corrective action was taken. A similar situation was not identified during fiscal year ended June 30, 2013.