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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE TOA ALTA

AUDITORIA 2004-2005

30 DE JUNIO DE 2005

OFFICE OF THE COMPTROLLER
ASISTENTE DE CONTABILIDAD
C/O. P.O. BOX 32 SAN JUAN, P.R. 00912-0032
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

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MUNICIPALITY OF TOA ALTA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

TABLE OF CONTENTS

	<u>Pages</u>
PART I – FINANCIAL SECTION	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	10-11
Statement of Activities	12
Fund Financial Statements-Governmental Funds	
Balance Sheet	13
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities . . .	16
Statement of Revenues, Expenditures and Other Financing Sources - Budget and Actual - General and Debt Service Funds	17
Notes to Basic Financial Statements	18-40

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART II – SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	42
Notes to Schedule of Expenditures of Federal Awards	43
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	44-45
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	46-48
Schedule of Findings and Questioned Costs	49-59
Schedule of Status of Prior Year Audit Findings and Questioned Costs	60-71

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PART I - FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
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, as of and for the year ended June 30, 2005, 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Toa Alta as of June 30, 2005, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund and debt service fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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.

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

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
December 22, 2005

The stamp 2115861 was affixed
to the original of this report.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Municipality of Toa Alta (the "Municipality") discussion and analysis has been designed with the followings 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 Management's Discussion and Analysis (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 decreased by \$8,633.
- In the fund financial statements, general fund revenues increased \$1,531,169 (or 6.17%), while governmental activities expenditures increased \$6,763,798 (or 23.00%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$693,134.
- On a budgetary basis, actual revenues exceed actual expenditures by \$515,936.
- Capital expenditures amounted to \$9,771,791.

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

The Statement of Net Assets 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.

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, traffic signals, 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,

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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 demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time. The Municipality has 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 net assets totaled \$8.820 million at the end of 2004, compared to \$8.828 million at the end of the previous year.

The largest portion of the Municipality's net assets consists of the investment made throughout the years in capital assets such as land, buildings, equipment and infrastructure. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represents another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

The unrestricted deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and claims and judgments among others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations. The restricted portion consists of monies reserved for debt service and future capital expenditures.

Current assets decreased by \$386,710 from the year 2004, mainly due to a decrease in cash in bank and cash with fiscal agent amounting to \$1,356,970. Capital assets increased by \$3,441,343 due to capital expenditures amounting to \$5,765,014 offset by depreciation of \$1,002,907.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

**Municipality of Toa Alta
Condensed Statement of Net Assets
June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Current assets	\$ 10,357,324	\$ 11,637,827
Capital assets	<u>25,124,821</u>	<u>21,683,478</u>
Total assets	<u>35,482,145</u>	<u>33,321,305</u>
Current liabilities	5,494,442	3,347,827
Noncurrent liabilities	<u>21,167,523</u>	<u>21,144,665</u>
Total liabilities	<u>26,661,965</u>	<u>24,492,492</u>
Invested in capital assets, net of related debt	3,957,298	13,337,802
Restricted	9,014,288	10,313,075
Unrestricted	<u>(4,151,406)</u>	<u>(14,822,064)</u>
Total net assets	<u>\$ 8,820,180</u>	<u>\$ 8,828,813</u>

Changes in Net Assets

The Municipality's net assets decreased by \$8,688. Approximately 53.38 percent of the Municipality's total revenue came from Taxes generated by the general fund. Federal Grants was 11.21 percent, while the State Contributions made 22.55 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and health and welfare.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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 \$5,404,286, a decrease of \$3,074,729 in comparison with the prior year. There are reservations of fund balance amounting to \$492,842.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2005, the general fund has a deficit of \$3,610,002. The deficit increased by \$693,134 during fiscal year 2005.

The key factor in the increase of the deficit in the general fund was an increase in the accrual of intergovernmental liabilities amounting to \$2,246,721 against the Municipality.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Legislature revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances.

Revenues of the current year had decreased by \$205,813 compared with the final budget. The main reason for the decrease was the shortcut in Municipal license tax and miscellaneous revenues. While the expenditures had a positive variance of \$721,749. The main reason for this variance was the elimination of the transfer out to other funds that was not budgeted for the amount of \$1,276,940.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2005, amounts to \$34.5 million, net of accumulated depreciation of \$9.4 million, leaving a net book value of \$25.1 million. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, infrastructure and construction in progress. Infrastructure 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 72.75% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$5.4 million for the year. Depreciation charges for the year totaled \$1.0 million.

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, 2005 the Municipality has \$2.4 million of unexpended proceeds 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.

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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

ECONOMIC FACTORS AND NEXT 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.

The most significant change between the budget for fiscal year 2004-2005 and the one for fiscal year 2005-2006 are the following:

- The amount budgeted for Excise Tax on construction projects within the Municipality increased by \$1,000,000. The increase is due to significant projects under construction or planned to begin construction during fiscal year 2005. Also, during the fiscal year 2005-2006 the Municipality amended its Construction Excise Tax, increasing the rate from 4.5% to 5.0%.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and 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 on the Finance Offices in the Central Town, Toa Alta, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
STATEMENT OF NET ASSETS
JUNE 30, 2005**

Assets

Cash and cash equivalents (Note B)	\$ 6,226,267
Cash with Fiscal Agent (Note B)	2,483,239
Accounts Receivable:	
Property Tax Receivable	31,190
Interests Receivable	8,951
Due from Governmental Entities (Note C)	1,607,677
Capital Assets (Note E):	
Land, improvements, and construction in progress	12,565,444
Other capital assets, net of depreciation	<u>12,559,377</u>
Total Capital Assets	<u>25,124,821</u>
Total Assets	<u><u>\$35,482,145</u></u>

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

- 10 -

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
STATEMENT OF NET ASSETS
JUNE 30, 2005**

Liabilities and Net Assets

Liabilities

Accounts Payable and Accrued Liabilities	\$ 1,856,793
Due to Governmental Entities (Note C)	1,705,317
Deferred Revenues:	
Municipal License Taxes	1,022,718
Federal Grant	368,210
Non current liabilities (Note F):	
Due within one year	788,131
Due in more than one year	20,920,796
Total Liabilities	26,661,965
 <u>Net Assets</u>	
Invested in capital assets, net of related debt	17,775,776
Restricted for:	
Capital Projects	7,028,144
Debt Service	1,508,744
Other Purpose	477,400
Unrestricted (deficit)	(17,969,884)
Total Net Assets	8,820,180
Total Liabilities and Net Assets	\$ 35,482,145

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

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	\$ 9,873,497	\$ 6,921,403	\$ -	\$ -	\$ (2,952,094)
Culture and Recreation	988,982	-	-	-	(988,982)
Public Safety	1,802,074	-	-	-	(1,802,074)
Health and Welfare	3,541,200	-	1,450,117	-	(2,091,083)
Public Works	4,832,198	-	1,501,647	2,681,948	(648,603)
Interest on long-term debt	447,486	-	-	-	(447,486)
Community Development	3,957,200	-	-	-	(3,957,200)
Total Governmental Activities	\$ 25,442,637	\$ 6,921,403	\$ 2,951,764	\$ 2,681,948	\$ (12,887,522)

General Revenues:

Property Tax (Note G)	\$ 8,098,523
Municipal License Taxes (Note H)	1,378,153
Grants and Contributions not restricted to specific programs	3,255,150
Interests and Investments Earnings	52,992
Miscellaneous	94,071
Total general revenues	12,878,889
Change in net assets	(8,633)
Net Assets - beginning	8,828,813
Net Assets - ending	\$ 8,820,180

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General Fund	Special Revenue Fund State and Federal Grants	Capital Projects Fund State and Federal Grants	Debt Service Fund	Total Governmental Funds
Assets					
Cash and cash equivalents (Note B)	\$ 717,691	\$ 464,473	\$ 5,044,103	\$ -	\$ 6,226,267
Cash with Fiscal Agent (Note B)	2,134	622	971,739	1,508,744	2,483,239
Receivables:					
Property Tax	31,190	-	-	-	31,190
Interests	2,006	-	6,945	-	8,951
Due from Governmental Entities (Note C)	1,295,743	258,595	53,339	-	1,607,677
Due from other funds (Note D)	475,970	345,586	1,252,056	-	2,073,612
Total Assets	\$ 2,524,734	\$ 1,069,276	\$ 7,328,182	\$ 1,508,744	\$ 12,430,936
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	\$ 1,809,059	\$ 8,874	\$ 38,860	\$ -	\$ 1,856,793
Due to Governmental Entities (Note C)	1,705,317	-	-	-	1,705,317
Deferred Revenues	1,022,718	306,267	61,943	-	1,390,928
Due to Other Funds (Note D)	1,597,642	276,735	199,235	-	2,073,612
Total Liabilities	6,134,736	591,876	300,038	-	7,026,650
Fund Balances:					
Reserved for:					
Encumbrances	492,842	-	-	-	492,842
Capital Projects	-	-	7,028,144	-	7,028,144
Debt Service	-	-	-	1,508,744	1,508,744
Other purposes	-	477,400	-	-	477,400
Unreserved:					
Undesignated (deficit)	(4,102,844)	-	-	-	(4,102,844)
Total Fund Balances (deficit)	(3,610,002)	477,400	7,028,144	1,508,744	5,404,286
Total liabilities and fund balances	\$ 2,524,734	\$ 1,069,276	\$ 7,328,182	\$ 1,508,744	\$ 12,430,936

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

- 13 -

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
RECONCILIATION OF THE GOVERNAMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2005**

Total fund balances – governmental funds \$ 5,404,286

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

- Capital assets, net used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. **(Note E)**

25,124,821

- Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds. **(Note F)**

(21,708,927)

Net assets of governmental activities

\$ 8,820,180

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>Special Revenue Fund State and Federal Grants</u>	<u>Capital Projects Fund State and Federal Grants</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:					
Property Tax (Note G)	\$ 7,020,875	\$ -	\$ -	\$ 1,077,648	\$ 8,098,523
Municipal License Taxes (Note H)	1,378,153	-	-	-	1,378,153
Licenses, Permits and other local taxes	2,978,634	-	-	-	2,978,634
Intergovernmental	1,488,337	1,766,813	2,681,948	-	5,937,098
Landfill users fees	1,026,390	-	3,769,322	-	4,795,712
Rent of Property	40,850	-	-	-	40,850
Fines and forfeitures	10,697	-	-	-	10,697
Interests	16,570	-	6,945	18,728	42,243
Federal Grants	-	1,450,117	1,501,647	-	2,951,764
Miscellaneous	94,071	52	-	-	94,123
Total Revenues	<u>14,054,577</u>	<u>3,216,982</u>	<u>7,959,862</u>	<u>1,096,376</u>	<u>26,327,797</u>
Expenditures:					
General Government	6,047,776	2,009,257	-	-	8,057,033
Culture and Recreation	782,403	20,174	-	-	802,577
Public Safety	1,683,020	-	-	-	1,683,020
Health and Welfare	2,069,953	1,452,370	-	-	3,522,323
Public Works	2,741,100	332,017	8,326,099	-	11,399,216
Community Development	-	-	1,445,692	-	1,445,692
Debt Service:					
Principal	-	-	-	962,371	962,371
Interests	-	-	-	447,486	447,486
Total Expenditures	<u>13,324,252</u>	<u>3,813,818</u>	<u>9,771,791</u>	<u>1,409,857</u>	<u>28,319,718</u>
Excess (deficiency) of revenues over (under) expenditures	<u>730,325</u>	<u>(596,836)</u>	<u>(1,811,929)</u>	<u>(313,481)</u>	<u>(1,991,921)</u>
Other Financing Sources (Uses):					
Operating Transfer - In	13,450	221,631	1,249,297	210,131	1,694,509
Operating Transfer - Out	(1,436,909)	-	(244,150)	(13,450)	(1,694,509)
	<u>(1,423,459)</u>	<u>221,631</u>	<u>1,005,147</u>	<u>196,681</u>	<u>-</u>
Net change in fund balances	<u>(693,134)</u>	<u>(375,205)</u>	<u>(806,782)</u>	<u>(116,800)</u>	<u>(1,991,921)</u>
Fund Balance, beginning	<u>(2,916,868)</u>	<u>852,605</u>	<u>7,834,926</u>	<u>1,625,544</u>	<u>7,396,207</u>
Fund Balance, ending	<u>\$ (3,610,002)</u>	<u>\$ 477,400</u>	<u>\$ 7,028,144</u>	<u>\$ 1,508,744</u>	<u>\$ 5,404,286</u>

Ortiz
 04/07/2006

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
YEAR ENDED JUNE 30, 2005**

Net change in fund balances – total governmental funds \$ (1,991,921)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 4,390,472
- Depreciation expense on capital assets are reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense are not reported as expenditure in governmental funds. (1,002,907)
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. (893,793)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payment reduces the long-term obligations in the statement of activities. 962,371
- Loss on disposition of assets is reported in the statement of activities, but do not require the use of current financial resources. 21,221
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (1,494,076)

Change in net assets of governmental activities \$ (8,633)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
STATEMENT OF REVENUES AND EXPENDITURES
- BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005**

Description	Original Budget	Amended Budget	Actual Budget Balances	Variance
Property Tax	\$ 7,102,964	\$ 7,102,964	\$ 7,020,875	\$ (82,089)
Municipal License Taxes	1,800,000	1,800,000	1,378,153	(421,847)
Licenses, Permits and other local taxes	2,511,500	2,511,500	2,978,634	467,134
Intergovernmental	1,475,926	1,475,926	1,488,337	12,411
Landfill users fees	900,000	900,000	1,026,390	126,390
Rent of Property	75,000	75,000	40,850	(34,150)
Fines and forfeitures	5,000	5,000	10,697	5,697
Interests	75,000	75,000	16,570	(58,430)
Miscellaneous	230,000	230,000	9,071	(220,929)
Total Revenues	14,175,390	14,175,390	13,969,577	(205,813)
Expenditures:				
General Government	7,322,457	7,064,689	6,017,196	1,047,493
Culture and Recreation	823,762	837,562	782,403	55,159
Public Safety	1,796,919	1,720,389	1,683,020	37,369
Health and Welfare	1,574,014	1,551,615	2,069,953	(518,338)
Public Works	2,498,269	2,841,166	2,741,100	100,066
Transfers to Other Funds	159,969	159,969	159,969	-
Total Expenditures	14,175,390	14,175,390	13,453,641	721,749
Excess (deficiency) of revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 515,936</u>	<u>\$ 515,936</u>

Reconciliation of Revenues and Expenditures of General Fund as per Financial Statements vs. Budgetary Basis:

	<u>Revenues</u>	<u>Expenditures</u>
Revenues and Expenditures of General Fund as per Financial Statements	\$ 14,054,577	\$ 14,747,711
Add: Current year Encumbrances	-	492,842
Less: Prior years Encumbrances	-	(669,059)
Transfers from Other Funds	13,450	-
Transfers to Other Funds not considered in Budget	-	(1,276,940)
Other Special Funds	(98,450)	159,087
Revenues and Expenditures as per budgetary basis	<u>\$ 13,969,577</u>	<u>\$ 13,453,641</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Toa Alta was founded in 1751. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

In June 1999, the Governmental Accounting Standard 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 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.

Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Toa Alta (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) 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
YEAR ENDED JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
 - 1) The primary government can impose its will on the potential component unit and/or,
 - 2) A financial benefit/ burden exist between the primary government and the potential component unit.

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

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

Basis of presentation, measurement focus and basis of accounting

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

Management Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basic financial statements

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

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed non exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Private-sector standards of accounting and financial reporting issued 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. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

Fund Statements

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

The Municipality reports the following major governmental funds:

General Fund: 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 ordinance or federal and state statutes.

Capital Projects Fund – Local, State and Federal Grants: is the accounting entity in which revenues are derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinance or federal and state statute.

Debt Service Fund: Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The fund statements are maintained and reported on the modified accrual basis of accounting. Under this method 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 Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the related liability is incurred.

Property taxes (imposed non exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred, subject to the availability criteria. Revenues on intergovernmental grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met and revenue becomes available. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available.

The Municipality reports deferred revenues in the governmental funds statements which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following:

- 1) payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made);
- 2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long term portions of debt must be included).

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Notes to Financial Statements

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

Required Supplementary Information:

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

Assets, liabilities and net Assets

1. *Cash, cash equivalents and cash with fiscal agents.*

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

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

2. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property tax revenue of current fiscal year collected by the CRIM on the first month (July) of subsequent fiscal year.

3. *Inter fund 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 from/to other funds" (i.e., the current portion of inter fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter fund loans).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

All other outstanding balances between funds are reported as "due from/to other funds".

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The municipality maintains a threshold level of \$25 or more for capitalizing vehicles, machinery and equipment. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The costs 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.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>	<u>Capitalization Threshold</u>
Buildings and building improvements	40	\$1
Infrastructure	40	\$1
Works of Art	10	\$1
Furniture and fixtures	5	\$25
Machinery and equipment	3-5	\$25

4. Long-term obligations

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

5. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if; (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

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

6. Reservations of Fund balances and Net Assets

a. Reservations of Fund balances:

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances:	Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.
Debt Service:	Represents net assets available to finance future debt service payments.
Capital Projects:	Represent the reservations 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.
Other purposes:	Represent net assets available for specific use and/or legally segregated for other specific future use.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

b. Net assets

In the government-wide statements net assets are segregated into three categories:

Invested in capital assets, net of related debt: Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

Restricted net assets: Represents net assets that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

Unrestricted net assets: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

7. *Inter fund transactions*

The Municipality reports certain transactions as operating transfers, which are legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.

8. *Risk financing*

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Costs of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2005 amounted to \$199,381. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$314,387 for workers compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Use of estimates

The preparation of the basic financial statements in accordance 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 and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

10. Future adoption of accounting pronouncements

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

Statement	To be Adopted in Fiscal year ended,
42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	June 30, 2006
43 Financial Reporting for Post employment Benefits Plans Other Than Pension Plans	June 30, 2008
44 Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement No. 1	June 30, 2006
45 Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009
46 Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34	June 30, 2007
47 Accounting for Termination Benefits	June 30, 2006; for termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The impact of these statements in the Municipality's basic financial statements has not yet been determined.

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 are reported in the governmental-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 follow:

	<u>Total Net Assets- Governmental Activities</u>
<u>Net Assets invested in capital assets, net of related debt</u>	
Capital Assets, net of depreciation	\$ 25,124,821
Deduct:	
Bonds Payable	(7,349,045)
	\$17,775,776
<u>Assets restricted for capital projects</u>	
Fund Balance restricted for capital projects	7,028,144
<u>Net Assets restricted for Debt Service</u>	
Fund balance restricted for debt service	1,508,744
<u>Net Assets restricted for other purposes</u>	
Fund balance restricted for other purposes	477,400
<u>Net Assets unrestricted (deficit)</u>	
General Fund – Total fund balance:	\$(4,151,406)
Deduct:	
Notes payable	(843,000)
Compensated absences	(1,417,455)
Landfill Obligation	(9,379,894)
Advances from CRIM	(1,004,111)
Claims and Judgments	(225,000)
Other liabilities	<u>(949,017)</u>
	<u>(17,969,884)</u>
Total net assets – governmental activities	<u>\$ 8,820,180</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. At year end the Municipality's bank balance in commercial banks amounts to \$6,529,352.

Deposits in governmental banks are uninsured and uncollateralized. At year end the Municipality's bank balance in governmental banks amounts to \$2,522,073.

NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2005 follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>
PR Power Electric Authority (PREPA)	\$ 1,295,743	\$ -	\$ -
Department of Labor		228,809	-
US Department of Housing and Urban Development – CDBG			53,339
Department of Municipal Affairs		29,786	-
	<u>\$ 1,295,743</u>	<u>\$ 258,595</u>	<u>\$ 53,339</u>

2. Amounts due to governmental entities as of June 30, 2005 follows:

	<u>Commonwealth Entities</u>
Puerto Rico Power Electric Authority (PRPEA)	\$ 1,357,489
Department of Labor	23,672
Administration of General Services (ASG)	173,518
PR Aqueduct and Sewer Authority (PRASA)	32,319
Association of ELA Employees	11,153
PR Department of Treasury (PRDT)	21,858
Administration of Retirement System	85,308
	<u>\$ 1,705,317</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE D - INTERFUND TRANSACTIONS

1. Due from/to other funds:

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

Receivable Fund	Payable Fund	Amount
General Fund	SRF – Major fund (Law 52 Program)	\$ 229,317
General Fund	CPF – RC's	158,588
General Fund	CPF - CDBG	17,096
General Fund	SRF – Section 8 Vouchers	2,517
General Fund	CPF – Rural Development Program	23,551
General Fund	SRF – Child Care Program	44,901
SRF – Other Funds	General Fund	345,586
CPF – Law 82 Program	General Fund	270,000
CPF – RC's -	General Fund	4,406
CPF – Cash Pool	General Fund	852,266
CPF – Landfill Improvements	General Fund	<u>125,384</u>
Total:		<u>\$ 2,073,612</u>

2. Operating transfers:

Transfers between individual funds were made for operational purposes. Transfers includes interest earned on restricted cash with fiscal agents in the debt service fund and operating and capital improvement loans in other governmental funds which is transferred to the general fund; principal and interest payments of general long term debt transferred from the general fund to the debt service fund; and for reimbursements of operational expenditures of special and general funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE E - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2005 is as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 12,257,603	\$ -	\$ -	\$ 12,257,603
Construction in progress	1,607,385		1,299,544	307,841
Total capital assets not being depreciated:	13,864,988		1,299,545	12,565,444
Capital assets, being depreciated:				
Buildings and building improvements	6,220,583	1,176,148		7,396,731
Infrastructure and Infrastructure Improvements	2,517,315	4,474,118		6,991,433
Equipment	2,558,320	34,104	(56,774)	2,535,650
Furnishing	392,089	32,063	(11,831)	412,321
Works of Art	45,000			45,000
Computers	442,616	26,876	(6,392)	463,100
Vehicles	4,153,831	21,705		4,175,536
Total capital assets being depreciated	16,329,754	5,765,014	(74,997)	22,019,771
Less accumulated depreciation for:				
Buildings and building improvements	(2,304,989)	(183,621)		(2,488,610)
Infrastructure and Infrastructure Improvements	(117,632)	(268,548)		(386,180)
Equipment	(2,105,034)	(147,954)	37,087	(2,215,901)
Furnishing	(297,871)	(32,452)	11,115	(319,208)
Works of Art	(29,625)	(4,500)		(34,125)
Computers	(374,606)	(47,189)	5,574	(416,221)
Vehicles	(3,281,506)	(318,643)		(3,600,149)
Total accumulated depreciation	(8,511,263)	(1,002,907)	53,776	(9,460,394)
Total capital assets being depreciated, net	7,818,491	4,762,107	21,221	12,559,377
Governmental activities capital assets, net	<u>\$21,683,479</u>	<u>\$4,762,107</u>	<u>\$1,320,765</u>	<u>\$25,124,821</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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

Governmental activities:

General government	\$ 343,609
Public works	313,389
Public safety	119,054
Culture and recreation	186,405
Health and welfare	18,877
Community development	<u>21,573</u>
 Total depreciation expense, governmental activities	 <u><u>\$ 1,002,907</u></u>

NOTE F - LONG TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2005:

	Balance at July 1, 2004	Increases	Decreases	Balance at June 30, 2005	Due within one year
General, Special Obligations Bonds and Notes	\$ 8,975,676	\$ -	\$ 783,631	\$ 8,192,045	\$ 788,131
Advances from CRIM Compensated Absences	1,099,503		95,392	1,004,111	
Claims and Judgments	1,076,466	340,989		1,417,455	
Landfill Obligation	225,000			225,000	
PR Health Insurance Administration	8,285,559	1,094,335		9,379,894	
Other Liabilities	1,482,461	541,404		541,404	
	<u>1,482,461</u>		<u>533,443</u>	<u>949,018</u>	
Total	<u><u>\$ 21,144,665</u></u>	<u><u>\$ 1,976,728</u></u>	<u><u>\$ 1,412,466</u></u>	<u><u>\$21,708,927</u></u>	<u><u>\$ 788,131</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE F - LONG TERM DEBT - Continued

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2005 amount to \$ 8,192,045. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to levy and collect property taxes for payment of principal and interest on bonds and notes. A debt service fund has been established for the bonds and notes at GDB with the proceeds of those property taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of long term debt issued for operational purposes are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2005 follows:

	<u>Outstanding Amount</u>
1988 special obligation bonds of \$62,623 due in annual installments of \$3,131, bearing interest at 8.0%.	\$ 7,045
1992 general obligation notes of \$900,000 due in annual installments ranging from \$35,000 to \$105,000 through July 1, 2007; bearing interest at rates ranging from 4.16% to 6.41%.	285,000
1995 general obligation bonds of \$330,000 due in annual installments ranging from \$5,000 to \$30,000 through January 1, 2019; bearing at rates ranging from 6.11% to 8.21%.	265,000
1995 general obligation bonds of \$485,000 due in annual installments ranging from \$5,000 to \$45,000 through January 1, 2020; bearing interest at rates ranging from 4.70% to 6.63%.	410,000
1996 general obligation notes of \$205,000 due in annual installments ranging from \$5,000 to \$20,000 through July 1, 2020; bearing interest at rates ranging from 4.70% to 6.63%.	160,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE F - LONG TERM DEBT - Continued

	<u>Outstanding Amount</u>
1997 special obligation bonds of \$400,000 due in annual installments ranging from \$10,000 to \$40,000 through July 1, 2016; bearing interest rates ranging from 5.00% to 8.00%.	\$300,000
1997 general obligation bonds of \$1,270,000 due in annual installments ranging from \$45,000 to \$135,000 through July 1, 2011; bearing interest rates ranging from 4.70% to 6.63%.	770,000
1997 general obligation bonds of \$1,230,000 due in annual installments ranging from \$15,000 to \$105,000 through July 1, 2021; bearing interest at rates ranging from 4.87% to 6.00%.	1,050,000
1999 general obligation bonds of \$ 655,000 due in annual installments ranging from \$75,000 to \$115,000, through July 1, 2005, bearing interests at rates ranging from 6.00% to 5.42%.	115,000
1999 general obligation bonds of \$ 625,000 due in annual installments ranging from \$10,000 to \$55,000, through July 1, 2022, bearing interests at rates ranging from 4.87% to 6.56%.	545,000
2001 general obligation bonds of \$ 505,000 due in annual installments ranging from \$5,000 to \$45,000, through July 1, 2025, bearing interests ranging from 5.00% to 6.00%.	475,000
2001 general obligation bonds of \$ 1,230,000 due in annual installments ranging from \$55,000 to \$145,000, through July 1, 2025, bearing interests ranging from 7.81% to 4.61%.	980,000
2001 general obligation bonds of \$ 810,000 due in annual installments ranging from \$55,000 to \$115,000, through July 1, 2010, bearing interests ranging from 6.13% to 6.00%.	560,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

	Outstanding Amount
2002 general obligation bonds of \$ 505,000 due in annual installments ranging from \$85,000 to \$115,000, through July 1, 2006, bearing interests ranging from 5.00% to 3.21%.	\$ 25,000
2002 general obligation bonds of \$ 2,105,000 due in annual installments ranging from \$75,000 to \$230,000, through July 1, 2016, bearing interests ranging from 5.00% to 4.91%.	1,860,000
2004 general obligation bonds of \$ 245,000 due in annual installments ranging from \$30,000 to \$40,000, through July 1, 2009, bearing interests ranging from 5.00% to 6.50%.	<u>185,000</u>
	<u><u>\$ 8,192,045</u></u>

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2005 follows:

June 30	Principal	Interest
2006	788,131	364,043
2007	718,131	340,210
2008	640,783	314,947
2009	585,000	290,511
2010	635,000	267,784
2011-2015	2,530,000	953,158
2016-2020	1,580,000	414,435
2021-2025	670,000	72,733
2026-2030	<u>45,000</u>	<u>1,350</u>
Totals	<u><u>\$ 8,192,045</u></u>	<u><u>\$ 3,019,171</u></u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE F - LONG TERM DEBT - Continued

3. **Advances from CRIM** – This amount represents the balance owed to CRIM at June 30, 2005 and will be repaid through a financing obtained by the CRIM with GDB.
4. **Compensated absences** – The government-wide statement of net assets includes approximately \$1,400,000 of accrued vacation and sick leave benefits, representing the Municipality's commitment to fund such costs from future operations.
5. **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, "Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$9,379,894 as the Municipality's estimated current costs for landfill closure and post-closure costs as of June 30, 2005. The annual estimate of post closure costs has been assessed approximately to be \$180,000 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.
6. **Due to Puerto Rico Health Insurance Administration** – Due to Puerto Rico Health Insurance Administration represents the municipal contribution related to the Health Care Reform corresponding to the period from December 1, 1995 through June 30, 1997. This balance \$541,404 will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.
7. **Other Obligations** – This amount represents the balance owed at June 30, 2005 to the following activities: Solid Waste Authority, Puerto Rico Treasury Department, and Municipal Revenue Collection Center (CRIM).

NOTE G - PROPERTY TAXES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE G - PROPERTY TAXES - Continued

The tax rates in force as of June 30, 2005 are 8.58% for real property (of which 8.38% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.58% for personal property (of which 6.38% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 7.55% and 5.55%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 7.03% on real property and 4.63% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 1.75% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund.

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The Municipality has a net receivable from the CRIM of \$31,190 resulting from the final settlement for fiscal year 2004-2005. The total amount is recorded as a receivable in the government-wide statement.

NOTE H – MUNICIPAL LICENSE TAXES

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

During the fiscal year ended June 30, 2005 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Non-financial business – 0.50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year, if the taxpayer does not pay the full amount due on April 15 of each year, applying the 5% discount. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax returns collected prior to June 30, 2005, but pertaining to the next year is recorded as deferred revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE I - INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

	Amount
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$1,295,742
Reimbursement from Commonwealth Government of Christmas bonus expenditures	192,595
Total	\$1,488,337

NOTE J - RETIREMENT PLAN

1. Plan description

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and no occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary 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 System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

2. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current fiscal year, which is equal to the required contribution, follows:

<u>Fiscal Year Ended</u>	<u>Law No. 447</u>	<u>System 2000</u>
2005	\$252,266	\$212,065

NOTE K - COMMITMENTS

1. Operating leases

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

NOTE L - CONTINGENCIES

1. Federal and State grants

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

2. Judgments and legal claims

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of one case settled subsequent to June 30, 2005 and a legal claim in which an unfavorable outcome is

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

probable and a reasonable estimate of the amount was determined, and not to be covered by insurance, the Municipality accrued \$ 225,000 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

PART II - SINGLE AUDIT SECTION

-41-

ORTIZ, RODRIGUEZ, RIVERA & CO.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct programs:		
Community Development Block - Grants Entitlement Grants	14.218	\$ 1,445,691
Section 8 Housing Choice Vouchers	14.871	1,002,497
Pass-through the Commonwealth of Puerto Rico, Municipality of San Juan:		
Housing Opportunities for Persons with AIDS (HOPWA)	14.228	11,064
Subtotal U.S. Department of HUD		<u>2,459,252</u>
U.S. Department of Agriculture		
Direct program:		
Rural Housing Preservation Grants	10.433	37,572
Subtotal U.S. Department of Agriculture		<u>37,572</u>
U.S. Department of Health and Human Services (HHS)		
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	116,075
Pass-through the Office of Administration for Children and Families		
Child and Care and Development Block Grant	93.575	223,385
Subtotal U.S. Department of HHS		<u>339,460</u>
TOTAL		<u>\$ 2,836,284</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Toa Alta's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Total federal expenditures per schedule	<u>\$2,836,284</u>
Federal expenditures per basic financial statements included within:	
Special Revenue Fund	1,390,593
Capital Project Fund	<u>1,445,691</u>
Total	<u>\$2,836,284</u>



ORTIZ, RODRIGUEZ, RIVERA & CO.
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Management Consulting
Services Division

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Toa Alta, as of and for the year ended June 30, 2005, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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 financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain immaterial instances of noncompliance which we have reported to management of the Municipality of Toa Alta in a separate letter dated December 22, 2005.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
December 22, 2005

Ortiz, Rodriguez, Rivera & Co.

The stamp 2115862 was affixed
to the original of this report.





ORTIZ, RODRIGUEZ, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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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 Municipal Legislature
Municipality of Toa Alta
Toa Alta, Puerto Rico

Compliance

We have audited the compliance of 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, 2005. Municipality of Toa Alta's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Toa Alta's management. Our responsibility is to express an opinion on 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of 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 Municipality of Toa Alta's compliance with those requirements.

As described in the table below, and in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with the requirements regarding cash management, equipment, and real property management, periods of availability of funds, earmarking, and applicable special tests and provisions that are applicable special tests and provisions that are applicable to its Community Development Block Grant, Section 8 Housing Choice Vouchers and Child Care programs. Compliance with such requirements is necessary, in our opinion, for the Municipality, to comply with requirements applicable to these programs.

<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Section 8 Housing Choice Voucher	Cash Management	05-1
Section 8 Housing Choice Voucher	Special Test	05-2
Child Care and Development Block Grant	Cash Management	05-3
Child Care and Development Block Grant	Equipment and Real Property Management	05-4
Child Care and Development Block Grant	Period of Availability of Funds	05-5
Community Development Block Grant	Matching, Level of Effort, and Earmarking	05-6
Community Development Block Grant	Special Test	05-7

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, 2005.

Internal Control over Compliance

The management of Municipality of Toa Alta is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving in 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's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1 thru 05-7.

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 relative low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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 in 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
December 22, 2005

Ortiz, Rodriguez, Rivera & Co.

The stamp 2115863 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expressed an unqualified opinion on the basic financial statements of the Municipality of Toa Alta.
- b. There were no reportable conditions on internal controls over financial reporting.
- c. No instances of noncompliance material to the financial statements of Municipality of Toa Alta were disclosed during the audit.
- d. There were reportable conditions on internal controls over major programs.
- e. The auditors' report on compliance with requirements applicable to federal award programs for the Municipality of Toa Alta expressed a qualified opinion.
- f. Audit findings relative to the major federal award programs for Municipality of Toa Alta are reported in number 3 of this schedule.
- g. The programs tested as major programs include:
 - Child Care and Development Block Grant - CFDA No. 93.575
 - Section 8 - Housing Choice Vouchers - CFDA No. 14.871
 - Community Development Block Grant Program, Entitlement Grants - CFDA No. 14.218
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Toa Alta was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT**

a. Section 8 Housing Choice Voucher - CFDA No. 14.871

● **Condition 05-1 - Cash Management**

The Municipality's internal control relating to compliance with the cash management requirements of the federal program are not effective since they are not minimizing the time elapsed between the receipt of funds and final disbursement for payment.

<u>Program</u>	<u>Deposit Date</u>	<u>Deposit Amount</u>	<u>Disbursement Date</u>	<u>Disbursement Amount</u>	<u>Unexpended Amount</u>
Section 8	2/01/2005	\$79,713	2/01/2005 to 2/3/2005	\$60,719.94	\$18,993

Criteria

Cash Management always applies to federal programs. An exception would be a federal award that operates on a costs reimbursement basis only with no cash being advanced.

When entities are funded on a reimbursement basis, program costs must be paid by entity funds before a reimbursement is requested from the Federal Government. When funds are advanced, means that a Federal Program Agency transfers the actual amount of federal funds to a State that will be paid by the State, in a lump sum, not more than three business days prior to the day that the State issues checks or initiates AFT payments and therefore recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipients.

Interest earned on advances by the Municipality is required to be submitted promptly, but at least quarterly, to the federal agency. Up to \$ 100 per year may be kept for administrative expenses. Interest earned by non-State, nonprofit entities on federal fund balances in excess of \$ 250 is required to be remitted to Department of Housing and Urban Development.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Cause

The Municipality consume a lot of time since the disbursement voucher is authorized and ready to be paid.

Effect

The delays caused by the design of cash management system, obstruct the Municipality to comply with federal and local applicable laws and regulation, and the ability to meet the cash management requirement.

Recommendation

The Municipality should expedite the internal process preparing and sending the actual list of expenditures to be disbursed during the period and establish an effective follow up system for payment to comply with the requirement to disburse the funds within the required time period. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Questioned Costs

None

● **Condition 05-2 - Special Test - Selection from the Waiting List**

During our eligibility test, we examined a sample of 40 participant files. The followings were the exceptions found:

- 1) The waiting list book did not detail the preference of all the applicants.
- 2) Eleven (11) participants were not observed in the waiting list.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

waiting list generally occurs when the PHA notifies a families whose name reaches the top of the waiting list to come in to verify eligibility for admission.

Cause

The Municipality did not maintain adequate internal controls procedures to assure that the waiting list include all the information required by federal Regulation and to assure that the participant were selected from the top of the waiting list.

Effect

The Municipality is not in compliance with federal and local applicable laws and regulation, and the ability to meet the waiting list requirement.

Recommendation

The Municipality should establish adequate internal controls procedures to let us perform a proper tracing of the participants selected from the waiting list in order to ascertain that the participant selection is made from the top of the waiting list.

Questioned Costs

None

b. Child Care and Development Block Grant - CFDA 93.575

● **Condition 05-3 - Cash Management**

The Municipality's internal control relating to compliance with the cash management requirements of the federal program are not effective since they are not minimizing the time elapsed between the receipt of funds and final disbursement for payment.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Criteria

Cash Management always applies to federal programs. An exception would be a federal award that operates on a costs reimbursement basis only with no cash being advanced.

When entities are funded on a reimbursement basis, program costs must be paid by entity funds before a reimbursement is requested from the Federal Government. When funds are advanced, means that a Federal Program Agency transfers the actual amount of federal funds to a State that will be paid by the State, in a lump sum, not more than three business days prior to the day that the State issues checks or initiates AFT payments and therefore recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipients.

When advance payments procedures are used, recipients must establish similar procedure for subrecipients. Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients as cash balances and cash disbursements in sufficient time to enable the pass-through entity. Pass-through entities must cash drawdown by their subrecipients to assure that subrecipients conform substantially to the same standard of timing and amounts as apply to the pass-through entity.

Interest earned on advances by the Municipality is required to be submitted promptly, but at least quarterly, to the federal agency. Up to \$ 100 per year may be kept for administrative expenses. Interest earned by non-State, nonprofit entities on federal fund balances in excess of \$ 250 is required to be remitted to Department of Health and Human Services, Payment Management System, PO Box 6021, Rockville, MD 20852.

Cause

The Municipality consume a lot of time since the purchase order has been created until the disbursement voucher is authorized and ready to be paid.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Effect

The delays caused by the design of cash management system, obstruct the Municipality to comply with federal and local applicable laws and regulation, and the ability to meet the cash management requirement.

Recommendation

The Municipality should expedite the internal process preparing and sending the actual list of expenditures to be disbursed during the period and establish an effective follow up system for payment to comply with the requirement to disburse the funds within the required time period. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Questioned Costs

None

● **Condition 05-4 - Equipment and Real Property Management**

The Child Care program bought a laptop computer with Child Care funds and the computer was damaged and used by personnel other than employees of Child Care. In addition, the program did not reconcile the schedule of fixed assets since the computer is broken and no maintenance was observed it should be disposed and up to date the inventory of federal equipment.

Criteria

As per Uniform Administrative Requirements for Grant and Cooperative Agreements to State and Local Governments (OMB Common Rule) establishes that an equipment shall be used by the grantee in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds. When no longer needed for the original program or project, the equipment must be used in other activities currently or previously supported by the Federal agency.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Cause

The Child Care management did not have knowledge about this requirement.

Effect

The funds awarded can be affected since the program should demonstrate a good management and internal controls over the compliance of federal and state laws and regulations.

Recommendation

The Child Care managements should consult with the Grantor when doubt exist regarding with any event or transactions with federal funds. In addition, the management should establish internal control procedures to identify any damage equipment has good maintenance or an adequate disposal procedures.

Questioned Costs

None

● **Condition 05-5 - Period of Availability of Funds**

After our procedures we noted that the Municipality performed disbursements with current funds, expenditures that belongs to the following period. In addition, the Municipality did not liquidate all obligations before the 90 days after year ended.

Criteria

As per "fourteenth clause" of the Grant Agreement, establishes that the Municipality has 90 days to liquidate the obligations pending at the end of the program year. In addition, the Municipality has one year to obligate and expense the funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Cause

This situation occurred because Child Care has not established internal controls procedures to monitor and identify the obligations incurred under the award to liquidate it within the 90 days period after the end of September 30, 2005.

Child Care managements need funds to pay to service providers and the Finance Department did not has available cash to lend or transfer to cover any shortage of cash presented during the year.

Effect

The Municipality is not in compliance with the period of availability of funds. Furthermore, the funds awarded can be affected since the Municipality is not following the Grant Agreements.

Recommendation

The program should establishes internal controls procedures to identify the obligations remaining after the year end and perform the payments before 90 days required by the federal laws and regulations.

If the Municipality presented a shortage of cash, the Finance Department should identify funds to transfer cash temporarily. When Child Care receive the funds, they should transfer back the cash borrowed to the Municipality.

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

c. Community Development Block Grant - CFDA 14.218

• **Condition 05-6 - Earmarking**

After our procedures we noted that the CDBG funds obligated during the program year for administration exceed the 20% and for public service exceeded the 15% of the grant amount and were calculated as follow:

Total Funds Obligated for Administration	\$ 374,202
Total Funds Received	1,847,000
Percentage for administration	20.26%
Total Funds Obligated for Public Service	\$ 320,824
Total Funds Received	1,847,000
Percentage for public service activities	17.37%

Criteria

The Program is not in compliance with the code of federal regulations sections 570.201(e)(1) and 570.430(a) that establishes that the amount of CDBG funds used for public services shall not exceed 15 percent of each grant, except that for entitlement grants made under subpart D of this part, the amount shall not exceed 15 percent of the grant plus 15 percent of program income. For entitlement grants under subpart D of this part, compliance is based on limiting the amount of CDBG funds obligated for public service activities in each program year to an amount no greater than 15 percent of the entitlement grant made for that program year plus 15 percent of the program income received during the grantee's immediately preceding program year. Section 570.430(a) establishes that the amount of CDBG funds used for administration shall not exceed 20 percent of the total grant.

Effect

The CDBG Department performed disbursements that could be disallowable by the Grantor because the CDBG Department obligated more funds for administration and public service than the funds permitted by law.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Recommendation

The CDBG Department must establish procedures to identify when the maximum amount permitted to obligate funds for public service activity is almost consumed. To do this they must follow the amount established in the budget approved for the period for this activity.

Questioned Costs

Total cost \$ 48,576

● **Condition 05-7 - Special Test and Provisions - Housing Rehabilitation**

During our Housing Rehabilitation test of twenty five (25) files we noted the following exceptions:

- 1) In two (2) examined cases the program staff did not perform follow-up visit between thirty days after the participant's receipt of materials.
- 2) In three (3) participant files, Form 03-003 did not clearly describe the deficiencies to be corrected.
- 3) We visited (9) nine housing units in January, 2006 to verify if donations granted to the participants were used for the specific purposes stated in the contracts. As a result we noted that in one (1) case, the participant did not use the materials.

Criteria

CFR 24, Section 570.506, states that when CDBG- Entitlement Grants funds are used for rehabilitation, the grantee must ascertain that the work is properly completed and appropriate documentation is maintained.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Cause

The Municipality has not established adequate internal control procedures to ascertain that rehabilitation work is performed by the beneficiaries in the time required of thirty (30) days after the receipt of the materials.

Effect

The Municipality is not in compliance with 24 CFR, Section 570.506.

Recommendation

We recommend the Program's Management to establish the following procedures:

- 1) Ascertain that the deficiencies be corrected and approved amount is incorporate into the rehabilitation contract.
- 2) Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contract specifications.
- 3) Assure that all participant files include all required documentation duly approved and certified.

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
CDBG - CFDA No. 14.218	Condition 04-02 The Municipality did not establish procedures to assurance that contractors and subcontractors were properly notified of the Davis Bacon Act requirements a no monitoring system for the compliance of the prevailing wages rate was observed.	Correction action has been taken.
CDBG - CFDA No. 14.218	Condition 04-03 The federal program does not submit the required reports on time. In addition, lack of accuracy was observed.	Correction action has been taken.
CDBG - CFDA No. 14.218	Condition 04-04 The federal program failed in maintain a proper follow up regarding with the Housing Rehabilitation requirement.	Partial correction action has been taken.
CDBG - CFDA No. 14.218	Condition 04-05 The federal program failed in maintaining a proper internal control procedures regarding to the filing and follow up of participant files of the housekeeping assistance activities.	Correction actions has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 04-06 The Municipality internal control over compliance with the cash management requirement requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and the final disbursement of funds.	No correction action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 04-07 The federal program did not maintain proper participant files regarding with the eligibility program requirements.	Partial correction action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 04-08 The federal program failed in prepare accurate and on time submission of the financial reports.	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 04-09 The Municipality did not maintain an adequate waiting list.	Partial correction action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 04-10 The federal program did not document in the participant files that the rent to owners was reasonable in comparison to rent for other comparable unassisted units.	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 04-11 The federal program did not document in the participant files that the rent to owners was reasonable in comparison to rent for other comparable unassisted units.	Corrective action has been taken.
CDBG - CFDA No. 14.218	Condition 03-04 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.	Corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
CDBG - CFDA No. 14.218	Condition 03-05 Management should include all contract provisions required by federal regulations before each contract execution.	Corrective action has been taken.
CDBG - CFDA No. 14.218	Condition 03-06 Management should develop monitoring system procedures and assign a municipal employee to perform it, including notifying contractors and subcontractors about Davis Bacon Act.	Corrective action has been taken.
CDBG - CFDA No. 14.218	Condition 03-07 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 and amended report.	Corrective action has been taken.
CDBG - CFDA No. 14.218	Condition 03-08 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 carried out in accordance with contract specifications. Also, the management must assure that all participant files include all required documentation duly approved and certified.	No corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
CDBG - CFDA No. 14.218	Condition 03-09 Management should establish procedures to determine the applicants eligibility based on documentation or procedures.	Corrective action has been taken.
CDBG - CFDA No. 14.218	Condition 03-10 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 program year are duly approved in the action plan. The program management should ask for the reimbursement of questioned costs.	Partial corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 03-11 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.	Partial corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 03-12 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. The management must submit a revised requisition (Form 52663) to HUD when the leasing rate does not exceeds the 95% in	No corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	order to avoid and excessive adjusted cash balance in books.	
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 03-13 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.	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 03-14 Management should improve it's monitoring procedures in order to assure 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.	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 03-15 Management should develop a monitoring system in order to detect and correct he deficiencies related to closing reports and accounting records.	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 03-16 Management should follow admission procedures established in the administrative plan.	Partial correction action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 03-17 Management should establish controls to assure that the determination of reasonable rent for unassisted units is realized and that appropriate documentation	Corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 Housing Choice Vouchers - CFDA No. 14.871	<p>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.</p> <p>Condition 03-18</p> <p>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.</p>	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	<p>Condition 03-19</p> <p>Management should establish internal controls 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.</p>	Corrective action has been taken.
CDBG - CFDA No. 14.218	<p>Condition 02-8</p> <p>Management should strengthen its procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.</p>	Corrective action has been taken.
CDBG - CFDA No. 14.218	<p>Condition 02-9</p> <p>The Municipality should develop monitoring system procedures and assign a municipal employee to</p>	Corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	perform it, including notifying contractors and subcontractors about Davis Bacon Act.	
CDBG - CFDA No. 14.218	Condition 02-10 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.	Full corrective action has been taken.
CDBG - CFDA No. 14.218	Condition 02-11 The Municipality should improve internal control procedures related to procurement requirements.	Corrective action has been taken.
CDBG - CFDA No. 14.218	Condition 02-12 The Municipality should establish monitoring procedures to assure the accuracy of accounting records and correct completion of the financial reports.	Corrective action has been taken.
CDBG - CFDA No. 14.218	Condition 02-13 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.	No corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
CDBG - CFDA No. 14.218	Condition 02-14 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.	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 02-15 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.	Partial corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 02-16 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.	No corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 02-17 The Municipality should establish monitoring procedures in order to assure that Housing Assistance Payments are duly computed as required by the Federal Regulations.	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 02-18 The Municipality should establish 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	Corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	required participants information are included in the participants files as required by Federal Regulations.	
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 02-19 The Municipality should provide adequate training to the program staff.	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 02-22 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.	Partial correction action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 02-23 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.	Corrective action has been taken.
Section 8 Housing Choice Vouchers - CFDA No. 14.871	Condition 02-24 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.	Corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 Housing Choice Vouchers - CFDA No. 14.871	<p>Condition 02-25</p> <p>The Municipality should implement internal control procedures to assure that annual inspections and quality control re-inspections are properly performed.</p> <p>Condition 01-10</p> <p>The Municipality did not maintain adequate cash management procedures.</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> <p>Condition 01-11 - Eligibility Test</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> <p>Condition 01-16 - Special Test - Selection from the Section 8 Waiting List</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> <p>Condition 01-17 - Special Test - Housing Quality Standards Inspections and Enforcement</p> <p>The audit finding does not warrant further action because two years have passed since the audit</p>	Corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	<p>report in which the finding occurred was submitted to the Federal Clearinghouse.</p> <p>Condition 01-16 - Special Test - Selection from the Section 8 Waiting List</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> <p>Condition 00-17 - Federal Cash Management System</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> <p>Condition 00-20 - Federal Cash Management System</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> <p>Condition 00-21 - Inadequate Documentation of Participant Files</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>	

PART III - CORRECTIVE ACTION PLAN

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562



ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL DE TOA ALTA
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CORRECTIVE ACTION PLAN

March 30, 2006

Cognizant or Oversight Agency for Audit:

Municipality of Toa Alta respectfully submits the following corrective action plan for the year ended June 30, 2005

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2005

The findings from the June 30, 2005 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS

Finding 05-1: Section 8 - Housing Choice Vouchers - CFDA No. 14.871

Reportable Condition: See Condition 05-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt, or within three (3) business days.

Action Taken

The Municipality has established procedures to avoid elapsing time between receiving of funds and disbursement of them. More effective interoffice communication between federal programs accounting personnel and finance office will be implemented to verify payments delivery to creditors on time in compliance with stated regulations.

We have clarified that the Municipality of Toa Alta is not a Pass-through entity; instead, the Municipality is an Entitlement Municipality. Also, clarification of the regulatory federal agency concerning the recaptured of excess funds have being made. Department of Housing and Urban Development (HUD) is the regulatory agency for this housing program.

Under the Section 8 Housing Choice Voucher program the date that the purchase order was issued can't be compared with the subsequent disbursement vouchers made every single month until complete the full twelve months contract.

Finding 05-2: Section 8 - Housing Choice Vouchers - CFDA No. 14.871

Reportable Condition: See Condition 05-2

Recommendation

The Municipality should establish adequate internal controls procedures to let us perform a proper tracing of the participants selected from the waiting list in order to ascertain that the participant selection is made from the top of the waiting list.

Action Taken

Municipality will enforce the compliance with stated regulations (24 CFR 982.201 through 982.207) and to comply with instructions approved on the PHA Administrative Plan as prescribed by 24 CFR 982.54 (d)(1).

Finding 05-3: Child Care and Development Block Grant - CFDA No. 93.575

Reportable Condition: See Condition 05-3

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt, or within three (3) business days.

Action Taken

The Municipality requests the funds quarterly and are expensed during the three months petitioned. For this reason, the Municipality would not be able to comply with this requirement since the funds are to cover the expenses for three months and cannot be disbursed in three days.

Finding 05-4: Child Care and Development Block Grant - CFDA No. 93.575

Reportable Condition: See Condition 05-4

Recommendation

The Child Care managements should consult with the Grantor when doubt exist regarding with any event or transactions with federal funds. In addition, the management should establish internal control procedures to identify any damage equipment to has good maintenance or an adequate disposal procedures.

Action Taken

This computer was damaged in the Internal Audit Office of the Municipality of Toa Baja. It was sent back to the Family Service Office and will be repaired or, if cannot be fixed, will be retired.

Finding 05-5: Child Care and Development Block Grant - CFDA No. 93.575

Reportable Condition: See Condition 05-5

Recommendation

The program should establishes internal controls procedures to identify the obligations remaining after the year end and perform the payments before 90 days required by the federal laws and regulations.

If the Municipality is presented short cash flow, the Finance Department should identify funds to transfer cash temporarily. When Child Care receive the funds, they should transfer back the cash borrowed to the Municipality.

Action Taken

The disbursement of funds after the corresponding period of availability occurs because the Family Department of the Commonwealth of Puerto Rico does not disburses the funds promptly to the Municipality of Toa Alta. At the end of the fiscal year, the Family Department does not disburse any funds until the Municipality sends it the Fiscal Year Liquidation Report and the preparation of this report always take more than ninety days.

Finding 05-6: Community Development Block Grant - CFDA No. 14.218

Reportable Condition: See Condition 05-6

Recommendation

The CDBG Department must establish procedures to identify when the maximum amount permitted to obligate funds for public service activity is almost consumed. To do this they must follow the amount established in the budget approved for the period for this activity.

Action Taken

The Municipality recognizes this situation and as per Municipality's communication to HUD's Caribbean Hub Office (copy given to CPA Rivera Zuñiga during discussion meeting) we informed that excess funds used under both categories will be reimbursed to CDBG line-of credit to be re-use in other eligible activity.

Finding 05-7: Community Development Block Grant - CFDA No. 14.218

Reportable Condition: See Condition 05-7

Recommendation

We recommend the Program's Management to establish the following procedures:

- 1) Ascertain that the deficiencies to be corrected and approved amount are incorporate into the rehabilitation contract.
- 2) Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contract specifications.
- 3) Assure that all participant files include all required documentation duly approved and certified.

Action Taken

- 1) The Municipality developed a new Procedures Manual and program personnel have been trained to follow instructions established in such Manual.
- 2) Municipality accept this finding and as per regulation, donated material will be recover from participant and if any administrative process have to be established, administration will not doubt to proceed as per regulations.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Luis Visaldén, Federal Programs Director, and Doris Ortiz, Child Care Director, at (787) 870-1550.

Cordially,

A handwritten signature in blue ink, appearing to read 'L. Visaldén', written in a cursive style.

Luis Visaldén
Federal Programs Director
Municipality of Toa Alta