

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**  
**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**  
**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE TOA ALTA**  
**AUDITORIA 2006-2007**  
**30 DE JUNIO DE 2007**

OFICINA DEL COMISIONADO  
DE GOBIERNO MUNICIPALES

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REGISTRO  
UNIDAD DE CORREO

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

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2007**

**ORTIZ, RIVERA, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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MUNICIPALITY OF TOA ALTA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**PART I - FINANCIAL SECTION**

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Public Accountants  
Management Consulting  
Services Division

## **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, 2007, 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, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the general 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 12, 2007, 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.

San Juan, Puerto Rico  
December 12, 2007

*Ortiz, Rivera, Rivera & Co.*

The stamp 2286481 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, 2007**

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**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 increase by \$1,744,815.
- In the fund financial statements, general fund revenues increased \$968,602 (or 6.0%), while governmental activities expenditures decreased \$132,789 (or 1.0%).
- The General Fund (the primary operating fund) reflected on a current financial resource basis, an increase of \$1,185,052.
- On a budgetary basis, actual revenues exceed actual expenditures by \$1,244,928.
- Capital expenditures amounted to \$1,124,252.

**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, 2007**

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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 spend able resources, as well as on balances of spend able 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, the government must elect to either (a)

**Commonwealth of Puerto Rico  
Municipality of Toa Alta**

**Management's Discussion and Analysis**

**Year Ended June 30, 2007**

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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 \$9.4 million at the end of 2007, compared to \$7.6 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 increase by \$ 2.1 million from the year 2007, mainly due to increase in cash in bank and cash with fiscal agent amounting to \$ 1.6 million. Capital assets increased by \$1.1 million due to capital expenditures amounting to \$5.2, net by depreciation of \$ 1.4 million.

**Commonwealth of Puerto Rico  
Municipality of Toa Alta**

**Management's Discussion and Analysis**

**Year Ended June 30, 2007**

**Municipality of Toa Alta  
Condensed Statement of Net Assets  
June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Current assets	\$ 13,577,997	\$ 11,437,666
Capital assets	<u>26,479,975</u>	<u>25,364,690</u>
Total assets	<u>40,057,972</u>	<u>36,802,356</u>
Current liabilities	4,638,402	4,849,523
Noncurrent liabilities	<u>26,054,467</u>	<u>24,527,126</u>
Total liabilities	<u>30,692,869</u>	<u>29,376,649</u>
Invested in capital assets, net of related debt	16,069,192	16,940,776
Restricted	3,967,136	8,866,953
Unrestricted	<u>(10,671,225)</u>	<u>(18,382,022)</u>
Total net assets	<u>\$ 9,365,103</u>	<u>\$ 7,425,707</u>

**Changes in Net Assets**

The Municipality's net assets increase by \$ 2 million. Approximately 51 percent of the Municipality's total revenue came from Taxes generated by the general fund. Federal Grants was 14 percent, while the State Contributions made 34 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, 2007**

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

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

**Governmental Funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable 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 \$8.9 million, a decrease of \$ 2.2 million in comparison with the prior year. There are reservations of fund balance amounting to \$ 10.4 million.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2007, the general fund has a deficit of \$ 1.1. The deficit decrease by \$ 1.2 million during fiscal year 2007.

The key factor in the decrease of the deficit in the general fund was an increase in the accrual of intergovernmental revenues amounting to \$ 600,000 against the Municipality.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipality Council 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 increase by \$928,168 compared with the final budget. The main reason for the increase in states contributions, while the expenditures had a positive variance of \$77,116. The main reason for this variance was the elimination of the transfer out to other funds that was not budgeted for the amount of \$604,448.

**Commonwealth of Puerto Rico  
Municipality of Toa Alta**

**Management's Discussion and Analysis**

**Year Ended June 30, 2007**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2007, amounts to \$38.4 million, net of accumulated depreciation of \$11.9 million, leaving a net book value of \$26.5 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 4% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$1.5 million for the year. Depreciation charges for the year totaled \$1.4 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, 2007 the Municipality has \$3 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

**Commonwealth of Puerto Rico  
Municipality of Toa Alta**

**Management's Discussion and Analysis**

**Year Ended June 30, 2007**

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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 2007-2008 fiscal year.

The most significant change between the budget for fiscal year 2005-2006 and the one for fiscal year 2006-2007 are the following:

The amount budgeted for Excise Tax on construction projects within the Municipality decreased by \$600 thousands. The decrease is due to significant projects under construction or planned to begin construction during fiscal year 2006.

**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 Mr. Juan Santos Figueroa, Municipality's Chief Financial Officer at the Finance Offices in the Central Town, Toa Alta, Puerto Rico at (787) 870-8494.

**Commonwealth of Puerto Rico  
Municipality of Toa Alta  
Statement of Net Assets  
June 30, 2007**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents (Notes A and B)	\$ 6,255,008
Cash with fiscal agent (Notes A and B)	4,853,521
Accounts receivable:	
Property tax receivable	317,640
Other	19,360
Due from governmental entities	2,132,468
Capital assets, net (Note F)	
Land, improvements, and construction in progress	
other capital assets, net of depreciation of \$11,987,155	26,479,975
<b>Total assets</b>	<b>\$ 40,057,972</b>
 <u>Liabilities and net assets</u>	
<u>Liabilities</u>	
Accounts payable & accrued liabilities	\$ 1,419,641
Due to governmental entities (Note C)	1,980,790
Deferred revenues:	
Municipal license taxes (Note I)	1,048,321
Federal grant	54,650
Claims and judgements	135,000
Noncurrent liabilities:	
Due within one year (Note G)	875,783
Due in more than one year	25,178,684
<b>Total liabilities</b>	<b>30,692,869</b>
 <u>Net assets</u>	
Invested in capital assets, net of related debt	16,069,192
Restricted for:	
Specified purpose	8,293,855
Debt service	1,762,185
Unrestricted (deficit)	(16,760,129)
<b>Total net assets</b>	<b>9,365,103</b>
<b>Total liabilities and net assets</b>	<b>\$ 40,057,972</b>

The accompanying notes are an integral part of these basic financial statements.

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**Commonwealth of Puerto Rico**  
**Municipality of Toa Alta**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2007**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
General Government	\$ 7,875,154	\$ -	\$ -	\$ (7,875,154)
Culture and Recreation	1,217,874	-	-	(1,217,874)
Public Safety	1,916,344	-	-	(1,916,344)
Health	2,509,899	-	183,681	(2,326,218)
Public Housing & Welfare	797,780	-	1,198,711	400,931
Public Works	8,460,676	1,994,135	-	(4,174,190)
Interest on long-term debt	597,350	-	1,375,227	777,877
Community Development	2,506,312	-	2,470,642	(35,670)
<b>Total Governmental Activities</b>	<b>\$ 25,881,389</b>	<b>\$ 1,994,135</b>	<b>\$ 5,228,261</b>	<b>\$ (16,366,642)</b>
General Revenues:				
Property Tax				4,046,187
Municipal license taxes				2,479,802
Sales and use taxes				812,849
Licenses, permits and other local taxes				3,257,782
State contributions				6,943,137
Fines and forfeitures				19,101
Rent of property				49,720
Interests and investments earnings				471,549
Miscellaneous				31,330
<b>Total general revenues</b>				<b>18,111,457</b>
<b>Change in net assets</b>				<b>1,744,815</b>
<b>Net assets at beginning of year, as restated (Note O)</b>				<b>7,620,288</b>
<b>Net assets at end of year</b>				<b>\$ 9,365,103</b>

The accompanying notes are an integral part of these basic financial statements.

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CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**Commonwealth of Puerto Rico  
Municipality of Toa Alta  
Balance Sheet - Governmental Funds  
June 30, 2007**

	<u>Major Funds</u>					<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Las Acerolas Project Fund</u>	<u>Loans and Bonds Fund</u>	<u>Debt Service Fund</u>	<u>Other Non-Major Funds</u>	
<b>Assets</b>						
Cash and cash equivalents (Notes A and B)	\$ 928,699	\$ 2,388,700	\$ -	\$ -	\$ 2,937,609	\$ 6,255,008
Cash with fiscal agent (Notes A and B)	22,687		1,915,332	1,762,185	1,153,317	4,853,521
Receivables:						
Property tax	317,640					317,640
Other					19,360	19,360
Due from governmental entities (Note C)	1,667,865				464,603	2,132,468
Due from other funds (Note E)	509,863				644,154	1,154,017
<b>Total assets</b>	<b>\$3,446,754</b>	<b>\$ 2,388,700</b>	<b>\$ 1,915,332</b>	<b>\$ 1,762,185</b>	<b>\$ 5,219,043</b>	<b>\$ 14,732,014</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable & accrued liabilities	732,247				687,394	1,419,641
Due to governmental entities (Note C)	1,980,790					1,980,790
Deferred revenues:						
Municipal license taxes	1,048,321					1,048,321
Federal government					54,650	54,650
Claims and judgements	135,000					135,000
Due to other funds (Note E)	644,154				509,863	1,154,017
<b>Total Liabilities</b>	<b>4,540,512</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,251,907</b>	<b>5,792,419</b>
<b>Fund Balances:</b>						
Reserved for:						
Encumbrances	413,415					413,415
Specified purposes	22,687	2,388,700	1,915,332		3,967,136	8,293,855
Debt service				1,762,185		1,762,185
Unreserved:						
Undesignated (deficit)	(1,116,445)					(1,116,445)
<b>Total fund balances (deficit)</b>	<b>(1,093,758)</b>	<b>2,388,700</b>	<b>1,915,332</b>	<b>1,762,185</b>	<b>3,967,136</b>	<b>8,939,595</b>
<b>Total liabilities and fund balances</b>	<b>\$3,446,754</b>	<b>\$ 2,388,700</b>	<b>\$ 1,915,332</b>	<b>\$ 1,762,185</b>	<b>\$ 5,219,043</b>	<b>\$ 14,732,014</b>

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	\$ 26,479,975
Other long-term liabilities are not available to pay current period expenditures and therefore are offset by	(25,178,684)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(875,783)
<b>Net assets of governmental activities</b>	<b>\$ 9,365,103</b>

The accompanying notes are an integral part of these basic financial statements.

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Commonwealth of Puerto Rico  
Municipality of Toa Alta  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (Continued)  
For the Fiscal Year Ended June 30, 2007

	MAJOR FUNDS				Other Non-Major Funds	Total Governmental Funds
	General Fund	Las Acerolas Project Fund	Loans and Bonds Fund	Debt Service Fund		
<b>Revenues:</b>						
Property tax (Note H)	\$ 3,829,294	\$ -	\$ -	\$ 1,375,227	\$ -	\$ 5,204,521
Municipal license taxes (Note I)	2,479,802					2,479,802
Licenses, permits and other local taxes	3,257,782					3,257,782
Sales and use taxes (Note J)					812,849	812,849
State contributions (Note K)	6,423,852				2,811,636	9,235,488
Charges for services	1,914,055				80,080	1,994,135
Rent of property	46,720					49,720
Fines and forfeitures	19,101					19,101
Interests	418,132			53,367		471,549
Federal grants					3,853,034	3,853,034
Miscellaneous	31,330					31,330
<b>Total Revenues</b>	<b>\$ 16,423,116</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,428,594</b>	<b>\$ 7,557,599</b>	<b>\$ 27,409,311</b>
<b>Expenditures:</b>						
General government	7,072,944				273,954	7,346,898
Culture and recreation	936,509				11,841	968,344
Public safety	1,778,110				49,060	1,827,470
Health	2,249,775				235,327	2,485,103
Public works	4,627,770		350,668		4,912,660	9,900,098
Public Housing & Welfare					1,211,195	1,211,195
Community development					2,470,642	2,470,642
Debt Service:						
Principal				1,280,341		1,280,341
Interests				597,350		597,350
<b>Total expenditures</b>	<b>16,885,409</b>	<b>-</b>	<b>359,668</b>	<b>1,877,691</b>	<b>9,164,679</b>	<b>28,087,447</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>1,737,715</b>	<b>-</b>	<b>(359,668)</b>	<b>(449,097)</b>	<b>(1,607,080)</b>	<b>(678,130)</b>
<b>Other financing sources (uses):</b>						
Loan proceeds	-	-	2,275,000	-	560,000	2,835,000
Operating transfer in	51,785	-	-	604,448	-	656,233
Operating transfer out	(604,448)	-	-	(51,785)	-	(656,233)
	(552,663)	-	2,275,000	552,663	560,000	2,835,000
<b>Net change in fund balances</b>	<b>1,185,052</b>	<b>-</b>	<b>1,915,332</b>	<b>103,566</b>	<b>(1,047,080)</b>	<b>2,156,870</b>
<b>Fund Balance Beginning as Restated (Note D)</b>	<b>(2,278,810)</b>	<b>2,380,700</b>	<b>-</b>	<b>1,658,619</b>	<b>5,014,216</b>	<b>6,782,725</b>
<b>Fund Balance, ending</b>	<b>\$ (1,093,758)</b>	<b>\$ 2,366,700</b>	<b>\$ 1,915,332</b>	<b>\$ 1,762,185</b>	<b>\$ 3,967,136</b>	<b>\$ 8,939,595</b>

*Ortiz  
10/2/08*

The accompanying notes are an integral part of these basic financial statements.

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**Commonwealth of Puerto Rico**  
**Municipality of Toa Alta**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in Fund**  
**Balance - Governmental Funds to the Statement of Activities**  
**June 30, 2007**

Governmental Activities amounts reported in the statement of activities and the Net Change in fund balance reported in the statement of Revenue, Expenditures and changes in Fund Balance - Governmental Funds	\$ 2,156,870
Add (deduct):	
Long-Term Obligations recognized as other financial resources in the Governmental Funds as L.T.D. in Statement of Net Assets	(2,835,000)
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 as depreciation and amortization expenses. This year the amount by which outlays exceed depreciation and amortization expense	1,124,252
Governmental Funds report some expenditures that is not required to report in the Governmental Wide-Financial Statements:	
Principal expenditure reported on Debt Service Fund	1,280,341
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore are not reported as expenditures in the governmental funds	<u>18,352</u>
Net Change in net assets reported in statement of activities	<u><u>\$ 1,744,815</u></u>

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

**Commonwealth of Puerto Rico**  
**Municipality of Toa Alta**  
**Budgetary Comparison Schedule - General Fund**  
**(See Notes to Budgetary Comparison Schedule)**  
**June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual amounts (budgetary basis) (See Note 1)</u>	<u>Variance with final budget over (under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property Tax	\$ 3,356,043	\$ 3,356,043	\$ 3,583,926	\$ 227,883
Municipal License Taxes	2,134,221	2,134,221	2,431,927	297,706
Licenses, Permits and other local taxes	3,422,883	3,422,883	3,066,292	(356,591)
State Contributions	6,109,175	6,109,175	6,423,652	314,677
Charges for services	1,900,180	1,900,180	1,914,055	13,875
Rent of Property	40,000	40,000	49,720	9,720
Fines and forfeitures	12,000	12,000	19,101	7,101
Interests	75,500	75,500	469,967	394,467
Miscellaneous	12,000	12,000	31,330	19,330
Total Revenues	<u>\$ 17,062,002</u>	<u>\$ 17,062,002</u>	<u>\$ 17,990,170</u>	<u>\$ 928,168</u>
<b>Expenditures:</b>				
General Government	\$ 6,799,519	\$ 7,009,695	\$ 6,767,979	\$ 241,716
Culture and Recreation	886,709	959,797	956,503	3,294
Public Safety	1,998,706	1,785,919	1,778,410	7,509
Health & Welfare	2,370,356	2,252,294	2,249,776	2,518
Public Works	4,402,264	4,449,849	4,388,123	61,723
Transfers to Other Funds	604,448	604,448	604,448	-
Total Expenditures	<u>17,062,002</u>	<u>17,062,002</u>	<u>16,745,242</u>	<u>316,760</u>
<b>Excess (Deficiency) of revenues over Expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,244,928</u>	<u>\$ 1,244,928</u>
<b><u>Explanation of Differences:</u></b>				
<b><u>Sources/in-flow of financial resources:</u></b>				
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule				\$ 17,990,170
Differences - budget basis to GAAP:				(72,272)
Prior year receivables recognized for financial purposes				317,640
Current year receivables recognized for financial purposes				239,365
Special funds recognized to financial statement purposes and not for budgetary basis				(51,765)
Operating Transfer In recorded for financial statements purposes				-
Total Revenues as reported on the statement of revenues, expenditures and changes in fund balances				<u>\$ 18,423,118</u>
<b><u>Uses/outflows of financial resources:</u></b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 16,745,242
Differences - budget basis to GAAP:				333,661
Non-budgeted expenditures				210,948
Prior year expenditures recognized for financial purposes				(604,448)
Non-budgeted operating transfer - out				-
Total expenditures and other financial uses as report on the statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 16,685,403</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**NOTE 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.

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COMMONWEALTH OF PUERTO RICO  
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YEAR ENDED JUNE 30, 2007

**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.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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.

**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 end 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 nonexchange 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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.

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 (for Community Development Block Grant Program Fund) or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Child Care/Head Start Program Fund and Debt Service Fund).

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.

**Las Acerolas Project Fund:** is the accounting entity in which state grants, in accounted for. The uses and limitations of the fund is specified by state statutes.

**Loans and Bonds Fund:** is the accounting entity in which resource is derived from a loan of the Governmental Development Bank (GDB) related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by GDB 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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.

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 nonexchange 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).

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**COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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.

**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.

The following is a summary of the more significant policies:

**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 undisbursed 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**3. Interfund 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 interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due from/to other funds".

**4. 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>Useful Life</u>	<u>Capitalization Threshold</u>
Buildings and building improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of Art	10 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3-5 years	\$25

**5. 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.

**6. 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

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**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.

**7. 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  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**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.

**8. Interfund 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.

**9. 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, 2007 amounted to \$245,674. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$278,536 for workers compensation insurance covering all municipal employees.

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**COMMONWEALTH OF PUERTO RICO  
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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**10. 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.

**11. Future adoption of accounting pronouncements**

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

<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
48      Sales and Pledges of Receivables and Future Revenues and Intra- Entity Transfers of Assets and Future Revenues	2007-08
49      Accounting and Financial Reporting for Pollution Remediation Obligations	2007-08
50      Pension Disclosures -- an amendment of GASB Statement No. 25 and No. 27	2007-08
51      Accounting and Financial Reporting for Intangible Assets	2009-10

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

**12. 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:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA  
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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

<u>Net Assets invested in capital assets, net of related debt</u>	<u>Total Net Assets- Governmental Activities</u>
Capital Assets, net of depreciation	\$ 26,479,975
Deduct:	
Bonds and Notes Payable	(10,410,783)
	\$ 16,069,192
<b><u>Net Assets restricted for Debt Service</u></b>	<b>1,762,185</b>
Fund balance restricted for debt service	
	8,293,855
<b><u>Net Assets restricted for other purposes</u></b>	
Fund balance restricted for other purposes	
<b><u>Net Assets unrestricted (deficit)</u></b>	
General Fund – Total fund balance:	( 1,093,758)
Deduct:	
Compensated absences	( 1,851,922)
Landfill Obligation	(11,250,000)
Advances from CRIM (Law 42)	( 1,215,738)
Claims and Judgment	( 225,000)
Reservations of Fund Balance	( 22,687)
Other liabilities	( 1,101,024)
	( 16,760,129)
<b>Total net assets – governmental activities</b>	<b><u>\$ 9,365,103</u></b>

**NOTE B - DEPOSITS - CUSTODIAL CREDIT RISK**

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 \$6,255,008.

Deposits in governmental banks are uninsured and uncollateralized. At year end the Municipality's bank balance in governmental banks amounts to \$4,853,521.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES**

1. Amounts due from governmental entities as of June 30, 2007 follows:

	<b>General Fund</b>	<b>Other Non- Major Funds</b>
PR Power Electric Authority (PREPA)	\$ 1,667,865	\$ -
Department of Labor		146,766
Department of Family		3,608
Department of Housing and Urban Development		250,217
Department of Elderly Affairs		36,984
Department of Transportation (DTOP)		17,912
Department of Agriculture Federal		9,116
	<u>\$ 1,667,865</u>	<u>\$ 464,603</u>

2. Amounts due to governmental entities as of June 30, 2007 follows:

	<b>General Fund</b>
Puerto Rico Power Electric Authority (PREPA)	\$1,667,865
Department of Labor	16,581
Administration of General Services (ASG)	11,647
PR Aqueduct and Sewer Authority (PRASA)	47,045
Association of ELA Employees	12,915
PR Department of Treasury (PRDT)	703
Administration of Retirement System	224,034
	<u>\$1,980,790</u>

**COMMONWEALTH OF PUERTO RICO  
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**NOTE E - 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:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Other Non-Major Funds	\$ 509,863
Other Non-Major Funds	General Fund	644,154
Total:		<b>\$1,154,017</b>

**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.

<b>Transfer In</b>	<b>Transfer Out</b>	<b>Amount</b>
Debt Service	General Fund	\$ 51,785
General Fund	Debt Service	604,448
Total:		<b>\$ 656,233</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**NOTE F - CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended June 30, 2007 is as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 12,257,603	\$ -	\$ -	\$ 12,257,603
Construction in progress	432,203	1,508,590		1,940,793
<b>Total capital assets not being depreciated:</b>	<b>12,689,806</b>	<b>1,508,590</b>		<b>14,198,396</b>
Capital assets, being depreciated:				
Buildings and building improvements	7,396,731		10,645	7,386,086
Infrastructure and Infrastructure Improvements	6,991,435			6,991,435
Equipment	2,713,747	458,090	56,193	3,115,644
Furnishing	457,734	46,482	7,754	496,462
Works of Art	45,885			45,885
Computers	541,798	93,155	14,166	620,787
Vehicles	5,195,846	416,590		5,612,436
<b>Total capital assets being depreciated</b>	<b>23,343,176</b>	<b>1,014,317</b>	<b>88,758</b>	<b>24,268,735</b>
Less accumulated depreciation for:				
Buildings and building improvements	(2,673,527)	(184,918)	3,836	(2,854,609)
Infrastructure and Infrastructure Improvements	(801,092)	(414,912)		(1,216,004)
Equipment	(2,355,714)	(228,919)	54,182	(2,530,451)
Furnishing	(352,660)	(43,891)	7,616	(388,935)
Works of Art	(38,714)	(4,677)		(43,391)
Computers	(446,503)	(65,361)	14,166	(497,698)
Vehicles	(4,000,082)	(455,986)		(4,456,068)
<b>Total accumulated depreciation</b>	<b>(10,668,292)</b>	<b>(1,398,664)</b>	<b>79,800</b>	<b>(11,987,156)</b>
<b>Total capital assets being depreciated, net</b>	<b>12,674,884</b>	<b>(384,338)</b>	<b>8,958</b>	<b>12,281,580</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 25,364,690</b>	<b>\$ 1,124,252</b>	<b>\$ 8,958</b>	<b>\$ 26,479,975</b>

**COMMONWEALTH OF PUERTO RICO  
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Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	\$ 329,723
Public works	670,070
Public safety	88,874
Culture and recreation	249,530
Health & Welfare	24,796
Community development	35,671
	<hr/>
Total depreciation expense, governmental activities	<u>\$1,398,644</u>

**NOTE G - 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, 2007:

	<u>Balance at July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2007</u>	<u>Due within one year</u>
General, Special Obligations Bonds and Notes	\$ 8,423,914	\$ 2,835,000	\$ 848,131	\$ 10,410,783	\$ 875,783
Advances from CRIM Compensated Absences	1,225,519		9,781	1,215,738	
Claims and Judgments	1,662,832	189,090		1,851,922	
Landfill Obligation	225,000			225,000	
PR Health Insurance Administration	11,250,000			11,250,000	
Other Liabilities	541,404		215,584	325,820	
	<u>1,198,456</u>	<u>485</u>	<u>423,738</u>	<u>775,204</u>	
	<u>\$ 24,527,126</u>	<u>\$ 3,024,575</u>	<u>\$ 1,497,234</u>	<u>\$ 26,054,467</u>	<u>\$ 875,783</u>

**COMMONWEALTH OF PUERTO RICO  
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YEAR ENDED JUNE 30, 2007**

**NOTE G - 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, 2007 amount to \$10,410,783. 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 sent 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, 2007 follows:

	<b>Outstanding Amount</b>
1988 special obligation bonds of \$62,623 due in annual installments of \$3,131, bearing interest at 8.0%.	\$ 783
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%.	105,000
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%.	245,000
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%.	380,000
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%.	150,000
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%.	260,000
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%.	590,000

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**NOTE G - LONG TERM DEBT - Continued**

	<u>Outstanding Amount</u>
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%.	985,000
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%.	515,000
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%.	455,000
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%.	815,000
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%.	405,000
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%.	1,655,000
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%.	115,000
2006 general obligation bonds of \$1,025,000 due in annual installments ranging from \$30,000 to \$70,000, through July 1, 2017, bearing interests ranging from 5.00% to 6.50%	900,000
2007 general obligation bonds of \$2,275,000 due in annual installments ranging from \$35,000 to \$185,000 through July 1, 2031, bearing interests ranging from 6.62% to 7.00%	2,275,000
2007 general obligation bonds of \$560,000 due in annual installments ranging from \$65,000 to \$95,000 through July 1, 2013, bearing interests ranging from 6.62% to 7.00%	<u>560,000</u>
	<u>\$10,410,783</u>

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**NOTE G - LONG TERM DEBT - Continued**

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2007 follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 875,783	\$ 585,968
2009	840,000	547,397
2010	900,000	505,336
2011	925,000	452,343
2012	1,260,000	622,812
2013-2017	2,374,000	848,310
2018-2022	1,861,000	1,069,844
2023-2027	570,000	386,750
2028-2033	805,000	148,575
Totals	<u>\$ 10,410,783</u>	<u>\$ 5,167,336</u>

3. **Advances from CRIM** -- This amount represents the balance owed to CRIM at June 30, 2007 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 \$1,851,922 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 \$11,250,000 as the Municipality's estimated current costs for landfill closure and post-closure costs as of June 30, 2007. 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. **Other Obligations** -- This amount represents the balance owed at June 30, 2007 to the following activities: Solid Waste Authority, Puerto Rico Treasury Department, and Municipal Revenue Collection Center (CRIM).

**COMMONWEALTH OF PUERTO RICO  
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**NOTE H - 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 1<sup>st</sup> and January 1<sup>st</sup>.

The tax rates in force as of June 30, 2007 are 8.83% for real property (of which 8.63% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.83% for personal property (of which 6.63% 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 8.00% and 6.00%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6.00% on real property and 4.00% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 2.00% 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 \$317,640 resulting from the final settlement for fiscal year 2006-2007. The total amount is recorded as a receivable in the government-wide statement.

**NOTE I - 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.

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**NOTE I – MUNICIPAL LICENSE TAXES - Continued**

During the fiscal year ended June 30, 2007 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 the next five (5) working days after April 15. Municipal license tax returns collected prior to June 30, 2007, but pertaining to the next year is recorded as deferred revenues for the amount of \$1,048,321.

**NOTE J – SALES AND USE TAXES**

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

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over the all sales transactions of taxable items and combined transactions (as defines by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the all purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return of the Municipality. Tax is due each 20<sup>th</sup> day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

**NOTE K - INTERGOVERNMENTAL REVENUES**

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

	<b>Amount</b>
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$ 1,711,952
Christmas Bonus Compensation from Department of Treasury (Hacienda)	204,497
Compensation and subsidy from the State Government	4,507,403
<b>Total</b>	<b>\$ 6,423,852</b>

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**NOTE L - 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 non 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 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

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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.

**NOTE M - COMMITMENTS**

***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 N - 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, 2007 and a legal claim in which an unfavorable outcome is 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. During the fiscal year ending 2006-07 an unfavorable legal outcome was incurred by the general fund for the amount of \$135,000. This amount is presented on the liability section of the governmental funds.

**NOTE O - RESTATEMENTS**

**1. *Fund Balance***

The beginning fund balance of the other governmental funds was restated to correct an overstatement of the deferred revenues in the total amount of \$194,581. The following schedule reconciles the fund balance at June 30, 2007 as previously reported to the beginning fund balance, as restated:

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MUNICIPALITY OF TOA ALTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**NOTE O – RESTATEMENTS – Continued**

Fund	Prior Period Adjustments		
	Balance at Beginning of Year As previously Reported	Correction Errors	Balance at Beginning of Year as Restated
Other Governmental Funds	\$ 4,819,635	\$ 194,581	\$ 5,014,216

**2. Net Assets**

Net assets at beginning of year have been adjusted to reflect the following restatements:

Net assets at beginning of year, as previously reported	\$ 7,425,707
To adjust deferred revenue	<u>194,581</u>
Net assets at beginning of year, as restated	<u>\$ 7,620,288</u>

**NOTE P – SUBSEQUENT EVENTS**

On July 20, 2007, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 80 ("the Act"), in order to make mandatory in all municipalities of Puerto Rico the imposition of a uniform municipal tax 1.5% from which the municipalities shall collect 1% of the sales and use tax pursuant to what is established in Sections 2410 and 6189 of Act No. 117 of July 4, 2006, known as the "Taxpayer's Justice Act of 2006", which may be levied discretional through municipal legislation, on food and food ingredients and to provide for the collection by the Secretary of the Treasury of the remaining 5% without including food and food ingredients to be used in accordance with the purposes established in the Act; to provide for the establishment of the of the Municipal Development Fund, The Municipal Redemption Fund and the Municipal Improvement Fund, as well a for matters relative to the purposes, implementation and administration of said funds and to provide for the establishment of the necessary mechanics for the collection of the municipal tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sale and use tax to consumers. The tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price of the use, storage, or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

**PART II - SINGLE AUDIT SECTION**

**-39-**

**ORTIZ, RIVERA, 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, 2007**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Direct programs:		
Community Development Block - Grants Entitlement Grants	14.218	\$ 2,470,642
Section 8 Housing Choice Vouchers	14.871	974,195
Pass-through the Commonwealth of Puerto Rico, Municipality of San Juan:		
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	10,206
Subtotal U.S. Department of HUD		<u>3,455,043</u>
<b>U.S. Department of Agriculture</b>		
Pass-through the Education Department:		
Child and Adult Care Food Program	10.558	22,757
Subtotal U.S. Department of Agriculture		<u>22,757</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through the Commonwealth of Puerto Rico Governor's Office (Elderly Affairs Office):		
Special Programs for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	28,538
Special Programs for the Aging Title III, Part C, Nutrition Services	93.045	64,571
Nutrition Services Incentive Program	93.053	31,686
Pass-through the Office of Administration for Children and Families		
Community Services Block Grant	93.571	25,716
Child and Care and Development Block Grant	93.575	224,516
Subtotal U.S. Department of HHS		<u>375,027</u>
<b>U.S. Department of Homeland Security</b>		
Direct program:		
Homeland Security Grant Program	97.067	21,390
Subtotal U.S. Department of Homeland Security		<u>21,390</u>
<b>TOTAL</b>		<u>\$ 3,874,217</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, 2007**

**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:

	<b><u>Expenditures</u></b>
Total federal expenditures per schedule	<b><u>\$3,874,217</u></b>
Federal expenditures per basic financial statements included within:	
Special Revenue Fund - Other Non-Major Funds	<b><u>\$3,874,217</u></b>



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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, 2007, which collectively comprise the Municipality of Toa Alta's basic financial statements, and have issued our report thereon dated December 12, 2007. 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 a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Toa Alta's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Toa Alta's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality of Toa Alta's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Municipality of Toa Alta's financial statements that

is more than inconsequential will not be prevented or detected by Municipality of Toa Alta's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Municipality of Toa Alta's internal control.

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

### 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 of 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*.

However, we noted certain immaterial instances of noncompliance, which we have reported to management of Municipality of Toa Alta in a separate letter dated December 12, 2007.

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, 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 12, 2007

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to the original of this report





ORTIZ, RIVERA, 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, 2007. Municipality of Toa Alta's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of 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.

In our opinion, 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, 2007.

### Internal Control over Compliance

The management of Municipality of Toa Alta is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, 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 12, 2007

*Ortiz, Rivera, Rivera & Co.*

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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, 2007**

**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 significant deficiencies 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 no significant deficiencies 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 an unqualified opinion.
- f. The auditors did not find any condition that requires disclosure as per Section .510 of OMB Circular A-133.
- g. The program tested as major program includes:
  - Section 8 Housing Choice Voucher - CFDA No. 14.871
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Toa Alta was determined to be a low-risk auditee.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

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

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, 2007**

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, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p><b>Child Care - CFDA No. 93.575</b></p>	<p><b>Condition 05-3</b></p> <p>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.</p>	<p>Condition was not observed.</p>
<p><b>Child Care - CFDA No. 93.575</b></p>	<p><b>Condition 05-5</b></p> <p>The Municipality performed disbursements with current funds, expenditures that belongs to the following period. The Municipality did not liquidate all obligations before the 90 days after year ended.</p>	<p>Condition was not observed.</p>