

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE TOA ALTA**  
**AUDITORIA 2003-2004**

**30 DE JUNIO DE 2004**

CASH-1410-1-345-0

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA ALTA**  
**SINGLE AUDIT REPORT**  
**YEAR ENDED JUNE 30, 2004**

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF TOA ALTA

YEAR ENDED JUNE 30, 2004

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- 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 Toa Alta  
Toa Alta, Puerto Rico**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Toa Alta, Puerto Rico**, as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. 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, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Nonprofits Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Toa Alta, Puerto Rico**, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (Continued)

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule-General Fund on page 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2004 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 grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the **Municipality of Toa Alta**, taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 28, 2004

Stamp No 2019439 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2004

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**Management's Discussion and Analysis**

As management of the Municipality of Toa Alta, we offer readers of the Municipality's basic financial statements this narrative overview and analysis of the financial activities of the Municipality as of and for the fiscal year ended June 30, 2004. This Management's Discussion and Analysis (MD&A) include comparative data, and it has been designed accordingly with the following goals:

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

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

**FINANCIAL HIGHLIGHTS**

- The Municipality net assets increase by \$ 7,526,244.
- In the fund financial statements, the governmental activities revenue increase \$ 3,523,130 (or 17%) while governmental activities expenditures decrease \$ 745,371 (or 4%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$ 847,362.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$ 94,697.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**Using This Annual Report**

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

**Government-Wide Financial Statements**

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

**Fund Financial Statements**

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**Fund Financial Statements (Continued)**

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Infrastructure Assets**

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

The Municipality elected to depreciate infrastructure assets instead of using the modified approach.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$ 8,828,813 at the end of 2004, compared to \$ 1,302,569 at the end of the previous year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

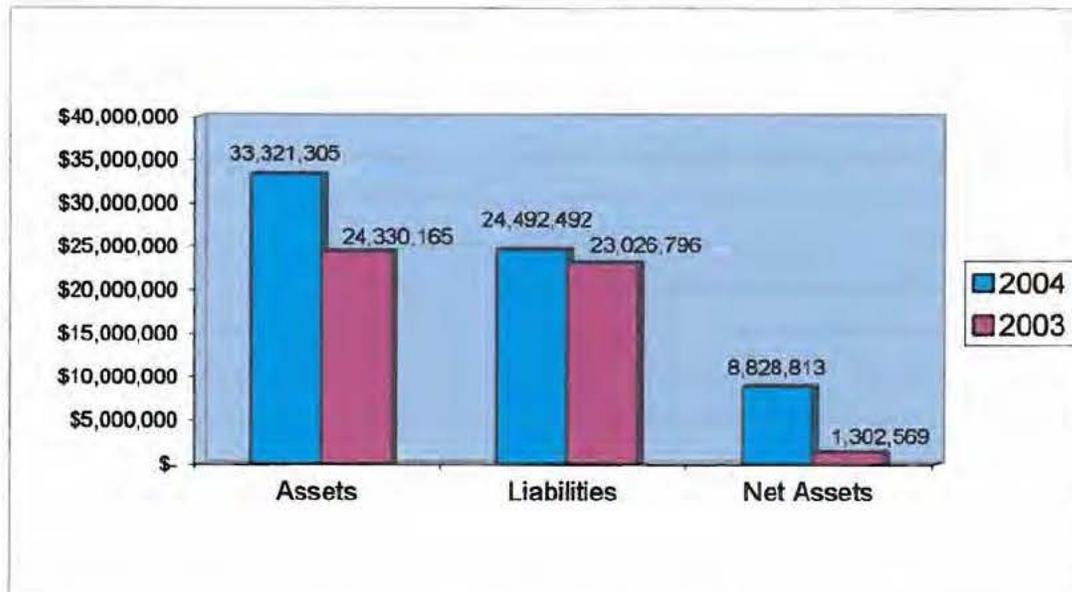
**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets (Continued)**

<b>Condensed Statement of Net Assets</b>	<b>2004</b>	<b>2003</b>	<b>Change</b>	<b>%</b>
Current assets	\$11,637,827	\$8,799,054	\$2,838,773	32%
Capital assets	13,864,988	9,059,969	4,805,019	53%
Other assets	7,818,490	6,471,142	1,347,348	21%
<b>Total assets</b>	<b>33,321,305</b>	<b>24,330,165</b>	<b>8,991,140</b>	<b>37%</b>
Current liabilities	3,347,827	3,808,550	(460,723)	(12%)
Noncurrent liabilities	21,144,665	19,218,246	1,926,419	10%
<b>Total liabilities</b>	<b>24,492,492</b>	<b>23,026,796</b>	<b>1,465,696</b>	<b>6%</b>
Invested in capital assets, net of related debt	13,337,802	5,808,303	7,529,499	130%
Restricted	10,313,075	6,730,441	3,582,634	53%
Unrestricted	<u>(14,822,064)</u>	<u>(11,236,175)</u>	<u>(3,585,889)</u>	32%
<b>Total net assets</b>	<b><u>\$8,828,813</u></b>	<b><u>\$1,302,569</u></b>	<b><u>\$7,526,244</u></b>	<b>578%</b>



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**Changes in Net Assets**

The Municipality's net assets increase by \$7,256,244. Approximately 20 percent of the Municipality's total revenue came from taxes, while 72 percent resulted from grants and contributions, including federal aid. Charges for Services provided 7 percent and Interest revenue and miscellaneous 1 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare services, general government, public works, and public safety. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

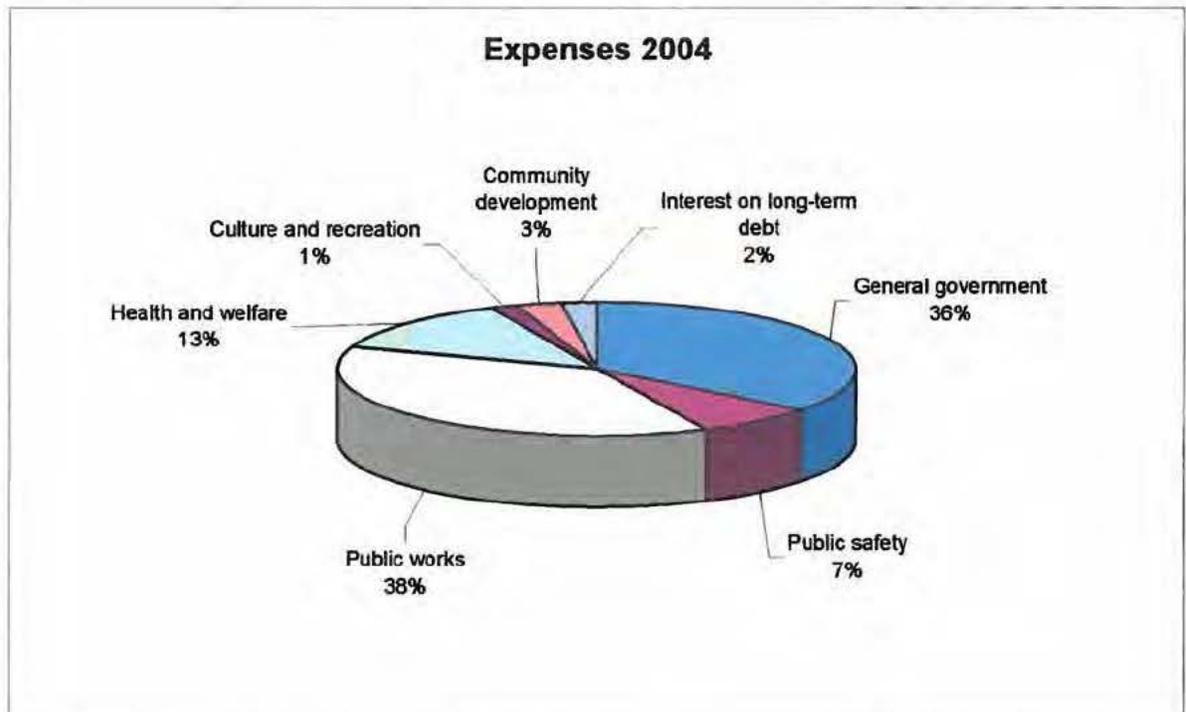
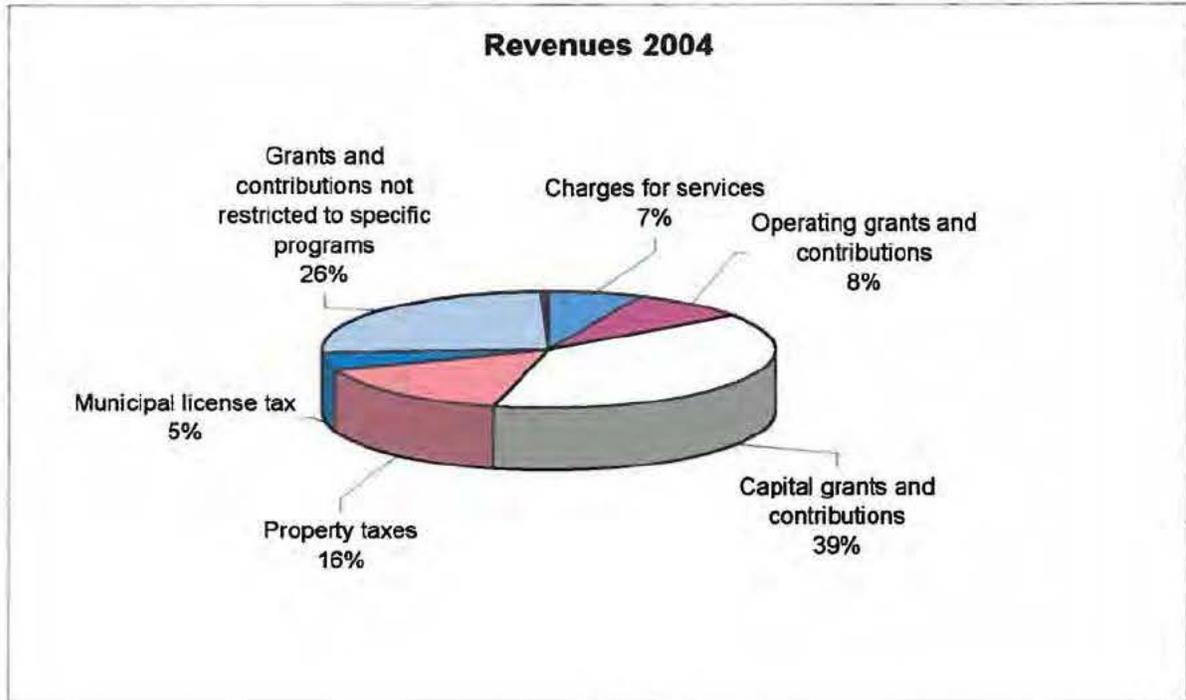
Condensed Statement of Activities	2004	2003	Change	%
Program revenues:				
Charges for services	\$1,973,751	\$1,013,891	\$959,860	95%
Operating grants and contributions	2,500,016	3,279,339	(779,323)	(24%)
Capital grants and contributions	11,445,368	7,512,470	3,932,898	52%
General revenues:				
Property taxes	4,637,215	3,888,914	748,301	19%
Municipal license tax	1,370,102	1,192,784	177,318	15%
Grants and contributions not restricted to specific programs	7,484,659	9,058,231	(1,573,572)	(17%)
Interest and investment earnings	57,037	128,279	(71,242)	(56%)
Miscellaneous	102,774	94,442	8,332	9%
<b>Total revenues</b>	<b>29,570,922</b>	<b>26,168,350</b>	<b>3,402,572</b>	<b>13%</b>
Expenses:				
General government	7,848,309	10,397,920	(2,549,611)	(25%)
Public safety	1,648,905	1,749,591	(100,686)	(6%)
Public works	8,221,164	9,263,102	(1,041,938)	(11%)
Health and welfare	2,873,563	2,024,537	849,026	42%
Culture and recreation	325,290	513,064	(187,774)	(37%)
Community development	611,510	2,211,841	(1,600,331)	(72%)
Urban development	30,000	30,000	30,000	100%
Interest on long-term debt	484,570	546,305	(61,735)	(11%)
Education	1,367	313,941	(312,574)	(100%)
<b>Total expenses</b>	<b>22,044,678</b>	<b>27,020,301</b>	<b>(4,975,623)</b>	<b>(18%)</b>
Change in net assets	7,526,244	(851,951)	8,378,195	(983%)
Net assets, beginning of year	1,302,569	2,154,520	(851,951)	(40%)
Net assets, end of year	\$8,828,813	\$1,302,569	\$7,526,244	578%

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Changes in Net Assets (Continued)



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

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

**Governmental Funds**

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$7,396,207, an increase of \$2,699,304 in comparison with the prior year. There are reservations of fund balance amounting to \$11,002,135. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$689,060), 2) to pay debt service (\$ 1,625,554), 3) to pay for capital projects (\$7,834,926) and 4) for other purposes (\$ 852,605).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has a fund balance of (\$ 2,916,868).

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2004, amounts to \$ 30,194,741, net of accumulated depreciation of \$ 8,511,263, leaving a net book value of \$ 21,683,478. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED)**

assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 29% in terms of net book value. Depreciation charges for the year totaled \$ 941,906.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2004, the Municipality has \$7,834,926 of unexpended proceeds mainly from bond issuances that are committed to future construction activities.

**Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

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

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation,

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED)**

municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2004-2005 fiscal year.

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico  
Municipality of Toa Alta  
Statement of Net Assets  
June 30, 2004

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 7,155,455
Cash with fiscal agent	2,911,021
Accounts receivable:	
Construction excise taxes	60,000
Intergovernmental	253,869
Landfill	893,793
Federal grants	362,676
Interest	1,013
Capital assets	
Land, improvements, and construction in progress	13,864,988
Other capital assets, net of depreciation	7,818,490
Total capital assets	<u>21,683,478</u>
<b>Total assets</b>	<u>33,321,305</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,796,247
Due to other governmental entities	103,906
Deferred revenues:	
Municipal license tax	919,090
Federal grant revenues	528,584
Noncurrent liabilities:	
Due within one year	1,143,246
Due in more than one year	<u>20,001,419</u>
<b>Total liabilities</b>	<u>24,492,492</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	13,337,802
Restricted for:	
Capital projects	7,834,926
Debt service	1,625,544
Federal and state grant funds	852,605
Unrestricted (deficit)	<u>(14,822,064)</u>
<b>Total net assets</b>	<u>\$ 8,828,813</u>

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

Commonwealth of Puerto Rico  
Municipality of Toa Alta  
Statement of Activities  
For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 7,848,309	\$ 76,965	\$ 674,924	\$ 2,701	\$ (7,093,719)
Public safety	1,648,905	915	48,348		(1,599,642)
Public works	8,221,164	1,895,871	139,975	4,177,800	(2,007,518)
Health and welfare	2,873,563		1,620,897		(1,252,666)
Culture and recreation	325,290			713,759	388,469
Community development	611,510			6,551,108	5,939,598
Urban development	30,000				(30,000)
Education	1,367		15,872		14,505
Interest on long-term debt	484,570				(484,570)
<b>Total governmental activities</b>	<b>\$ 22,044,678</b>	<b>\$ 1,973,751</b>	<b>\$ 2,500,016</b>	<b>\$ 11,445,368</b>	<b>\$ (6,125,543)</b>
General revenues:					
Property taxes					4,637,215
Municipal license tax					1,370,102
Grants and contributions not restricted to specific programs					7,484,659
Interest and investment earnings					57,037
Miscellaneous					102,774
<b>Total general revenues</b>					<b>13,651,787</b>
Change in net assets					7,526,244
Net assets - beginning as restated					1,302,569
Net assets - ending					<b>\$ 8,828,813</b>

**Commonwealth of Puerto Rico  
Municipality of Toa Alta  
Balance Sheet  
Governmental Funds  
June 30, 2004**

	<u>General Fund</u>	<u>Special Revenue Fund State &amp; Federal Grants</u>	<u>Capital Projects Fund State &amp; Federal Grants</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ -	\$ 1,257,137	\$ 5,898,318	\$ -	\$ 7,155,455
Cash with fiscal agent	2,134	3,991	1,315,321	1,589,575	2,911,021
Accounts receivable:					
Construction excise taxes	60,000				60,000
intergovernmental	46,918	169,085		37,866	253,869
Landfill	893,793				893,793
Federal grants			362,676		362,676
Interest				1,013	1,013
Due from other funds	620,683	348,905	982,056		1,951,644
<b>Total assets</b>	<b>\$ 1,623,528</b>	<b>\$ 1,779,118</b>	<b>\$ 8,558,371</b>	<b>\$ 1,628,454</b>	<b>\$ 13,589,471</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities :</b>					
Accounts payable and accrued liabilities	\$ 1,292,646	\$ 105,140	\$ 398,461	\$ -	\$ 1,796,247
Due to other governmental entities	103,906				103,906
Due to other funds	1,330,961	390,991	226,782	2,910	1,951,644
Deferred revenues:					
Municipal license tax	919,090				919,090
Federal grant revenues		430,382	98,202		528,584
Landfill	893,793				893,793
<b>Total liabilities</b>	<b>4,540,396</b>	<b>926,513</b>	<b>723,445</b>	<b>2,910</b>	<b>6,193,264</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Encumbrances	689,060				689,060
Capital projects			7,834,926		7,834,926
Other purposes		852,605			852,605
Debt service fund				1,625,544	1,625,544
<b>Unreserved:</b>					
Undesigned (deficit)	(3,605,928)				(3,605,928)
<b>Total fund balances (deficit)</b>	<b>(2,916,868)</b>	<b>852,605</b>	<b>7,834,926</b>	<b>1,625,544</b>	<b>7,396,207</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,623,528</b>	<b>\$ 1,779,118</b>	<b>\$ 8,558,371</b>	<b>\$ 1,628,454</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	21,683,478
Other long-term assets are not available to pay current period expenditures and therefore are offset by deferred revenue in the governmental funds	893,793
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(21,144,665)
<b>Net assets of governmental activities</b>	<b>\$ 8,828,813</b>

Commonwealth of Puerto Rico  
Municipality of Toa Alta  
Statement of Revenues, Expenditures and Changes In Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2004

	General Fund	Special Revenue Fund State & Federal Grants	Capital Projects Fund State & Federal Grants	Debt Service Fund	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 3,445,784	\$ -	\$ -	\$ 1,191,431	\$ 4,637,215
Municipal license taxes	1,370,102				1,370,102
Licenses, permits and other local taxes	2,489,633				2,489,633
Intergovernmental	4,995,651	840,242	5,256,305		11,092,198
Landfill users fees	1,002,078				1,002,078
Rent of property	76,340				76,340
Fines and forfeitures	915				915
Interest	57,037				57,037
Federal grants		1,528,658	2,431,944		3,960,602
Miscellaneous	40,180	70,328			110,508
<b>Total revenues</b>	<b>\$ 13,477,720</b>	<b>\$ 2,439,228</b>	<b>\$ 7,688,249</b>	<b>\$ 1,191,431</b>	<b>\$ 24,796,628</b>
<b>Expenditures</b>					
<b>Current:</b>					
General government	7,497,562	852,816			8,350,378
Public safety	1,496,307	44,536			1,540,843
Public works	3,197,075	29,367	1,635,626		4,862,068
Health and welfare	1,240,735	1,611,700			2,852,435
Culture and recreation	835,954	84,015			919,969
Community development			2,308,563		2,308,563
Urban development		30,000			30,000
Education		1,367			1,367
<b>Debt service:</b>					
Principal				747,131	747,131
Interest				484,570	484,570
<b>Total expenditures</b>	<b>14,267,633</b>	<b>2,653,801</b>	<b>3,944,189</b>	<b>1,231,701</b>	<b>22,097,324</b>
Excess (deficiency) of revenues over (under) expenditures	(789,913)	(214,573)	3,744,060	(40,270)	2,699,304
<b>Other financing sources (uses)</b>					
Transfers in	611,179	621,863	818,906	59,629	2,111,577
Transfers out	(668,628)	(217,075)	(614,695)	(611,179)	(2,111,577)
<b>Total other financing sources (uses)</b>	<b>(57,449)</b>	<b>404,788</b>	<b>204,211</b>	<b>(551,550)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(847,362)</b>	<b>190,215</b>	<b>3,948,271</b>	<b>(591,820)</b>	<b>2,699,304</b>
Fund balance (deficit), beginning as restated	(2,069,506)	662,390	3,886,655	2,217,364	4,696,903
<b>Fund balance (deficit), ending</b>	<b>\$ (2,916,868)</b>	<b>\$ 852,605</b>	<b>\$ 7,834,926</b>	<b>\$ 1,625,544</b>	<b>\$ 7,396,207</b>

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

Commonwealth of Puerto Rico  
Municipality of Toa Alta  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2004

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	2,699,304
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		3,619,043
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds		(941,906)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.		(387,586)
Some revenues reported in the Statement of Activities do not provide current financial resources in Governmental Funds.		4,774,294
Change in landfill accrual		(2,984,036)
Repayment of principal of long-term debt consumes current financial resources.		<u>747,131</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>7,526,244</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2004**

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The **Municipality of Toa Alta** (the Municipality) was founded on the year 1751. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen-member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year 2007. The Municipality has elected to delay the capitalization of infrastructure.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Component Units**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**B. Government-wide and fund financial statements**

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

*General Fund*- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

*Special Revenue Fund -State and Federal Grants* - is the accounting entity in which revenues derived from federal and state grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

*Capital Projects Fund -Local, State and Federal Grants* - is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**B. Government-wide and fund financial statements -Continued**

limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

*Debt Service Fund-* Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

**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-** The General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

**Special Revenue Funds-** Special Revenue Funds are used to account for revenues derived from grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Debt Service Funds-** Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

**Capital Projects Funds-** Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**D. Measurement focus, basis of accounting and financial presentation**

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are 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 government considers revenues to be available if they are collected within the current period or soon enough thereafter.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

---

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

**D. Measurement focus, basis of accounting and financial presentation –Continued**

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

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

**E. Assets, liabilities and net assets**

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

E. Assets, liabilities and net assets –Continued

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs and the amount in the debt service fund represent the distribution of property tax collected by the Municipal Revenue Collection Center (CRIM), which is restricted for the debt service.

3. **Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Useful Life	Capitalization threshold
Buildings and site improvements	40 years	\$ 1
Infrastructure	40 years	\$ 1
Works of art	10 years	\$ 1
Vehicles	5 years	\$ 1
Furniture and fixtures	5 years	\$ 25
Machinery and equipment	3 to 5 years	\$ 25

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

- 5. Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds, bank and long-term notes, other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and landfill closure and post closure care costs.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

- 6. Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

- 7. 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.

- 8. Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- a. *Capital Projects-* Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- b. *Encumbrances-* Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**8 Reservation of fund balance - Continued**

- c. *Debt Service Fund*- Represents net assets available to finance future debt service payments.
- d. *Other Purposes*- Represents net assets available for specific use and/or legally segregated for other specific future use.

**9. Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:

- a. *Operating Transfers*- Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. *Intra-Entity Transactions*- Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

**10. Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2004 amounted to \$ 228,500. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$234,900 for workers compensation insurance covering all municipal employees.

**11. Reconciliation of Government-Wide and Fund Financial Statements**

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that 'capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The detail of this reconciliation is as follows:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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

		<u>Total Net Assets - Governmental Activities</u>
<b><u>Net assets Invested in capital assets, net of related debt</u></b>		
Capital assets, net of depreciation	\$ 21,683,478	
Deduct:		
Bonds Payable	(7,502,676)	
Notes Payable	<u>(843,000)</u>	\$13,337,802
<b><u>Net assets restricted for capital projects</u></b>		
Fund balance restricted for capital projects		7,834,926
<b><u>Net assets restricted for debt service</u></b>		
Fund balance restricted for debt service		1,625,544
<b><u>Net assets restricted for other purposes</u></b>		
Fund balance restricted for other purposes		852,605
<b><u>Net assets unrestricted (deficit)</u></b>		
General fund - total fund balance:	\$ (2,916,868)	
Add:		
Deferred revenues -landfill	893,793	
Deduct:		
Compensated absences	(1,076,466)	
Landfill obligation	(8,285,559)	
Advances from CRIM	(1,099,503)	
Claims and judgments debt	(225,000)	
Operational loan	(630,000)	
Other Liabilities	<u>(1,482,461)</u>	<u>(14,822,064)</u>
<b>Total net assets - governmental activities</b>		<b><u>\$ 8,828,813</u></b>

**2. DEPOSITS**

Under 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 are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of \$1,257,137 in the special revenue fund and \$5,898,318 in the capital projects fund were fully collateralized at June 30, 2004.

The deposits at GDB of approximately \$ 1,300,000 those are restricted principally for capital projects, and the \$ 1,589,575 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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3. RECEIVABLES

- a. **Municipal License Tax**- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$ 1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2004, the tax rates were as follows:

- Financial business- 1.50% of gross revenues
- Other organizations 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues

- b. **Municipal License Tax**- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$ 1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2004, the tax rates were as follows:

- Financial business- 1.50% of gross revenues
- Other organizations 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004, net of allowance for uncollectibles.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**3. RECEIVABLES - (CONTINUED)**

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

- c. **Intergovernmental Receivables-** Intergovernmental receivables in the general fund consist of the amounts due from Municipal Revenue Collection Center.

Amounts presented in the Special Revenue Fund principally consist of the amounts due from Commonwealth of Puerto Rico Department of Labor and the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs.

- d. **Federal Grants-** Federal Grants receivable in the Capital Projects Fund consist in expenditures incurred not yet reimbursed by the Federal Government.

**Federal Grants:**

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grants- Entitlement Grants	<u>\$ 362,676</u>

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2004 are summarized as follows:

- a. **Due from/to other fund:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue Fund	\$ 390,991
	Capital Projects Fund	226,782
	Debt Service Fund	2,910
Special Revenue	General Fund	348,905
Capital Projects	General Fund	<u>982,056</u>
Total		<u>\$ 1,951,644</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**4. INTERFUND TRANSACTIONS - (CONTINUED)**

**b. Transfer in/out to other fund**

Following is a summary of interfund transfers for the year:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt Retirement	\$ 59,629
Debt Service Fund	General Fund	Residual Equity Transfer	611,179
General & Capital Projects Fund	Special Revenue Fund	Various	621,863
Special Revenue & Capital Projects Fund	Capital Projects Fund	Transfer of funds for Capital Outlay	<u>818,906</u>
Total			<u>\$2,111,577</u>

**5. CAPITAL ASSETS**

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2004, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
<b>Capital asset, not being depreciated:</b>				
Construction in Progress	\$282,283	\$1,520,759	(\$195,657)	\$1,607,385
Land	<u>8,777,686</u>	<u>3,670,669</u>	<u>(190,752)</u>	<u>12,257,603</u>
Total capital assets not being depreciated	<u>9,059,969</u>	<u>5,191,428</u>	<u>(386,409)</u>	<u>13,864,988</u>
<b>Capital assets, being depreciated:</b>				
Buildings and building improvements	5,616,652	603,931		6,220,583
Infrastructure and Infrastructure Improvements	1,222,986	1,311,217	(16,888)	2,517,315
Equipment	2,311,451	266,157	(19,288)	2,558,320
Furnishing	327,408	68,973	(4,292)	392,089
Works of art	45,000			45,000
Computers	391,907	56,083	(5,375)	442,615
Vehicles	<u>4,152,076</u>	<u>1,755</u>		<u>4,153,831</u>
Total capital assets being depreciated	<u>14,067,480</u>	<u>2,308,116</u>	<u>(45,843)</u>	<u>16,329,753</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**5. CAPITAL ASSETS –(CONTINUED)**

Less accumulated depreciation for:

Buildings and building improvements

	(\$2,154,424)	(\$150,565)		(\$2,304,989)
Infrastructure and Infrastructure Improvements	(41,468)	(76,890)	726	(117,632)
Equipment	(1,962,800)	(159,031)	16,797	(2,105,034)
Furnishing	(276,355)	(25,600)	4,084	(297,871)
Works of art	(25,125)	(4,500)		(29,625)
Computers	(274,547)	(105,434)	5,375	(374,606)
Vehicles	(2,861,620)	(419,886)		(3,281,506)
<b>Total accumulated depreciation</b>	<b>(7,596,339)</b>	<b>(941,906)</b>	<b>26,982</b>	<b>(8,511,263)</b>
<b>Total capital assets being depreciated, net</b>	<b>6,471,141</b>	<b>1,366,210</b>	<b>(18,861)</b>	<b>7,818,490</b>
<b>Governmental activities capital assets, net</b>	<b>\$15,531,110</b>	<b>\$6,557,638</b>	<b>(\$405,270)</b>	<b>\$21,683,478</b>

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

Governmental activities:

General government	\$ 408,166
Public safety	144,484
Public works	254,553
Culture and recreation	90,073
Health and welfare	21,928
Community development	<u>22,702</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$941,906</u></b>

**6. PROPERTY TAXES**

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**6. PROPERTY TAXES - (CONTINUED)**

the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that the collections exceeded advances by \$46,918. Such amount was included as intergovernmental receivables in the General Fund.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the

Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**7. DUE TO OTHER GOVERNMENTAL ENTITIES**

The amounts due to other governmental entities in the General Fund include the following:

General Services Administration	\$ 69,833
Internal Revenue Service	2,201
Puerto Rico Aqueduct and Sewer Authority	9,502
Other	<u>22,370</u>
Total	<u>\$ 103,906</u>

The Municipality reached agreements with the Solid Waste Authority, Treasury Department, and the Municipal Revenue Collection Center for the payment of debts on a long-term basis. These liabilities are presented in the Statement of Net Assets as non-current liabilities.

**8. DEFERRED REVENUES**

- a. **Municipal License Tax-** The deferred revenues of approximately \$ 919,090 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.
- b. **Federal Government-** The deferred revenues presented in the Special Revenue and Capital Projects Funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

**Program Description**

Section 8 Housing Choice Vouchers	\$ 335,111
FEMA	59,358
Other	<u>134,115</u>
Total	<u>\$ 528,584</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**9. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$8,580,807		(\$448,131)	\$8,132,676	\$488,131
Notes Payable	1,142,000		(299,000)	843,000	318,000
Advances from CRIM	1,198,307		(98,804)	1,099,503	102,554
Compensated Absences	1,054,516	21,950		1,076,466	60,000
Claims and judgments	469,577		(244,577)	225,000	
Landfill obligation	5,301,523	2,984,036		8,285,559	
Others Liabilities	1,471,516	649,595	(638,651)	1,482,461	174,561
<b>Total</b>	<b>\$19,218,246</b>	<b>\$3,655,581</b>	<b>(\$1,729,163)</b>	<b>\$21,144,665</b>	<b>\$1,143,246</b>

- a. Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment if property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues if the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.
- b. Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment and the construction of major capital facilities. During the current year, the Municipality does not issued bonds or notes. Bonds payable outstanding at June 30, 2004 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest rates	Balance at June 30, 2004
1985 Series	7-1-04	\$200,000	8.00%	\$23,000
1988 Series	7-1-27	62,623	8.00%	10,176
1992 Series	7-1-07	900,000	4.16% to 6.41%	365,000
1995 Series	7-1-19	330,000	6.11% to 8.21%	275,000
1995 Series	7-1-20	485,000	4.70% to 6.88%	420,000
1996 Series	7-1-20	205,000	4.70% to 6.63%	165,000
1997 Series	7-1-16	400,000	5.00% to 8.00%	292,500
1997 Series	7-1-11	1,270,000	4.70% to 6.63%	850,000
1997 Series	7-1-21	1,230,000	4.87% to 6.75%	1,080,000
1999 Series	7-1-05	655,000	4.87% to 6.00%	225,000
1999 Series	7-1-22	625,000	0.00% to 6.56%	560,000
2001 Series	1-1-05	287,550	4.50%	55,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**9. LONG-TERM LIABILITIES - (CONTINUED)**

Type of bonds	Maturity date	Original Amount	Range of Interest rates	Balance at June 30, 2004
2001 Series	7-1-25	505,000	5.88% to 8.00%	485,000
2001 Series	7-1-25	1,230,000	5.88% to 8.00%	1,050,000
2001 Series	7-1-10	810,000	5.88% to 8.00%	630,000
2002 Series	7-1-06	505,000	2.70% to 5.00%	325,000
2002 Series	7-1-16	2,105,000	5.00% to 8.00%	1,950,000
2004 Series	7-1-09	245,000	5.00% to 6.50%	<u>215,000</u>
Total general obligation bonds				<u>\$8,975,676</u>

These bonds are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

Year Ending June 30,	Principal	Interest
2005	\$806,131	\$456,240
2006	788,131	434,761
2007	723,131	397,783
2008	645,783	362,480
2009	590,000	329,441
2010-2014	2,840,000	1,159,855
2015-2019	1,692,500	521,875
2020-2024	805,000	117,979
2025-2029	<u>85,000</u>	<u>5,250</u>
Total	<u>\$8,975,676</u>	<u>\$3,785,664</u>

- c. **Advances from CRIM-** This amount represents the balance owed to CRIM at June 30, 2004 will be repaid through a financing obtained by the CRIM with GDB
- d. **Compensated absences-** The government-wide statement of net assets includes approximately \$ 1,000,000 of accrued vacation and sick leave benefits, representing the Municipality's commitment to fund such costs from future operations.
- e. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**9. LONG-TERM LIABILITIES - (CONTINUED)**

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 \$ 8,285,559 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2004. The annual estimate of post closure costs has been assessed approximately to be \$ 90,000 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and post-closure costs are reported in the government-wide statement of net assets.

- f. **Other Liabilities-** This amount represents the balance owed at June 30, 2004 to the following governmental activities: Solid Waste Authority, U.S. Department of Housing and Urban Development, Treasury Department and the Municipal Revenue Collection Center.

**10. PENSION PLAN**

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plans sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitle to an annual benefit payable monthly for life.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**10. PENSION PLAN (CONTINUED)**

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2004 recorded as pension expenditures were approximately \$ 334,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2004.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**10. PENSION PLAN (CONTINUED)**

Additional information on the Retirement System is provide in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, San Juan, PR 00940

**11. COMMITMENTS AND CONTINGENCIES**

**A. Federal grants:**

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2004, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the grating agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**B. Claims and lawsuits:**

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$ 225,000 as non-current liabilities in the Statement of Net Assets of the Government-Wide Financial Statements for anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

**12. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning fund balance of the Debt Service Fund has been restated by \$ 35,968 to properly present the previously reported fund balance as of June 30, 2003.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND**

**YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final	(See Note 1)	(Negative)
<b>Revenues and other financing sources:</b>				
Property taxes	\$2,702,767	\$ 3,835,548	\$ 3,835,548	(\$ -)
Municipal license tax	1,800,000	1,800,000	1,370,102	(429,898)
Licenses, permits and other local taxes	2,011,500	2,011,500	2,429,633	418,133
Intergovernmental	5,098,338	5,098,338	4,995,651	(102,687)
Landfill users fees	900,000	900,000	1,002,078	102,078
Rent of property	75,000	75,000	76,340	1,340
Fines and forfeitures	5,000	5,000	915	(4,085)
Interest	75,000	75,000	57,037	(17,963)
Miscellaneous	505,000	911,026	446,206	(464,820)
Transfer from other fund		<u>611,179</u>	<u>611,179</u>	
<b>Total revenues and other financing sources</b>	<u>13,172,605</u>	<u>15,322,591</u>	<u>14,824,689</u>	<u>(497,902)</u>
<b>Expenditures and other financing uses:</b>				
Current:				
General government	\$ 7,352,133	\$ 7,957,994	7,659,638	298,356
Public safety	1,494,919	1,549,918	1,512,618	37,300
Public works	2,186,812	3,215,334	3,267,446	(52,112)
Health and welfare	1,241,016	1,243,016	1,239,327	3,689
Culture and recreation	828,646	969,963	853,991	115,972
Transfer to other fund	<u>69,079</u>	<u>386,366</u>	<u>386,366</u>	<u>-</u>
<b>Total expenditures and other financing uses</b>	<u>13,172,605</u>	<u>15,322,591</u>	<u>14,919,386</u>	<u>403,205</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses			<u>(\$94,697)</u>	<u>(\$94,697)</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 14,824,689
Differences-budget to GAAP:				
Timing differences				(842,708)
Nonbudgeted revenues				<u>106,918</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 14,088,899</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 14,919,386
Differences-budget to GAAP:				
Nonbudgeted transfer to other funds				282,262
Prior year encumbrances recorded as current year expenditures for GAAP basis				317,237
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(582,624)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 14,936,261</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2004

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1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Direct Program:			
Rural Housing Preservation Grants	10.433	Not Available	\$ 44,682
<b>Total U.S. Department of Agriculture</b>			<u>44,682</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Programs:			
Community Development Block Grants- Entitlement Grants	14.218		2,308,564
Section 8 Housing Choice Vouchers :	14.871		956,873
Pass-trough the Commonwealth of Puerto Rico Municipality of San Juan: Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>4,940</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>3,270,377</u>
<b>U.S DEPARTMENT OF JUSTICE:</b>			
Pass-through the Commonwealth of P.R. Department of Justice			
Local Law Enforcement Block Grants Program	16.592		17,167
<b>Total U.S. Department of Justice</b>			<u>17,167</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>US DEPARTMENT OF TRANSPORTATION</b>			
<b>U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico Governor's Office (Elderly Affairs Office):			
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	Not-Available	125,157
Child Care and Development Block Grant	93.575	Not-Available	379,839
<b>Total U.S. Department of Health and Human Services</b>			<u>504,996</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$3,837,222</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Toa Alta and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

Amounts reported in the accompanying Schedule are included in the Special Revenue and Capital Projects Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue State & Federal Grants	Capital Projects Fund State & Federal Grants	Total
Per Schedule of Expenditures of Federal Awards	\$1,528,658	\$2,308,564	\$3,387,222
Non federal programs Expenditures	<u>1,125,143</u>	<u>1,635,625</u>	<u>2,760,768</u>
Total expenditures in the fund financial statements	<u>\$2,653,801</u>	<u>\$3,944,189</u>	<u>\$6,597,990</u>



**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

To the Honorable Mayor  
and the Municipal Legislature  
Municipality of Toa Alta  
Toa Alta, Puerto Rico

We have audited the basic financial statements of the **Municipality of Toa Alta** as of and for the year ended June 30, 2004, and have issued our report thereon dated December 28, 2004, which was unqualified. 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.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Toa Alta's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

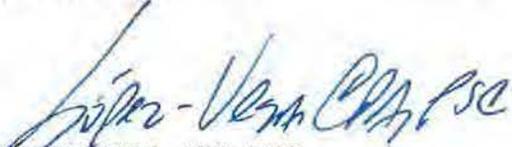
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Toa Alta's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Toa Alta's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs item **04-01**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are not material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Municipality of Toa Alta in a separate letter dated December 28, 2004.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 28, 2004

Stamp No 2019440 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

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

To the Honorable Mayor  
and the Municipal Legislature  
Municipality of Toa Alta  
Toa Alta, Puerto Rico

Compliance

We have audited the compliance of the **Municipality of Toa Alta** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The **Municipality of Toa Alta's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Toa Alta's** management. Our responsibility is to express an opinion on the **Municipality of Toa Alta's** compliance based on our audit.

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

As described in items 04-08 through 04-10 in the accompanying schedule of findings and questioned costs, the **Municipality of Toa Alta** did not comply with requirements regarding to Reporting, Selection from the Waiting List and Reasonable Rent Determination that are applicable to its Section 8 Housing Choice Voucher Program. Also, items 04-02 and 04-04 did not comply with requirements of Davis Bacon Act and Housing Rehabilitation Activities, applicable to its Community Development Block Grant program. Compliance with such requirements is necessary, in our opinion, for Municipality of Toa Alta to comply with requirements applicable to the program.

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-  
133(CONTINUED)**

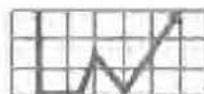
In our opinion, except for the noncompliance described in the preceding paragraph, the **Municipality of Toa Alta** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 04-03, and 04-05 through 04-07.

Internal Control Over Compliance

The management of the **Municipality of Toa Alta** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Toa Alta's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Toa Alta's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-02 through 04-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items 04-02 through 04-04, 04-06 and 04-08 through 04-10 to be a material weakness. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Toa Alta** in a separate letter dated March 4, 2005.



INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-  
133(CONTINUED)

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 4, 2005

Stamp No. 2019441 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004

**Section I – Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness identified?	Yes	No	X
Reportable conditions identified	not		
considered to be material weaknesses?	Yes	X	None reported
Noncompliance material to financial statements noted?	Yes	No	X

**Federal awards**

Internal Control over major programs:			
Material weakness identified?	Yes	X	No
Reportable conditions identified not considered to be material weaknesses?	Yes	X	None reported
Type of auditors' report issued on compliance for major programs:	Qualified		
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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant - Entitlement Grants
14.871	Section 8 Housing Choice Voucher Program

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes                      No X

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference 04-01

Requirement Financial Reporting – Accounting Records

Statement of Condition During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal Funds).

Criteria Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.

Cause of Condition The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.

Effect of Condition The Municipality's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.

Recommendation We recommend that the Municipality should establish internal control procedures in order to maintain an accounting system that include information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

Questioned Costs None

Management Response The Municipality concurs with the finding. The Municipality made a request to the Office of the Commissioner of Municipal Affairs for training the accounting personnel in the use of the OCAM accounting software. Also, the Municipality will establish a network between all Municipal departments, so the financial information is updated daily.

Responsible Person: Mr. Juan Santos Figueroa – Finance Director

Implementation Date: June, 2005

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>04-02</b>
<b>Program</b>	<b>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Davis-Bacon Act</b>
<b>Statement of Condition</b>	During our Davis-Bacon Act test, we noted that the Municipality did not establish procedures to assure that contractors and subcontractors were properly notified of the Davis Bacon Act requirements. Also, the Municipality did not develop a monitoring system to assure contractors compliance with payment of prevailing wages rates to employees.
<b>Criteria</b>	Davis-Bacon Act, as amended (40 USC 276A-276a TO a-7) as supplemented by Department of Labor regulations (29 CFR Part 5) (Constructions contracts in excess of \$2,000 awarded by grantees and subgrantees when required by Federal grant program legislations), Subpart K, 24 CFR 570.603.
<b>Cause of Condition</b>	The Municipality did not develop monitoring system procedures and did not assign a Municipal employee to notify and test applicable contractors with respect to wages to be paid in accordance with Davis Bacon Act.
<b>Effect of Condition</b>	The Municipality is not in compliance with Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603.
<b>Recommendation</b>	We recommend the Municipality to develop monitoring system procedures and assign a Municipal employee to perform it, including notifying contractors and subcontractors about Davis Bacon Act during the procurement process, obtaining contractor's and subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee, and interviewing contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.
<b>Questioned Costs</b>	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 04-02 (continued)

**Management Response** The Municipality concurs with the finding. The Office of Federal Programs hired Mrs. Vivian Rolón as Special Assistant to the Director of Federal Programs. Included in Mrs. Rolón scope of work are the follow up visits of Rehabilitation Activities and compliance with Davis Bacon Act by the contractors, including the receipt and verification of weekly payrolls submitted by the contractors. During the procurement process Mrs. Rolón will have meetings with contractors and advice them of procedures to comply with Davis Bacon Act.

Responsible Person: Mrs. Vivian Rolón

Implementation date: April 16, 2005

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Program Award Findings and Questioned Costs

Finding Reference	04-03
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Financial Reporting
Statement of Condition	<p>In our Reporting Test we observed the following exceptions:</p> <ul style="list-style-type: none"><li>a) The Consolidated Annual Performance and Evaluation Report, due in September 30, 2004, was submitted lately to the federal agency. The Municipality requested a time extension to the agency to submit the report no later than October 15, 2004. However, the Municipality submitted the report ten (10) days later, on October 25, 2004.</li><li>b) The beginning cash on hand as of July 1, 2003 did not agree with the amounts reported at June 30, 2003 by \$69.05 in the Federal Cash Transaction Report (SF-272). That difference was not corrected at June 30, 2004.</li><li>c) We found mathematical errors amounting to \$2,517.89 in items d, e and j. (Total receipts, Total Cash available and Cash on hand end of period, respectively) during the evaluations of the Federal Cash Transaction Report (SF-272) for the month of September 2003.</li></ul>
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (1), states that the grantee must maintain internal control procedures that permit proper tracing of funds to accounting records. Also, it requires accurate, current and complete disclosure of financial results.
Cause of Condition	The Municipality has not established adequate internal control procedures to assure the correctness of the reports.
Effect of Condition	The Municipality did not comply with 24 CFR Section 85.20 (b) (1).
Recommendation	We recommend the Municipality to establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the financial reports. The program accountant must assure that the amounts recorded in the programs general ledger are the same amounts included in the financial reports. In the case that an adjustment is needed, the program accountant should notify the Federal Agency and file an amended report.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 04-03 (continued)

Management Response The Municipality concurs with the finding. The program Director will segregate the Accounting Department duties and will implement monitoring procedures to verify that the amounts in the financial reports agree with the cash register and in the case an adjustment is made after filling the reports; an amended report will be filed to the Federal Agency. The amendments to reports from fiscal year 2003-2004 will be submitted to HUD on or before April 15, 2005.

Responsible person: Mrs. Carmen Hernández – Program Director and Mrs. Betzy Ortíz – Program Accountant.

Implementation date: April 15, 2005

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	04-04
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Special Test and Provisions- Housing Rehabilitation
Statement of Condition	<p>During our Housing Rehabilitation test of twenty five (25) we noted the following exceptions:</p> <ul style="list-style-type: none"><li>a) In one (1) file the Form DM-00-006 Participant Contract is not signed by the participant.</li><li>b) In twenty five (25) participant files, Form DM-00-006, Participant Contract, did not describe the deficiencies to be corrected.</li><li>c) We visited nine (9) housing units in February, 2005 to verify if donations granted to the participants from December 2003 to May 2004 were used for the specific purpose stated in the contracts. As result, we noted that in eight (8) cases, the participants did not use the materials donated.</li><li>d) Four (4) files did not include evidence of follow-up visits performed by the Program personnel in order to verify if the donations for rehabilitation work was carried out in accordance with the specifications.</li><li>e) In sixteen (16) cases, the program staff performed follow-up visits between six (6) and thirteen (13) months after the original date for inspection, which is thirty days after the participant's receipt of materials.</li><li>f) In five (5) cases, rehabilitation funds amounting to \$9,052 were used to construct or complete new residences.</li></ul>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	04- 04 (continued)
Criteria	<p>CFR 24, Section 91.220 and 570.301, states that all activities that a grantee undertakes during their CDBG program year must be identified in an Action Plan or in an amended Action Plan. Also, 24 CFR, Section 570.506, states that when CDBG-Entitlement Grants funds are used for rehabilitation, the grantee must assure that the work is properly completed and appropriate documentation is maintained.</p> <p>The CDBG Action Plan 2003-2004 in its Housing Preservation Activities stated that this assistance will help homeowner's complete both general repairs and address home safety issues and funds will be used for the rehabilitation of one hundred sixty one (161) substandard units for 97 extremely low income persons, forty (40) very low income persons and twenty four (24) low income persons.</p>
Cause of Condition	<p>The program developed activities that are not included in the program year Action Plan. Also, the program has not established adequate internal control procedures to assure that rehabilitations work is performed by the beneficiaries in the established time limit of thirty (30) days after the receipt of the materials.</p>
Effect of Condition	<p>The Municipality is not in compliance with 24 CFR, Section 91.220 and 570.301, and 24 CFR, Section 570.506.</p>
Recommendation	<p>We recommend the Program's Management to establish the following procedures:</p> <ul style="list-style-type: none"><li>a. Ascertain that the deficiencies to be corrected and approved amount are incorporated into the rehabilitation contract.</li><li>b. Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contract specifications.</li><li>c. Assure that all participant files include all required documentation duly approved and certified.</li><li>d. Ascertain that the projects developed are included in the program Action Plan or in an amendment to such Plan.</li></ul>
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference      04- 04 (continued)

Management Response    The Municipality concurs with the finding. A procedures manual for the Housing Preservation and Rehabilitation Program has been developed to improve performance in the implementation of this activity. The Office Director will perform quality and monitoring procedures to assure reports are properly completed and documented. Also, the Municipality will review its control procedures so that funds are used for the activities stated in the program Action Plan or an amendment is made to include the activities and the proper citizen participation is presented.

Responsible Person: Mrs. Carmen Hernández – Program Director

Implementation Date: April 1, 2005

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	04-05
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Allowable Activities
Statement of Condition	<p>During our examination of fifteen (15) housekeeping assistance project participant files we noted the following exceptions:</p> <ul style="list-style-type: none"><li>a) The Municipality has not implemented Regulations and Procedures Manual for the housekeeping assistance project. The Program Coordinator submitted us a procedures manual dated in March, 2004 which was not approved by the Program Director or the Mayor. In addition, the Program Coordination has not received proper training related to the operation manual. Also, the list of applicants was not updated during fiscal year 2003-2004.</li><li>b) In the twelve (12) participant files no evidence was found regarding a written notification of housekeeping assistance approval.</li><li>c) Six (6) files did not include evidence of the contract formalized with the applicant.</li><li>d) Respect to the visits to be performed by the Services Coordinator to the participant housing unit to assure the quality of the services we observed the following:<ul style="list-style-type: none"><li>• In fourteen (14) cases the Services Coordinator performed periodical visits to the participant housing unit, but not twice a month to ensure quality of service. Also, the visit interview does not indicate if the housekeeper was present at the time of the interview.</li></ul></li></ul>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference      04-05 (Continued)

Criteria                      CFR 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Annual Action Plan 2003-2004 establishes that activity consisting in the provision of housekeeping services will benefit very low, low- and moderate income persons including the elderly, handicapped and persons with HIV/AIDS and that the Municipality's Office of Federal Programs will be responsible for the coordination and monitoring of this activity.

Cause of Condition        The program staff did not follow procedures and regulations to assure that participant files include all required documents during the eligibility determination and the documentation related to the program operations.

Effect of Condition        The Municipality is in noncompliance with 24 CFR, Section 570.484.

Recommendation        We recommend the Program to establish the following procedures:

- a. Determine the applicants eligibility based on documentation or procedures such as: family income evidence (pay stub, income tax returns, etc.), family expenses evidence (medical expenses, utilities expenses, etc.), applicants and other family members identity verification (through social security cards, birth certificates, etc.), current health certificates, and visits to the applicants housing unit prior to the admission to the Program.
- b. Notify approvals or denials of applications through letters.
- c. Sign written agreements establishing the services plan to be offered by the Program.
- d. Visit at least two times per month the participants housing unit to ensure quality of services.
- e. Assessment of housekeeper's performance.
- f. Perform an annual revision of each case to verify eligibility.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	04-05 (Continued)
Questioned Costs	None
Management Response	<p>The Municipality concurs with the findings. The Office of Federal Programs has implemented a Procedures Manual for the Housekeeping Services Program where all the auditor's recommendations are included. Also, the Program Director will apply monitoring procedures to participant files to verify compliance with regulations.</p> <p>Responsible Person: Mrs. Ruth Nevárez - Housekeeping program Coordinator.</p> <p>Implementation Date: March 15, 2005</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-06

Program Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development

Requirement Cash Management

Statement of Condition We realized the Cash Management Test and after our procedures we found that the Municipality maintained during the current fiscal year average cash balance in books of approximately \$314,705.08. At June 30, 2004, the cash balance in books was \$337,401.88; the operating reserve detailed as per preliminary closing report submitted to HUD present a deficit of (\$75,974). As result we could not determine the origin of the cash in books at June 30, 2004. In addition, we noted that during the year the program disbursed move- in portability of \$41,782.50, and the administrative fee income related to that portability's administered by the Municipality was not reported in the operating receipts section of the HUD-52681 Vouchers for Payment of Annual Contributions and Operating Statement for the year ended June 30, 2004.

We noted that for the current year the Municipality maintains a leasing rate of 86% and a revised requisition (Form 52663) was not submitted to HUD to reduce the monthly advances.

Criteria OMB Common Rules, Subpart C, Section 85.20 (b) (7), requires a cash management system; in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.

Housing Choice Voucher Program Guidebook, Chapter 24, Section, 24.6 stated that a PHA must lease 95 percent of its units. A PHA with a utilization rate below 95 percent will not be identified as a high performer regardless of its overall score and will not be eligible to receive new unit's allocations.

Cause of Condition The Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-06 (Continued)

In addition, the condition could be caused by cumulative effect of accounting errors in the past years and current years; errors such as reporting portability's administered by the program as HAP expenditures in the year end settlements, non recognition of portability's administrative fee earned in the year end settlements, non recognitions of recoveries from tenants and owners in the year end settlements, non recognition of interest earned on operation reserve in the year end settlement, etc.

Effect of Condition The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).

Recommendation We recommend that management should strengthen its procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality. The management must submit a revised requisition (Form 52663) to HUD when the leasing rate not exceeds the 95% in order to avoid and excessive adjusted cash balance in books. In addition, the management must instruct the program accountant to review the accounting records and related transactions supporting documents for the current and past years in order to identify the cash balance respect to its origin, and later, to make any necessary adjusting journal entries to correct accounting records. Also, the management should instruct the accountant to follow financial management procedures established in the Voucher Program Guidebook (7420.10G), Chapter 20, Financial Management.

Questioned Costs None

Management Response Coordination is being strengthened between the Finance Department and the Section 8 Office to stress the need to comply with applicable federal rules and regulations. At March 2004, the program maintained a leasing rate of 90% in order to comply with federal regulations. The Program Director gave instructions to the accountant to maintain adequate monitoring procedures in order to verify if it is necessary submit a revised requisition (Form 52663) to HUD during fiscal year 2003-2004.

Responsible Person: Mrs. Carmen Hernández-Program Director

Implementation Date: March 31, 2005

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-07
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of individuals
Statement of Condition	<p>During our eligibility test, we examined a sample of fifteen (15) participant files. The following summarize the exceptions found:</p> <ul style="list-style-type: none"><li>a. In four (4) participant files the application did not indicate the date that was completed.</li><li>b. In one (1) participant file the application form was not available for examination.</li><li>c. In one (1) participant file the application form was not signed by the participant.</li><li>d. Fifteen (15) participant files did not include a General Release Form to allow PHA to obtain information from third parties.</li><li>e. Six (6) participant with eighteen (18) years or older did not sign the Privacy Act Notice.</li><li>f. Two (2) participant files did not include documentation about third party verification of value of assets.</li><li>g. In two (2) cases the eligibility determination was not signed by the functionary that made and approved the voucher using documentation from third party.</li></ul>
Criteria	Code of Federal Regulations 24, Sections 5.230, 5.212 and 982.516 states that as a condition of admission or continued occupancy, the PHA must require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a federally prescribed general release form for employment information and a Privacy Act Notice.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>04-07 (Continued)</b>
<b>Cause of Condition</b>	The Municipality internal control and procedures failed to assure that the participant's files include all required documentation and releases required by federal agencies.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.230, 5.212 and 982.516.
<b>Recommendation</b>	We recommend the Program to improve its monitoring procedures in order to assure that the release form to allow information from third parties, employment information and the Privacy Act Notice and all required participants third party information are included in the participant files as required by Federal Regulations.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Program Director has improved the monitoring procedures to assure that participant file include release forms to allow information from third parties, employment information and the Privacy Act Notice and all required participants third party information that are included in the participant files as required by Federal Regulations. A sample of forty two (42) participants was verified and double checked to make the proper modifications and corrections. Also, the Municipality contracted a service company for the verification of credit history of the participants as third party verification of value of assets.
<b>Responsible Person :</b>	Mrs. Carmen Hernández-Program Director
<b>Implementation Date :</b>	4/1/05

COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-08
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Reporting
Statement of Condition	<p>During our reporting test, the following exceptions were found:</p> <ol style="list-style-type: none"><li>a. The Requisition for Partial Payments of Annual Contributions (Form HUD 52663) and the Estimated of Total Required Annual Contribution (Form HUD 52673) was not submitted in the require date to the federal agency.</li><li>b. HUD revised closing reports for fiscal years 2003-2004 were not available for examination. During our audit of the preliminary closing report submitted to HUD, the program did not prepared accurate closing reports; we found the following exceptions:<ul style="list-style-type: none"><li>• The Total Partial Payments approved detailed in the preliminary closing reports was overstated for a total of \$56,302. That situation occurred because the program accountant added the 2001-2002 underpayments in the current period report. As result the line 30, Overpayment Due HUD of the Preliminary Closing reports detailed \$87,506 instead of \$31,025.</li><li>• The Operating Reserve (Deficit) Beginning Balance related to June 30, 2003, detailed in the Preliminary Closing was incorrect. The accountant posted the amounts detailed in the Revised Closing Reports of June 30, 2002 amounting to (\$55,334) instead the amounts corresponding to the closing report related to June 30, 2003 of approximately (\$76,253). The Operation Reserve (Deficit) as per Preliminary Closing Report was \$75,974 instead \$96,893 as recomputed by us.</li></ul></li></ol>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-08 (Continued)

Criteria OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1), requires that 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. Also, Subpart C, 24 CFR 85.20 (b) (2), states that the grantee must maintain records, which adequately identify the source and application of funds, provided for financially assisted activities.

Cause of Condition The Municipality did not maintain adequate monitoring procedures to assure that closing reports are properly prepared.

Effect of Condition The Municipality is not in compliance with OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1) and 85.20 (b) (2).

Recommendation The supervisor should develop a monitoring system in order to detect and correct the deficiencies related to closing reports and accounting records.

Questioned Costs None

Management Response The Program Director gave instructions to the program accountant to verify the correctness of the operating reserve beginning balance posted in the closing report and to verify the correctness of the administrative fee revenue reported in the closing reports in order to perform the necessary adjustments in the accounting records.

Responsible Person : Betsy Ortiz – Program Accountant and Carmen Hernández – Program Director.

Implementation Date : April 1, 2005

COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-09
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Selection from the Section 8 Waiting List
Statement of Condition	<p>During our waiting list test of nine (9) cases we found the following exceptions:</p> <ul style="list-style-type: none"><li>a. The program maintains a waiting list book in which is not documented if a voucher was issued to the applicants or if the application was cancelled.</li><li>b. The waiting list book did not detail the preference of all the applicants.</li><li>c. We noted that in five (5) cases the participant application did not include the date that it was fulfilled.</li><li>d. In six (6) cases we did not obtain evidence of the Voucher in the participant file.</li><li>e. There is no adequate documentation which allows us to trace how the participants are selected from the top of the waiting list. The waiting list submitted to us includes four hundred thirty one applicants with application dates from July, 1980 to June, 2004.</li></ul>
Criteria	Code of Federal Regulations 24, Sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.
Cause of Condition	The Municipality did not maintain adequate internal control procedures to assure that the waiting list include all information required by Federal Regulation and to assure that the participants were selected from the top of the waiting list.
Effect of Condition	The Municipality is not in compliance with 24 CFR sections 982.54 (d) and 982.201 through 982.207.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference

04-09 (Continued)

Recommendation

We recommend the Municipality to follow admission procedures established in the administrative plan. The program should update the waiting list as follows:

- A notice by first class mail must be send to all applicants included in the actual waiting list.
- For each notice returned marked "Addressee Unknown" close the application, attach the returned notice and envelope, and file and maintain for three years.
- For each application for which there has been no response and no returned notice, send a second notice by certified mail providing final deadline. When the final deadline passes, close applications for which there has been no response and maintain the record of the certified delivery with the original application for a period of three years. Based on the results actualized the waiting list including all the applicants who answers the notice and submit actualized documentation.

Also, we recommend the management to establish adequate internal control procedures to let us perform a proper tracing of participants selected from the waiting list in order to ascertain that the participant selection is made from the top of the waiting list. The program must complete the date and application number in the participant application document at the time that the participant was admitted in the waiting list. That information must be included in the waiting list book. In addition, the program must maintain adequate documental information of the date that the program gives the opportunity of housing assistance to the participants and the date that the voucher was issued.

Questioned Costs

None

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference      04-09 (Continued)

**Management Response**    The Program Director will evaluate the administrative plan to include new preferences and establish procedures for selecting a participant from the top of the waiting list. In addition, the Director will implement controls for the maintenance of a waiting list, so that all information will be included, and supported by adequate documental information of the housing opportunity process through the issuance of the voucher to the participants.

**Responsible Person :**    Mrs. Carmen Hernández- Program Director

**Implementation Date :**    April 1, 2005

COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	04-10
<b>Program</b>	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
<b>Requirement</b>	Special Test – Reasonable Rent
<b>Statement of Condition</b>	During our Reasonable Rent test we found that during the year 2003-2004 the program did not document in the participant files that the rent to owners was reasonable in comparison to rent for other comparable unassisted units.
<b>Criteria</b>	Code of Federal Regulations 24, Section 982.507 states that the PHA must determine reasonable rent at the time of the initial leasing and before any increase in the rent to the owner and all the times during the assisted tenancy. The rent paid to the owner may not exceed the reasonable rent as most recently determined or re-determined by the PHA. In addition, the PHA must maintain records to document the basis for the determination that the rent paid to the owner is reasonable.
<b>Cause of Condition</b>	The Federal Program Department did not perform the determination of reasonable rent in accordance with the administrative plan.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.507.
<b>Recommendation</b>	We recommend the program staff to establish controls to assure that the determination of reasonable rent for unassisted units is realized and that appropriate documentation of the determination of reasonable rent is maintained in participant's files. The program staff must consider unit attributes such as the location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance and utilities provided by the owner.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality concurs with the finding. The Program Director assigned a Housing Service Auxiliary to conduct visits to the different sectors and neighborhoods of the Municipality of Toa Alta. The employee will perform interviews in order to document the rents of comparable units. The program Director established that the census will be made annually and when a new housing unit is incorporated to the program.

COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference      04-10 (Continued)

Responsible Person :    Mr. Andrés Díaz López-Housing Service Auxiliary

Implementation Date:    2/15/05

COMMONWEALTH OF PUERTO RICO  
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-04	14.218	<u>Management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.</u>  Corrective action has been taken.
03-05	14.218	<u>Management should include all contract provisions required by federal regulations before each contract execution.</u>  Corrective action has been taken.
03-06	14.218	<u>Management should develop monitoring system procedures and assign a municipal employee to perform it, including notifying contractors and subcontractors about Davis Bacon Act during the procurement process, obtaining contractor's and subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee, and interviewing contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.</u>  No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-02.
03-07	14.218	<u>Management should establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the financial reports. The program accountant must assure that the amounts recorded in the programs general ledger are the same amounts included in the financial reports. In case, an adjustment is needed, the program accountant should notify the Federal Agency and file an amended report.</u>  No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-03.
03-08	14.218	<u>Management should ascertain that the deficiencies to be corrected and approved amount are incorporated into the rehabilitation contract. In addition, the management must assign a staff to inspect the rehabilitation work upon completion to assure that is</u>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p data-bbox="521 457 1446 558"><u>carried out in accordance with contract specifications. Also, the management must assure that all participant files include all required documentation duly approved and certified.</u></p> <p data-bbox="521 600 1446 663">No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-04.</p>
03-09	14.218	<p data-bbox="521 709 1446 982"><u>Management should establish procedures to determine the applicants eligibility based on documentation or procedures such as: family income evidence (pay stub, income tax returns, etc.), family expenses evidence (medical expenses, utilities expenses, etc.), applicants and other family members identity verification (through social security cards, birth certificates, etc.), current health certificates, and visits to the applicants housing unit prior to the admission to the Program.</u></p> <p data-bbox="521 1024 1446 1087"><u>Management should notify approvals or denials of applications through letters.</u></p> <p data-bbox="521 1129 1446 1192"><u>Management should sign written agreements establishing the services plan to be offered by the Program.</u></p> <p data-bbox="521 1234 1446 1297"><u>Management should visit at least two times per month the participants housing unit to ensure quality of services.</u></p> <p data-bbox="521 1339 1446 1360"><u>Management should assess of housekeeper's performance.</u></p> <p data-bbox="521 1402 1446 1465"><u>Management should perform an annual revision of each case to verify eligibility.</u></p> <p data-bbox="521 1507 1446 1608"><u>Management must assure that the funds approved to participants for housing rehabilitation are used for allowable activities included in the Grant Agreement and CDBG Annual Action Plan.</u></p> <p data-bbox="521 1650 1446 1713">No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-05.</p>
03-10	14.218	<p data-bbox="521 1759 1446 1929"><u>Management should establish monitoring procedures to assure that professional service contracts maintained by the program are necessary and reasonable and the professional service costs charged to the program are allowable, reasonable and prudent. In addition, the Municipality must verify that costs charged to a</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p data-bbox="521 457 1450 562"><u>program year are duly approved in the action plan. The program management should ask for the reimbursement of questioned costs amounting to \$74,940.</u></p> <p data-bbox="521 598 1450 989">Partial corrective action has been taken. The rehabilitation of recreational facilities in "Urb. Town Hills and Monte Sol were made with funds balances from the activities set forth in the Action Plan, which performed at a lower cost than estimated. The CFR 14.219, Section 570.427 (a) states that Grantees shall request prior HUD approval for all program amendments involving new activities or alterations of existing activities that will significantly change the scope, location, or objectives of the approved activities or beneficiaries. In these cases, we consider that the changes performed by us, where for the same activities approved in the action plan.</p> <p data-bbox="521 1024 1450 1234">Related to the \$7,440 questioned costs we proceed to notify the situation to the finance department in order to realize the necessary procedures to reimburse from municipal funds to the CDBG line of credit the amount questioned. Once the process is completed, we shall provide you with the corresponding documentation to clear this finding.</p>
03-11	14.871	<p data-bbox="521 1283 1450 1419"><u>Management should establish monitoring procedures to assure that professional service contracts maintained by the program are necessary and reasonable and the professional service costs charged to the program are allowable, reasonable and prudent.</u></p> <p data-bbox="521 1455 1450 1633">Partial corrective action has been taken. The program management proceeded to cancel both contracts. The office of federal programs send letters to the Mayor asking for reimbursement for the funds expended. Once the process is completed, we shall provide you with the corresponding documentation to clear this finding.</p>
03-12	14.871	<p data-bbox="521 1682 1450 1892"><u>Management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality. The management must submit a revised requisition (Form 52663) to HUD when the leasing rate does not exceeds the 95% in order to avoid and excessive adjusted cash balance in books.</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-06.
03-13	14.871	<u>Management should improve it's internal control procedures in order to assure that Housing Assistance Payments are duly computed as required by the Federal Regulations.</u>  Corrective action has been taken.
03-14	14.871	<u>Management should improve it's monitoring procedures in order to assure that the release form to allow information from third parties, employment information and the Privacy Act Notice and all required participants third party information are included in the participant files as required by Federal Regulations.</u>  No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-07.
03-15	14.871	<u>Management should develop a monitoring system in order to detect and correct the deficiencies related to closing reports and accounting records.</u>  No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-08.
03-16	14.871	<u>Management should follow admission procedures established in the administrative plan. Also, we recommend the management to establish adequate internal control procedures to let us perform a proper tracing of participants selected from the waiting list in order to ascertain that the participant selection is made from the top of the waiting list. The program must complete the date and application number in the participant application document at the time that the participant was admitted in the waiting list. That information must be included in the waiting list book. In addition, the program must maintain adequate documental information of the date that the program gives the opportunity of housing assistance to the participants and the date that the voucher was issued.</u>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-09.
03-17	14.871	<u>Management should establish controls to assure that the determination of reasonable rent for unassisted units is realized and that appropriate documentation of the determination of reasonable rent is maintained in participant's files. The program staff must consider unit attributes such as the location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance and utilities provided by the owner.</u>  No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-10.
03-18	14.871	<u>Management must assure that the program staff perform and document adequately a utility allowance study every year and adjust its allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time utility allowance was revised.</u>  Corrective action has been taken.
03-19	14.871	<u>Management should establish internal control procedures to assure that for HQS deficiencies that are the owner's responsibility and are not corrected within the prescribed time frames, the PHA must abate housing assistance payments beginning no later than the first of the month following expiration of the PHA violation notice.</u>  Corrective action has been taken.
02-08	14.218	<u>Management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.</u>  Corrective action has been taken.
02-09	14.218	<u>The Municipality should develop monitoring system procedures and assign a municipal employee to perform it, including notifying contractors and subcontractors about Davis Bacon Act during the procurement process, obtaining contractor's and subcontractor's</u>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>weekly payrolls to be reviewed weekly by responsible Municipal Employee, and interviewing contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.</u></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-02.</p>
02-10	14.218	<p><u>The Municipality should strengthen its internal control procedures in order to assure that the program maintains proper records of the equipment to comply with program requirements and regulations. Also, management should implement internal control procedures in order to assure that real properties within Municipality's control, acquired or constructed with Federal funds, are included in the property register.</u></p> <p>Full corrective action has been taken.</p>
02-11	14.218	<p><u>The Municipality should improve internal control procedures related to procurement requirements.</u></p> <p>Corrective action has been taken.</p>
02-12	14.218	<p><u>The Municipality should establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the financial reports.</u></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-03.</p>
02-13	14.218	<p><u>The Program should establish the following procedures: ascertain that the deficiencies to be corrected and approved amounts are incorporated into the rehabilitation contract. Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contract specifications. Assure that all participant files include all required documentation duly approved and certified.</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-04.
02-14	14.218	<u>The Program should establish the following procedures: Prepare a procedures manual to establish the official documentation to be requested to the participants and the procedures to follow in the eligibility. Determine the applicants eligibility based on documentation or procedures such as: family income evidence (pay stub, income tax returns, etc.), family expenses evidence (medical expenses, utilities expenses, etc.), applicants and other family members identity verification (through social security cards, birth certificates, etc.), current health certificates, and visits to the applicants housing unit prior to the admission to the Program. Notify approvals or denials of applications through letters. Sign written agreements establishing the services plan to be offered by the Program. Visit at least two times per month the participants housing unit to ensure quality of services. Assessment of housekeeper's performance by the program monitor. Perform an annual revision of each case to verify eligibility. Assure that the funds approved to participants for housing rehabilitation are used for allowable activities included in the Grant Agreement and CDBG Annual Action Plan.</u>
		No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-05.
02-15	14.871	<u>The Municipality should establish monitoring procedures to assure that professional service contracts maintained by the program are necessary and reasonable and the professional service costs charged to the program are allowable, reasonable and prudent.</u>
		Partial corrective action has been taken. The program management proceeds to cancel both contracts. The office of federal programs send letters to the Mayor asking for reimbursement for the funds expended. Once the process is completed, we shall provide you with the corresponding documentation to clear this finding.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-16	14.871	<p><u>The Municipality should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality. The management must submit a revised requisition (Form 52663) to HUD when the leasing rate do not exceeds the 95% in order to avoid an excessive adjusted cash balance in books.</u></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-06.</p>
02-17	14.871	<p><u>The Municipality should establish monitoring procedures in order to assure that Housing Assistance Payments are duly computed as required by the Federal Regulations.</u></p> <p>Corrective action has been taken.</p>
02-18	14.871	<p><u>The Program should establish adequate monitoring procedures in order to assure that the release form to allow information from third parties, employment information and the Privacy Act Notice and all required participants information are included in the participant files as required by Federal Regulations. In addition, third party verification should be obtained to verify the value of assets or the program must include adequate documentation explaining the reason why third party verification was not obtained.</u></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-07.</p>
02-19	14.871	<p><u>The Municipality should provide adequate training to the program staff. Also, the supervisor should develop a monitoring system in order to detect and correct the deficiencies related to closing reports and accounting records. In addition, the Municipality must be aware to not exceed the administrative expenses over the administrative fees earned in the year 2002-2003 since the program reserve is in deficit and the cash balance in bank must be used only for Housing Assistance Payments.</u></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-08.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-22	14.871	<p><u>The Municipality should follow admission procedures established in the administrative plan. Also, management should establish adequate internal control procedures to enable us to perform a proper tracing of participants selected from the waiting list in order to ascertain that the participant selection is made from the top of the waiting list.</u></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-09.</p>
02-23	14.871	<p><u>The Federal Program Department should establish controls to assure that the reasonable rent survey for unassisted units is realized and that appropriate documentation of the determination of reasonable rent is maintained in participant's files.</u></p> <p>No corrective action has been taken. The auditor reissued the finding for the current year. Reference Finding 04-10.</p>
02-24	14.871	<p><u>The Municipality should properly document the evidence of its utility allowance study to determine if there has been a change of 10% or more in the utility rate each year as established in the federal regulations.</u></p> <p>Corrective action has been taken.</p>
02-25	14.871	<p><u>The Municipality should implement internal control procedures to assure that annual inspections and quality control re-inspections are properly performed. The PHA supervisor or other qualified person must re-inspect a sample of units under contract during the last PHA fiscal year. HQS quality control re-inspections included in the sample must be no older than three months from the time of the annual re-inspection was made. In addition, the quality control re-inspection should provide feedback on inspectors' work, which can be used to determine if individual performance or general HQS training issues need to be addressed.</u></p> <p><u>For HQS deficiencies that are the owner's responsibility and are not corrected within the prescribed time frames, the PHA must abate housing assistance payments beginning no later than the first of the month following expiration of the PHA violation notice.</u></p>

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MUNICIPALITY OF TOA ALTA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

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 has been taken.		
01-05	14.218	<p><u>The Municipality did not maintain adequate cash management procedures.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-06	14.218	<p><u>Davis-Bacon Act</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-07	14.218	<p><u>Inadequate Property Records</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-08	14.218	<p><u>Procurement and Suspension and Debarment</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-09	14.855 14.857	<p><u>Allowable Costs</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-10	14.855 14.857	<p><u>The Municipality did not maintain adequate cash management procedures.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-11	14.855 14.857	<p><u>Eligibility Test</u></p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

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YEAR ENDED JUNE 30, 2004

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		The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-13	14.855 14.857	<u>The Municipality did not prepare accurate closing reports</u>
		The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-14	14.855 14.857	<u>Performance Reporting</u>
		The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-16	14.855 14.857	<u>Special Test - Selection from the Section 8 Waiting List</u>
		The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-17	14.855 14.857	<u>Special Test - Housing Quality Standards Inspections and Enforcement</u>
		The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
00-14	All Programs	<u>Accounting System and Federal Financial Report</u>
		The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

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YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-17	14.857	<p><u>Federal Cash Management System</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
00-20	14.855	<p><u>Federal Cash Management System</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
00-21	14.855	<p><u>Inadequate Documentation of Participant Files</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
00-22 00-27	14.218	<p><u>Federal Cash Management System</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
00-23 00-24 00-25	14.218	<p><u>Davis Bacon Act</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
00-28	14.218	<p><u>Inadequate Documentation of Participant Files</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>