

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE TOA BAJA

AUDITORIA 2000-01

30 DE JUNIO DE 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF TOA BAJA

FINANCIAL STATEMENTS

JUNE 30, 2001

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2001

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report on General Purpose Financial Statements	1-2
General Purpose Financial Statements:	
❖ Combined Balance Sheet - All Governmental Fund Types and Accounts Groups	3-4
❖ Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types	5-6
❖ Statement of Revenues, Expenditures Budget and Actual - General and Debt Services Funds	7-8
Notes to General Purpose Financial Statements	9-29
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	30-31
Report on Compliance with Requirements Applicable to each major program and on internal control Over Compliance in Accordance with OMB Circular A-133	32-34
Schedule of Findings and Questioned Cost	35-61
Schedule of Expenditures of Federal Awards	62-63
Notes to Schedule of Expenditures of Federal Awards	64-65
Schedule of Prior Years Audit Findings	66-71



Ramón L. Marrero Rosado

Certified Public Accountant

P.O. Box 50764 Toa Baja, P.R 00950-0764 Tel.(787) 269-6911 Fax:(787) 269-6915

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
the Municipal Assembly
Municipality of Toa Baja
Toa Baja, Puerto Rico

I have audited the accompanying general-purpose financial statements of the Municipality of Toa Baja, as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Municipality of Toa Baja management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

Except as discussed in the following paragraphs, I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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 the significant estimates made by management, as well as evaluating the overall financial statements presentation. I believe that my audit provides a reasonable basis for my opinion.

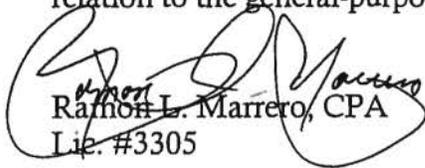
As more fully described in Note 7, my audit of the general purpose financial statements did not include the financial activities of the Municipality's general fixed assets account group because I was unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group at June 30, 2001.

In my opinion, except for the effect of such adjustments, if any as might have been determined to be necessary, had I been able to audit the adequacy of the General Fixed Assets Account Group, the general purpose financial statements referred to in the first paragraph present fairly, in all material respect, the financial position of the Municipality of Toa Baja, Puerto Rico as of June 30, 2001, and the results of its

operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated December 7, 2001 on my consideration of the Municipality of Toa Baja internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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 Organization, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in my opinion, is fairly stated, in all material respect, in relation to the general-purpose financial statements taken as a whole.


Ramon L. Marrero, CPA
Lic. #3305

December 7, 2001
Bayamón, Puerto Rico



NOTE: Stamp No. 1765908 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF TOA BAJA, PUERTO RICO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNTS GROUPS
 JUNE 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>				<u>ACCOUNT GROUPS</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Long-Term Debt</u>	<u>General Fixed Assets</u>	<u>Totals (Memorandum Only)</u>
<u>ASSETS AND OTHER DEBITS</u>							
Cash	\$ 5,607,947	\$ 2,849,847		\$ 342,658			\$ 8,800,452
Cash with Fiscal Agents			\$ 5,818,705				5,818,705
Receivables:							
Rent	2,521,837						2,521,837
Other Funds	122,385	4,720,354					4,842,739
Federal Agencies		397,259					397,259
Excise Tax	661,251						661,251
Sales Taxes	93,384						93,384
Other	1,222,765	196,606					1,419,371
Property, Plant and Equipment						\$ 72,870,666	72,870,666
Amount Available in Debt Service Fund					\$ 5,818,705		5,818,705
Amount to be Provide For:							
Retirement of General and Special Long-Term Bonds and Notes					40,103,401		40,103,401
Claims and Judgments					2,259,090		2,259,090
Retirement of Note Under Loan Guarantee Agreement from Federal Agency					5,310,000		5,310,000
Payment of Vested Compensates Absences					3,775,801		3,775,801
Payment of Landfill Closure and Post-Closure Care Costs					10,791,106		10,791,106
 Total Assets and Other Debits	 <u>\$ 10,229,569</u>	 <u>\$ 8,164,066</u>	 <u>\$ 5,818,705</u>	 <u>\$ 342,658</u>	 <u>\$ 68,058,103</u>	 <u>\$ 72,870,666</u>	 <u>\$ 165,483,767</u>

See accompanying notes and accountants' report, which are an integral part of the general purpose financial statements.

MUNICIPALITY OF TOA BAJA, PUERTO RICO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNTS GROUPS (CONTINUED)
 JUNE 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>				<u>ACCOUNT GROUPS</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Long-Term Debt</u>	<u>General Fixed Assets</u>	<u>Totals (Memorandum Only)</u>
<u>LIABILITIES AND OTHER CREDITS AND FUND EQUITY (DEFICIT)</u>							
<u>LIABILITIES AND OTHER CREDITS</u>							
Accounts Payable	\$ 7,858,005	\$ 982,437					\$ 8,840,442
Due to:							
Other Funds	4,720,354	122,385					4,842,739
Other Governmental Units	3,438,062						3,438,062
Federal Agencies		235,618					235,618
Deferred Revenues:							
Volume of Business Tax	7,864,657						7,864,657
Special Funds		2,224,320					2,224,320
Federal Awards		883,774	\$ 342,658				1,226,432
Funds From Long-Term Loans with GDB							
Long-Term Debt:							
General Obligation Bonds and Notes					\$ 38,717,106		38,717,106
Claims and Judgments					2,259,090		2,259,090
Special Obligation Bonds and Notes					7,205,000		7,205,000
Federal Loans-Promissory Notes					5,310,000		5,310,000
Vested Compensates Absences					3,775,801		3,775,801
Landfill Closure and Post-Closure Care Costs					10,791,106		10,791,106
Total Liabilities and Other Credits	<u>23,881,078</u>	<u>4,448,534</u>	<u>-</u>	<u>342,658</u>	<u>68,058,103</u>	<u>-</u>	<u>96,730,373</u>
<u>FUND EQUITY (DEFICIT)</u>							
Investment in Property, Plant and Equipment						72,870,666	72,870,666
Fund Balances/(Deficit):							
Reserved for Encumbrances							
Unreserved:							
Designates for Debt Service			5,818,705				5,818,705
Designates for Subsequent Year Expenditures		3,715,532					3,715,532
Undesignated	(13,651,509)						(13,651,509)
Total Fund Equity (Deficit)	<u>(13,651,509)</u>	<u>3,715,532</u>	<u>5,818,705</u>	<u>-</u>	<u>-</u>	<u>72,870,666</u>	<u>68,753,394</u>
Total Liabilities and Other Credits, and Fund Equity	<u>\$ 10,229,569</u>	<u>\$ 8,164,066</u>	<u>\$ 5,818,705</u>	<u>\$ 342,658</u>	<u>\$ 68,058,103</u>	<u>\$ 72,870,666</u>	<u>\$ 165,483,767</u>

See accompanying notes and accountants' report, which are an integral part of the general purpose financial statements.

MUNICIPALITY OF TOA BAJA, PUERTO RICO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE (DEFICITS) - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<u>REVENUES</u>					
Property Taxes	\$ 15,053,854		\$ 6,182,245		\$ 21,236,099
Volume of Business Taxes	9,676,040				9,676,040
Federal Assistance		\$ 9,414,429		\$ 1,388,983	10,803,412
Intergovernmental	5,084,475	2,569,416			7,653,891
Licenses and Permits	1,127,017				1,127,017
Fines and Forfeits	86,448				86,448
Rent	10,443,793				10,443,793
Others	5,285,567				5,285,567
Total Revenues	<u>46,757,194</u>	<u>11,983,845</u>	<u>6,182,245</u>	<u>1,388,983</u>	<u>66,312,267</u>
<u>EXPENDITURES</u>					
Current:					
Mayor and Municipal Assembly	2,764,115				2,764,115
General Government	22,269,635	194,232			22,463,867
Public Works	3,653,576				3,653,576
Culture and Recreation	1,255,577				1,255,577
Health and Sanitation	11,492,812	29,029			11,521,841
Human Services and Welfare	6,335,331	8,949,236			15,284,567
Planning and Development	353,536				353,536
Permanent Improvements		738,340		1,592,107	2,330,447
Others		1,711,864			1,711,864
Debt Service:					
Principal Retirement-Bonds and Notes			47,894		47,894
Interests			1,447,607		1,447,607
Total Expenditures	<u>48,124,582</u>	<u>11,622,701</u>	<u>1,495,501</u>	<u>1,592,107</u>	<u>62,834,891</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ (1,367,388)</u>	<u>\$ 361,144</u>	<u>\$ 4,686,744</u>	<u>\$ (203,124)</u>	<u>\$ 3,477,376</u>

See accompanying notes and accountants' report, which are an integral part of the general purpose financial statements.

MUNICIPALITY OF TOA BAJA, PUERTO RICO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE (DEFICITS) - ALL GOVERNMENTAL FUND TYPES (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<u>OTHER FINANCING SOURCES (USES)</u>					
Expended from Long-Term Debt				\$ 1,495,501	\$ 1,495,501
Operating Transfer-In			\$ 868,580		868,580
Operating Transfer-Out	\$ (1,495,501)	\$ (868,580)			(2,364,081)
 Total Other Financing Sources (Uses)	 (1,495,501)	 (868,580)	 868,580	 1,495,501	 -
 Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	 (2,862,889)	 (507,436)	 5,555,324	 1,292,377	 3,477,376
 Net Change in Unreserved Fund Balances (Deficit)	 (2,862,889)	 (507,436)	 5,555,324	 1,292,377	 3,477,376
 Fund Balances (Deficit) at Beginning of Year, as previously Reported	 (16,221,262)	 6,184,850	 6,950,666		 (3,085,746)
 Prior Period Adjustments (Note Fund Balances (Deficit) at Beginning of Year, as adjusted	 5,432,642	 (1,961,882)	 (6,687,285)	 (1,292,377)	 (4,508,902)
	 (10,788,620)	 4,222,968	 263,381	 (1,292,377)	 (7,594,648)
 Fund Balances (Deficit) at End of Year	 \$ (13,651,509)	 \$ 3,715,532	 \$ 5,818,705	 \$ -	 \$ (4,117,272)

See accompanying notes and accountant's report, which are an integral part of the general purpose financial statements.

MUNICIPALITY OF TOA BAJA, PUERTO RICO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES AND CHANGES
 IN FUND BALANCE (DEFICITS) - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL AND DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>GENERAL</u>			<u>DEBT SERVICE</u>		
	Final Amended Budget	Actual	Variance Favorable (Unfavorable)	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property Taxes	\$ 9,348,635	\$ 9,355,051	\$ 6,416	\$ 4,534,463	\$ 4,534,463	\$ -
Sales Taxes	19,588,317	19,588,317	-			
Licenses & Permits	597,633	613,133	15,500			
Rent	12,366,924	9,789,099	(2,577,825)			
Intergovernmental	1,529,583	-	(1,529,583)			
Fines & Forfeits	83,752	86,448	2,696			
Miscellaneous	1,375,642	1,424,817	49,175			
Total Revenues	<u>44,890,486</u>	<u>40,856,865</u>	<u>(4,033,621)</u>	<u>4,534,463</u>	<u>4,534,463</u>	<u>-</u>
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Assembly	2,782,517	2,764,115	18,402			
General Government	18,817,636	17,062,849	1,754,787			
Public Works	1,963,443	3,641,585	(1,678,142)			
Culture and Recreation	1,264,196	1,255,577	8,619			
Health and Sanitation	12,061,764	11,492,812	568,952			
Human Services and Welfare	5,597,662	6,335,332	(737,670)			
Planning and Development	2,403,268	353,536	2,049,732			
Debt Service				4,534,463	5,064,989	(530,526)
Total Expenditures and Encumbrances	<u>44,890,486</u>	<u>42,905,806</u>	<u>1,984,680</u>	<u>4,534,463</u>	<u>5,064,989</u>	<u>(530,526)</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures and Encumbrances	<u>\$ -</u>	<u>\$ (2,048,941)</u>	<u>\$ (2,048,941)</u>	<u>\$ -</u>	<u>\$ (530,526)</u>	<u>\$ (530,526)</u>

See accompanying notes and accountants' report, which are an integral part of the general purpose financial statements.

MUNICIPALITY OF TOA BAJA, PUERTO RICO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES AND CHANGES
 IN FUND BALANCE (DEFICITS) - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>GENERAL</u>			<u>DEBT SERVICE</u>		
	Final Amended Budget	Actual	Variance Favorable (Unfavorable)	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Other Financial Sources (Uses):						
Deficit Reserves	\$ 245,000	\$ -	\$ 245,000			
Excess (Deficiency) Of Revenues and other sources over (under) expenditures and other uses	<u>-</u>	<u>2,926,891</u>	<u>2,926,891</u>			
Net Change during the year in reserve for encumbrances		-			-	
Other GAAP Adjustments to Revenues						
Operating Transfer-In		-				
Operating Transfer-Out		(1,495,501)			868,580	
Other GAAP Adjustments to Expenditures		(2,862,889)			5,555,324	
Fund Balance (Deficit) at Beginning of Year as Restated		<u>(10,788,620)</u>			<u>263,381</u>	
Fund Balance (Deficit) at End of Year		<u>\$ (13,651,509)</u>			<u>\$ 5,818,705</u>	

See accompanying notes and accountants' report, which are an integral part of the general purpose financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the government of the Commonwealth of Puerto Rico under Law no. 81 of August 30, 1991 known as "Autonomous Municipality". The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The enclosed financial statements had been prepared in conformity with the statements on Standards for Accounting and Review Services, issued by the American Institute of Certified Public Accountants (AICPA), and the Government Accounting and Financial Reporting Standards issued by Governmental Accounting Standards Board (GASB). A summary of significant accounting policies follows:

Summary of Significant Accounting Policies

The accounting policies of the Municipality conform to generally accepted accounting principles as applicable to government units. The following is a summary of the significant accounting policies:

A) Reporting Entity

The Municipality of Toa Baja was established in the year of 1745. The governmental system of the municipality is composed of the executive and legislative bodies. The mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 16 assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A) Reporting Entity (Continued)

The general purpose financial statements presents the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the Municipality of Toa Baja, Puerto Rico. This includes the organizational units governed by the Executive Officers and members of the municipal assembly of the Municipality of Toa Baja, Puerto Rico. The Municipality of Toa Baja, Puerto Rico, has no oversight responsibility or authority over any other governmental entity, since no other entities are considered to be controlled by or dependent on the Municipality. Control or dependency is determined using the following criteria:

- Selection of unit's governing board.
- Management designation of the unit.
- Significant influence.
- Accountability for fiscal matters.
- Scope of public service of the unit.
- Any other relationship, which in substance, implies control or dependency.

B) Fund Accounting

The Municipality accounts are organized on the basis of fund and accounts groups, each of which is considered a separated accounting entity. Each fund operations are accounted by its own groups of self-balancing accounts that comprised its assets, liabilities, fund balances, revenues and expenditures. The Municipality funds are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The individuals funds are grouped in the financial statements by fund types as follow:

Governmental and Debt Service Fund

Governmental funds are those through which most governmental functions are financed. The acquisition, use, the balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental funds:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B) Fund Accounting- Continued

Governmental and Debt Service Fund (Continued)

- General Fund - The general fund is the principal fund of the Municipality. It is used to record all the financial resources and the majority of current operations except for those of specific nature that must be recorded in other funds.
- Special Revenue - Is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- Debt Service Fund - In the debt service fund the accumulation of resources assigned for the payment of principal, interest and related cost of the bonds payable and other obligations are recorded.
- Capital Projects - Is used to account for financial resources reserved for the acquisition or construction of major capital facilities.

Accounts Groups

The accounts groups are not funds; they are used to establish accounting controls and to account for general fixed assets and long term general debts of the Municipality. The following are the municipality's account groups:

- General Fixed Assets -The general fixed assets account group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than buildings, furniture and fixtures, equipment and motor vehicles acquired or constructed by the municipality). Public domain ("infrastructure") fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalized in the General Fixed Assets Account Group. Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest on financing during the construction period will not be capitalized in the General Fixed Assets Account Group.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B) Fund Accounting – Continued

Accounts Groups

- General Long-Term Debt - Is used to account for all long-term debt obligations of the Municipality.

C) Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting and the governmental fund types are used in the preparation of the general-purpose financial statements. With the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available, means collectible within the current period or soon enough thereafter, normally within the next two or three months, to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid sick leave and other employee amounts which are not accrued (Note 1G); and (2) principal and interest on long-term debt, which is recognized when due.

Intergovernmental revenues and federal awards received from the federal government are recorded following the applicable legal and contractual requirements. Essentially, there are two types of revenues; (1) revenues recognized based upon the expenditures recorded. This occurs when moneys must be expended on the specific purpose of project before any amounts will be paid to municipality. Similarly, if cost sharing or matching requirements exist, revenue recognition depends upon compliance with these requirements; and (2) resources reflected as revenues at the time of receipt or earlier, if susceptible to accrual. These apply to moneys virtually unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C) Basis of Accounting-Continued

Property taxes are recognized as revenues when collected by the Collection Center of Municipal Revenues (CRIM) of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years (see Note 2). Licenses and permits, fines and forfeits and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

D) Encumbrances

Encumbrance accounting is employed in the governmental fund types. Under the encumbrance system all purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and they do not constitute expenditures or liabilities since the commitments will be honored during subsequent year. Encumbrances constitute expenditures for budgetary purposes only, and, accordingly, are reported with expenditures in all budgetary basis statements. The Municipality's records shows encumbrances amounting to \$ 5,873,042 as of June 30, 2001. However, no reserve for encumbrances is presented in the general purpose financial statements for the fiscal year ended June 30, 2001, since the General Fund shows a deficit as of this date.

E) Budgetary Data

The municipality annual budget represents departmental appropriations recommended by the Mayor and the means of financing them. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general purpose financial statements:

- Prior to May 15 of each fiscal year, the mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly as the authority to make necessary amendments to the budget, including budgetary transfers. Amendments made during

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E) Budgetary Data-Continued

- fiscal year are reflected in the budget information included in the general-purpose financial statements.

The accompanying combined financial statement of revenues, expenditures and encumbrances and changes in fund balance (deficits) – budget and actual, is presented on the budgetary basis to enhance comparability, since the budgetary basis followed by Municipality differs from generally accepted accounting principles (GAAP).

F) Inventories

The general and special revenue funds purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the general-purpose financial statements.

G) Vested Compensated Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually.

Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all part of the sick leave terminates all rights for compensation, except for employees with ten years of services who are entitled to sick leave pay up to the maximum allowed.

The municipality accrues a liability for compensated absences, which meet the following criteria:

- The municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

G) Vested Compensated Absences-Continued

In accordance with the above criteria, the municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. A liability for compensated absences, which will not require the use of expendable available financial resources are included in the general long – term debt account group. The estimated total cost of compensated absences that will require the use of current expendable resources is included as an accrued liability in the general fund.

H) Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the municipality's insurance coverage. Premiums payable are withheld in the Collection Center of Municipal Revenues (CRIM) from monthly advance of property tax and subsidy send to the municipality.

I) Use of Estimates

The preparation of general-purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure be made of contingent assets and liabilities at the date financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

J) Total (Memorandum only) Columns

Total columns on the general-purpose combined financial statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles, neither is such data comparable to a consolidation. Inter-fund elimination had not been made in the aggregation of this data.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 2 – PROPERTY TAXES (CONTINUED)

The Collection Center of Municipal Revenues (CRIM) is responsible for the assessment of all real and personal property located within the Municipality of Toa Baja. Law number 81, approved on August 30, 1991, named Autonomous Municipalities of the Commonwealth of Puerto Rico Act of 1991, authorizes the municipalities of Puerto Rico to levy a tax contribution over all properties within the territorial limits of the Municipality. Nevertheless, CRIM is responsible for the administration and collection of the corresponding tax contribution, during such fiscal year.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current date of the assessment.

Law Number 83, approved on August 30, 1991, named Municipal Property Tax law of 1991, Article 2.01, authorizes the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a basic property tax contribution of up 4% annually, over the assessed value of all real and non – exonerated property within the municipality, in addition to other contributions imposed based on laws in force. Also, law Number 83, in Article 2.02, authorizes the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a special contribution of up to 1.03% annually, over the assessed value of all real, personal and non-exonerated property within the Municipality, to be applied to the amortization of general long – term obligations. This special contribution is also in addition to other contribution imposed based on laws in force.

Based on Articles 2.01 and 2.02 of law number 83, Municipality of Toa Baja, Puerto Rico, through ordinance number 30, series 1992-93, approved by Mayor on December 24, 1992, imposed property tax rates over the assessed value of all real and personal property within the Municipality. The tax rates are detailed as follows:

	<u>Personal Property</u>	<u>Real Property</u>
Basic Contribution	4.00%	6.00%
Additional Special State Contribution	1.03	1.03
Additional Special Municipal Contribution	1.25	1.25

	6.28	8.28
Discount Granted by Central Government	(.20)	(.20)
	-----	-----
Effective Tax Rates Applicable to Taxpayers	<u>6.08%</u>	<u>8.08%</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 2 – PROPERTY TAXES (CONTINUED)

This tax rates were made effective beginning on January 1, 1994, over the assessed value of property as of such date, and for each subsequent fiscal year, and their collection started after July 1, 1994, by CRIM.

The Commonwealth of Puerto Rico grants a complete real property tax exoneration on the first \$ 15,000 of assessed valuation on residential units occupied by their owners. However, the municipality receives the full amount levied, except for residential units assessed at less than \$ 3,500 on which a complete exemption is granted. The CRIM, instead of the property taxpayer, becomes the source of payment in these cases.

Those retailers with an annual net sales volume of less than \$ 100,000 receive a complete exemption from personal property taxes up to an assessment value of \$ 20,000 is granted by the municipality.

The CRIM sends to the Municipality of Toa Baja, on monthly payments, 100% of the estimate, made at beginning of fiscal year, of the contribution assessed over property to be collected for the municipality. Within ninety (90) days after fiscal year end, CRIM will prepares a final analysis of funds distributed to the municipality, and the actual funds collected. If less funds were distributed, than the actual amount collected by CRIM, they, through the Government Development Bank of Puerto Rico (GDB), will send to the Municipality the remaining balance. If funds were distributed in excess of the amounts that actually correspond to the Municipality, CRIM informs to the GDB in order to retain from future monthly payments, the amounts send in excess.

The Municipality of Toa Baja recognized as revenue in the general fund, the exonerated portion of property tax contribution when received from monthly notifications from CRIM.

NOTE 3 – VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 15 of each year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 3 – VOLUME OF BUSINESS TAX (CONTINUED)

- For taxpayers engaged in any type of business, except financial institutions, sales tax to be paid is 0.50% of 1.00% of his business volume during fiscal year 1993-94, and beyond.

During fiscal year 1992-93, tax rates increased through ordinance number 29, series 1992-93 approved on December 1992, as follows:

This tax rates were effective for fiscal year 1993-94. This increase in tax rates is permitted through sales tax Law # 113, of 1974, as amended by sales tax Law # 82 approved on August 30, 1991.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid before their maturity, the taxpayer is granted certain discounts.

Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the general fund.

NOTE 4 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Electric Power Authority and the Telephone Authority, and federal awards received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements, and to finance certain operations of the Health Department for medical services.

All of these intergovernmental revenues are accounted for through the general fund except for those directly related to urban development and capital improvements, which are accounted for through the special revenue and capital projects funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSES FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 5 – GENERAL AND SPECIAL OBLIGATIONS – BONDS AND NOTES
(CONTINUED)

The principal long – term obligations of the Municipality are general obligation bonds and notes issued to finance the construction and improvements of public facilities and special obligation notes issued for repayment of operational debts. The Municipality’s general obligation long – term debt retirements are appropriated and paid from resources accumulated in the debt service fund (see Note 6). The special obligation long – term debt retirements are paid through retention made by the CRIM from monthly advance of property tax and subsidy send to the municipality.

General and special obligation bonds and notes as of June 30, 2001, are composed of the following individual issues:

General Obligations – Bonds and Notes

\$ 815,000, series 1992, payable in annual installments ranging from \$ 50,000 to \$ 115,000, through July 1, 2002; interest ranging from 5% to 7%.	\$ 115,000
\$ 9,725,000, series 1994, payable in annual installments ranging from \$ 135,000 to \$ 850,000, through July 2019; interest at 8%.	8,535,000
\$ 8,150,000, series 1994, payable in annual installments ranging from \$ 300,000 to \$ 880,000, through July 2009; interest at 12%.	5,470,000
\$ 1,670,000, series 1994, payable in annual installments ranging from \$ 25,000 to \$ 145,000, through July 2019; interest ranging from 6.15% to 8.206%.	1,465,000
\$ 5,100,000, series 1994, payable in annual installments ranging from \$ 185,000 to \$ 550,000 through July 1, 2009; interest ranging from 6.106% to 6.580%.	3,425,000
\$ 2,755,000, series 1994, payable in annual installments ranging from \$ 60,000 to \$ 265,000 through July 1, 2014; interest ranging from 7.250% to 6.580%.	2,220,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 5 – GENERAL AND SPECIAL OBLIGATIONS – BONDS AND NOTES
(CONTINUED)

<p>\$ 1,540,000, series 1994, payable in annual installments ranging from \$ 170,000 to \$ 240,000 through July 1, 200; interest ranging from 5.400% to 6.875%.</p>	<p>\$ 1,385,000</p>
<p>\$ 1,020,000, series 1996, payable in annual installments ranging from \$ 40,000 to \$ 135,000 through ranging from 4.700% to 8.00%.</p>	<p>800,000</p>
<p>\$ 705,000, series 1998, payable in annual installments ranging from \$ 120,000 to \$ 165,000 through July 1, 2002; interest ranging from 6.060% to 6.812%.</p>	<p>165,000</p>
<p>\$ 3,530,000 series, 1998, payable in annual installments ranging from \$ 145,000 to \$ 305,000 through July 1, 2020; interest ranging from 6.000% to 7.080%.</p>	<p>3,265,000</p>
<p>\$ 1,310,000 series 1999, payable in annual installments ranging from \$ 45,000 to \$ 175,000 through July 1, 2005; interest ranging from 6.000% to 7.45%.</p>	<p>825,000</p>
<p>\$ 5,075,000 series 1999, payable in annual installments ranging from \$ 195,000 to \$ 540,000 through July 1, 2015 interest ranging from 6.16% to 11.06%.</p>	<p>4,545,000</p>
<p>\$ 1,500,000, series 1999, payable in annual installments ranging from \$ 44,000 to \$ 108,000 through June 2019; interest at 4.5%.</p>	<p>1,362,106</p>
<p>\$ 3,470,000, series 2000, payable in annual installments ranging from \$ 140,000 to \$ 355,000 through June 2014, interest at approximately 8%.</p>	<p>3,180,000</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 5 – GENERAL AND SPECIAL OBLIGATIONS – BONDS AND NOTES
(CONTINUED)

\$ 605,000, series 2000; payable in annual installments ranging from \$ 70,000 to \$ 105,000 through June 2006, interest at approximately 8%. \$ 460,000

\$ 655,000, series 2000, payable in annual installments ranging from \$ 25,000 to \$ 70,000 through July 1, 2015; interest ranging from 5.88% to 8%. 630,000

\$ 875,000, series 2000, payable in annual installments ranging from \$ 5,000 to \$ 75,000 through July 2025; interest ranging from 5.88% to 8%. 870,000

Total general Obligations – Bonds and Notes 38,717,106

Special Obligation - Notes

\$ 10,500,000 series 1986, payable in annual installments of \$ 585,000, through July 1, 2006; interest at 6.00%. 6,250,000

\$ 400,000, series 1996, payable in annual installments ranging from \$ 10,000 to \$ 40,000, through July 1, 2016; interest at 8.00%. 345,000

\$ 705,000, series 2000, payable in annual installments ranging from \$ 95,000 to \$ 145,000 through July 1, 2006; interest ranging from 5.88% to 8%. 610,000

Total Special Obligations – Notes 7,205,000

Total General and Special Obligations – Bond and Notes 45,922,106

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 5 – GENERAL AND SPECIAL OBLIGATIONS – BONDS AND NOTES
(CONTINUED)

Promissory Notes – Loan Guarantee Assistance (Continued)

\$ 9,550,000 promissory note, issued under section 108 of the of the Housing and Community Development Act of 1974, as amended, payable in variable annual installments through August 1, 2005; interest pursuant to section 6 of the Federal Financing Bank Act of 1973.	5,310,000
Total Promissory Notes	5,310,000
Total Bonds and Notes Outstanding	<u>\$ 51,232,106</u>

The annual requirements to amortize the general and special long – term debt and promissory notes outstanding as of June 30, 2001, including interest payments of \$ 29,409,695 are as follows:

Years June 30,	Total
2002	\$ 7,267,286
2003	6,967,926
2004	6,906,307
2005	6,865,257
2006 and after	52,635,025
	<u>\$ 80,641,801</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 5 – GENERAL AND SPECIAL OBLIGATIONS – BONDS AND NOTES
(CONTINUED)

The following is a summary of changes in long – term obligations for the year ended June 30, 2001:

	Balance July 1, 2000	New Issues and Adjustments	Retirements, Current Maturities & Adjustments	Balance June 30, 2001
General Obligations Loans	\$ 41,725,000	\$(1,050,001)	\$(1,957,893)	\$ 38,717,106
Special Obligation Loans	5,087,160	2,362,840	(245,000)	7,205,000
Promissory Notes	6,370,000	-0-	(1,060,000)	5,310,000
Total	<u>\$ 53,182,160</u>	<u>\$ 1,312,839</u>	<u>\$(3,262,893)</u>	<u>\$ 51,232,106</u>

In connection with the entitlement grants awarded by the Department of Housing and Urban Development (HUD), the Municipality obtained two promissory notes for loan guarantee assistance to be executed pursuant to a loan guarantee commitment from HUD under section 108 of the Housing and Community Development Act of 1974, as amended. Interests are determined by the Federal Financing Bank in accordance to section 6 of the Federal Financing Bank Act of 1973. Principal and interest on these notes will be paid from HUD entitlement grants. Since the notes represent a general obligation of the Municipality, they are recorded as a liability in the general, long – term debt account group.

NOTE 6 – DEBT RETIREMENT

Revenues of the debt service fund consist of the ad-value property taxes, which are recognized as revenue when collected from taxpayers and reported by the CRIM to the Municipality (see Note 2). These property taxes are accumulated by the CRIM in a redemption fund for payment of principal, interests and related costs of the general obligation bonds and notes issued by the municipality (see Note 5). Payments are made by the CRIM to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment follows:

	Balance July 1, 2000	Additions	Dispositions and Transfers	Balance June 30, 2001
Land	\$ 4,209,556	\$ -0-	\$ -0-	\$ 4,209,556
Buildings and Other Facilities	34,222,886	-0-	-0-	34,222,886
Equipment	2,366,741	-0-	-0-	2,366,741
Motor Vehicles	10,779,809	-0-	-0-	10,779,809
Furniture and Fixtures	1,048,192	-0-	-0-	1,048,192
Infrastructure Assets	-0-	-0-	-0-	-0-
Construction in Progress	20,293,482	-0-	-0-	20,293,482
	<u>\$ 72,870,666</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 72,870,666</u>

During prior fiscal year 2000-2001, the property office of the Municipality continues to verify and update the physical inventory of property items located throughout municipal dependencies. Nevertheless, property records available and physical inventory taken are not enough to support balances reflected in the general – purpose financial statements.

NOTE 8 – COMMITMENTS AND CONTIGENCIES

There are certain claims and lawsuits pending against the Municipality arising out of, and incidental to its operations. A portion of these lawsuits is covered by insurance. The Municipality's management, after consultation with legal counselors, has recorded an adequate provision to cover probable losses on those claims not covered by insurance, and is of the opinion that the ultimate liability, if any, in excess of the coverage of the insurance policies and/or the recorded provision, would not be significant in relation to the financial statements of the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 8 – COMMITMENTS AND CONTIGENCIES (CONTINUED)

The Municipality is a grantee in various Federal Financial Assistance Programs. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resource for eligible purposes.

Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance cost as a result of these audits, become a liability of the fund that receives the grant and must be reimbursed to the Federal Government from the Municipality's local funds. The "Schedule of Reportable Conditions and Recommendations" and the "Schedule of Findings and Questioned Costs" for the year ended June 30, 2001, disclosed several instances of noncompliance with applicable laws and regulations and with internal accounting and administrative control structure. No provision for any liability has been made in the general purpose financial statements for possible federal claims for refunds of those grant funds. The amount, if any, of expenditures which may be disallowed cannot be determined at this time.

NOTE 9 – RETIREMENT SYSTEM

The Municipality of Toa Baja and its employees have elected to be included in the retirement plan of the Retirement System Administration of the Government of Puerto Rico. Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. The law was amended to create a program for retirement savings accounts for those employees hired after January 2000 and any other who decide voluntary to not participate in the actual system.

Employer contribution consists of 9.275% of the salary of every employee participating in the plan. The retirement savings accounts can make an election of the type of investment as provided by the Administrator of the Retirement System. Payments to the plan from both portions contributed are made through the Treasury Department of Puerto Rico. As of June 30, 2001, the Municipality of Toa Baja had a debt outstanding to the Retirement System Administration of the Government of Puerto Rico amounting to \$ 270,310, included as due to other governmental units in the general fund.

The total pension expense from employer contribution for the year ended June 30, 2001, was approximately \$ 1,341,724. It is not practical to determine the balance of actuarial present value of vested and non-vested accumulated plan benefits, pension fund net assets, and other information of the municipality in the plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 10 - CASH

The Municipality follows the practice of pooling cash of all funds, except for restricted funds held by the Treasury Department for repayment of principal and interests on general long-term obligations, moneys with GDB, and federal award programs.

Deposits were with the contracted depository bank in interest bearing accounts, which were secured at balance sheet date by Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$ 100,000. Deposits in excess of \$ 100,000 are collateralized by bank securities to properly safeguard such funds.

As of June 30, 2001 the balance per bank records does not exceed the insured limits except for certain individual bank accounts and certificates of deposit, which exceeds the insured limits by \$ 6,394,399. Nevertheless, management believes that concentration of credit risks is limited because balances are deposited with high standing financial institutions. Cash with GDB is completely guaranteed by the Commonwealth of Puerto Rico.

Certificates of deposit of the general and the special revenue fund earns interest ranging from 3.75% to 4.30% with variable maturity terms, renewable at option of the Municipality. Interests earned on certificates of deposit are recognized as revenues of the corresponding fund.

See other concentration risks on Note (15).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 11 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2001, the balance due to other governmental units of the general fund, for services rendered to the municipality, consists of the following:

Puerto Rico Telephone Company	\$ 713,186
Water and Sewer Authority	110,854
Electric Power Authority	1,222,765
General Service Administration	48,811
Unemployment	164,573
Collection Center of Municipal Revenues (CRIM)	907,563
Retirement System Administration	270,310
	<u>\$ 3,438,062</u>

NOTE 12 – INTERFUND RECEIVABLE AND PAYABLE BALANCES

Short – term advances between funds are accounted for in the inter-fund receivable and payable accounts.

Inter-fund receivable and payable balances at June 30, 2001, are as follows:

Fund	<u>Inter-fund Receivable</u>	<u>Inter-fund Payables</u>
General	\$ 122,385	\$ 4,720,354
Special Revenue:		
Special Funds	4,720,354	-0-
Head Start		10,673
Child Care		30,600
Early Head Start		17,126
Title III		36,766
Section 8	-0-	27,220
	<u>\$ 4,842,739</u>	<u>\$ 4,842,739</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 13 – COMMITMENTS – OPERATING LEASES

The Municipality leases properties under operating lease agreements, which generally have terms of one year or less and are automatically renewed, based on availability of funds. This includes building facilities, security services, office equipment and machinery.

Rental expenditures for the year ended June 30, 2001, amounted to approximately \$ 1,955,400.

NOTE 14– LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS.

State and federal laws and regulations require that the Municipality of Toa Baja, Puerto Rico, place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure care costs has a balance of \$ 6,050,000 as of June 30, 2001, which is based on 87.5% usage (filled) of the landfill. The Municipality made during June 1997, an agreement with another municipality to share 50% of the estimated liability for landfill closure and post-closure care costs. Therefore, liability shown represents 50% of the costs, which were presented 100% in financial statements of prior fiscal years. It is estimated that an additional \$4,741,106 will be recognized as closure and post-closure care costs between the date of the balance sheet and the date the landfill is expecting to be filled to capacity. The estimated total current cost of the landfill closure and post-closure care \$ 10,791,106 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2001. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

NOTE 15 – CONCENTRATION OF CREDIT RISKS – OTHERS

(A) Receivables

Concentration of credit risk related to receivables is limited because they arise from transactions with central and federal government, and based on prior experience and award contract terms and provisions, this type of receivables are collected according to their terms. Receivable from rent and construction permits are based on contract provisions, and also, based on prior experience with this type of contracts, they are all collected according to their terms.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 15 – CONCENTRATION OF CREDIT RISKS – OTHERS (CONTINUED)

(B) Long – Term Debt (Note 5)

Concentration of credit risk related to long – term debts is minimal because loans are secured by the Government Development Bank of Puerto Rico, and are expected to be repaid from the property tax collections made each fiscal year by CRIM, deposited in the account cash with fiscal agency (see Note 6). In addition, Federal Loans – Promissory note is guarantee by the federal government and it will be repaid from future federal awards granted to the Municipality.

NOTE 16 – PRIOR ADJUSTMENT – GENERAL FUND

The beginning balance of the general fund deficit has been adjusted by \$ 2,779,062 to reflect over expenditures charged to current expenses.

Also, the beginning balance of the general fund deficit has been adjusted by \$ 287,567 of taxes from prior years, additional property tax from prior year of \$ 1,754,545 and excise taxes from prior year of \$ 611,468, not recorded on prior years.



Ramón L. Marrero Rosado

Certified Public Accountant

P.O. Box 50764 Toa Baja, P.R. 00950-0764 Tel.(787) 269-6911 Fax:(787) 269-6915

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

To the Honorable Mayor and
the Municipal Assembly
Municipality of Toa Baja
Toa Baja, Puerto Rico

I have audited the financial statements of the Municipality of Toa Baja as of and for the year ended June 30, 2001, and has issued my report thereon dated December 7, 2001. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Toa Baja financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 01-01 to 01-15 and in the schedule of prior audit findings and questioned costs, identified as item #01-16.

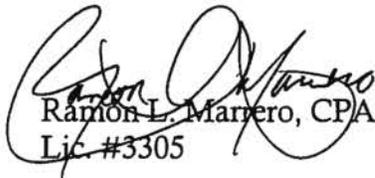
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Municipality of Toa Baja internal control over financial reporting in order to determine my auditing procedures

for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Municipality of Toa Baja ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs, as items 01-1 to 01-15, and in the schedule of prior audit findings and questioned costs identified item 01-16.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, of the reportable conditions described above, I consider items 01-01, 01-02, 01-04, 01-07, and 01-16 to be material weakness.

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


Ramon L. Marrero, CPA
Lic. #3305



December 7, 2001
Bayamón, Puerto Rico

NOTE: Stamp No. 1765909 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.



Ramón L. Marrero Rosado

Certified Public Accountant

P.O. Box 50764 Toa Baja, P.R 00950-0764 Tel.(787) 269-6911 Fax:(787) 269-6915

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

To the Honorable Mayor and
the Municipal Assembly
Municipality of Toa Baja
Toa Baja, Puerto Rico

Compliance

I have audited the Municipality of Toa Baja with the 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, 2001. The Municipality of Toa Baja major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality of Toa Baja management. My responsibility is to express an opinion on the Municipality of Toa Baja compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Governmental 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Toa Baja compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Municipality of Toa Baja compliance with those requirements.

As described in items 01-02 in the accompanying schedule of findings and questioned costs, the Municipality of Toa Baja did not comply with requirements regarding management of equipment and real property acquisition through federal awards, that are applicable to mayor awards Section 8 Existing, Section 8 Voucher and Head Start. Also as explained on findings 01-08, 01-09, 01-13 and 01-14 in the aforementioned schedule, the Municipality did not comply with the requirements regarding record retention that are applicable to its Section 8 Voucher, Section 8 Existing, Head Start and Early Head Start. Also, as explained on finding 00-16 in the Schedule of Prior Audit Findings and Questioned Costs, the Municipality did not comply with the requirement of recording in the accounting records that differences between the cash balance per bank reconciliations and cash balance per accounting records. Compliance with such requirements is necessary, in my opinion, for the Municipality of Toa Baja to comply with the requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Toa Baja 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, 2001.

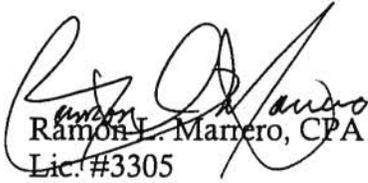
Internal Control Over Compliance

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

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Municipality of Toa Baja ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-02, 01-08, 01-09, 01-13, 01-14 and in the Schedule of Prior Audits Findings and Questioned Costs as item 01-16. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all

matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 01-02 and 01-16 to be material weaknesses.

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


Ramon L. Marrero, CPA
Lic. #3305



December 7, 2001
Bayamón, Puerto Rico

NOTE: Stamp No. 1765910 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no

- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no

- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

SECTION I - SUMMARY OF AUDITOR'S RESULTS - CONTINUED

CFDA # Name of Federal Programs or Cluster

14.857 Section 8 Existing
14.857 Section 8 - Voucher
93.600 Head Start

Dollar threshold used to distinguish
between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

yes

no

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITIONS

01-01 - ACCOUNTING SYSTEM

Statement of Condition:

The Municipality's current accounting system does not comply with requirements established in Article E, Section (5) of the Regulation on Basic Standards for the Municipalities of Puerto Rico. Such section provide:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITIONS

01- 01 - ACCOUNTING SYSTEM (CONTINUED)

Section 5 - As an essential part of the accounting system, the following should be included:

- a) Original documents to serve as evidence of financial operations.
- b) Original entry books wherein operations are recorded as they take place.
- c) Final entry books with the aim of making a monthly summary of transactions posted in the original entry records and gathering the information needed for the preparation of financial statements and reports.
- d) Fiscal procedures for the system's operations, establishing proper internal control and the prevention of irregularities. Said procedures should provide, further, for the timely and orderly performance of operations and should include, among other, the necessary records, files, reconciliations, adjustments, closing entries and reports.

The Municipality's accounting system only provides for the recording of revenues and expenditures and other limited transactions. In addition, the accounting records are not integrated, and a double entry system (debits and credits) is not used. The system lacks the necessary supporting records for the preparation of financial statements in accordance with generally accepted accounting principles. Additionally, I noted that certain records in use were not adequately maintained or posted on a timely basis.

The Municipality has completed the installation of OCAM Accounting System but we noted that it is not in use at its full capacity.

Due to the deficiencies above mentioned, the examination of the financial statements for the year ended June 30, 2001, was more difficult and less efficient than would have been in ordinary circumstances. Since the accounts and other records are not designed to provide the information as is presented in financial statements, it was necessary to obtain such information from various departments and persons and from numerous accounting records which are not integrated. This situation can cause the financial statements to not present all the assets, liabilities, revenues and expenditures of the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS

01-01 - ACCOUNTING SYSTEM (CONTINUED)

REPORTABLE CONDITIONS

Recommendation:

We recommend that procedures be developed to comply with requirements established above.

Auditee Response:

Management accepted the condition and is actually working on the application of OCAM Accounting System.

01-02 - PROPERTY RECORDS

Statement of Condition:

Common Rule, Subpart C, Section 32, requires the following:

- 1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- 2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

As indicated on auditors' reports of prior fiscal years, the Municipality do not have available complete property records, based on a physical inventory count. At present, records are maintained by the property office, by dependency, with a description of the property items, amount of items, property number assigned, cost, the property items acquired during the year, items retired from property records, and final balance. The records do not provide information as to acquisition dates, disbursement order number, property transfer, and if property was acquired with state or federal funds. Also, property records lack information on Municipal building and facilities, land lots acquired, and the amount of construction in progress for the buildings and facilities in construction stages is not accurately maintained as of June 30, 1999.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITIONS

01 -02 - PROPERTY RECORDS (CONTINUED)

Therefore, there is no reasonable assurance that property records includes all property physically in existence and owned by the Municipality, and excludes all property not in existence or damaged, as of June 30, 2001. Also, the Municipality records property acquisitions according to budget categories in the combined statement of revenues, expenditures and changes in fund balance. Therefore, property acquisitions are not classified as capital outlays on such statement.

Cause of Condition:

There is no uniform control procedure requiring a standard and complete set of property records, as required by Common Rule.

Criteria:

As an appropriate internal control procedure, and to comply with Common Rule, Subpart C, Section 32, which states that a complete set of records should be maintained in order to assure all balances are correct and properly recorded.

Effect of Condition:

Accurate, and complete financial information of property is not available, unless obtained or re-compute using alternate methods.

Questioned Costs:

None.

Recommendation:

The Municipality should perform a physical inventory and reconcile it with the present accounting records and adjust any differences found. Also, to implement a procedure that include to record every property purchased in the property records before use it.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITIONS

01 -02 - PROPERTY RECORDS (CONTINUED)

Auditee Response:

The Municipality agrees with the finding and actions there will be appointed in the corrective action plan.

01-03 - PERSONNEL FILES AND RELATED PAYROLL PROCEDURES

Statement of Condition:

From 52 personnel files selected for examination the following exceptions were noted:

- a) 3% 2 files did not have employee birth certificate copy.
- b) 1% 1 file did not have copy of employee social security card.
- c) 1% 1 file did not show appovement of employee change in position.
- d) 3% 2 files did not have the personal historic record.
- e) 1% 1 file shows disagreement between actual employee functions and the functions shown on the employee position change report.

Recommendation:

The Municipality must implement a checklist to be used for each employee file to assure completeness of the required documentation, and perform follow-up procedures in order to update such files.

Auditee Response:

Recommendation was accepted and specific instructions were given to the Human Resources Director to implement the checklist and purged all employees files to update all of the information as soon as possible.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITIONS

01-04 - CASH DISBURSEMENTS

A- General Fund

Statement of Condition:

From 60 files selected for examination amounting to \$ 781,431, the following deficiencies were noted:

- a) 7 disbursement vouchers amounting to \$ 145,994 did not include evidence of a Bid process.
- b) 41 disbursement vouchers amounting to \$ 644,429 were not signed by an officer of the pre-audit division.
- c) 29 disbursement vouchers amounting to \$ 771,604 did not include a purchase order, or the same was not signed by the Finance Director.
- d) 14 disbursement vouchers amounting to \$117,370 were not provided for examination.

B- Special Fund – Capital Project

From 17 files selected for examination amounting to \$ 697,305, the following deficiencies were noted:

- a) 4 disbursement vouchers amounting to \$ 77,009 did not include the purchase order.
- b) 6 disbursement vouchers amounting to \$ 127,146 did not include the contract.
- c) 1 disbursement voucher amounting to \$ 77,735 did not show the payment stamp.
- d) 2 disbursement vouchers amounting to \$ 92,735 were not signed by the Official Payer.
- e) 9 disbursement vouchers amounting to \$ 201,576 were not completed on all required parts or items.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

REPORTABLE CONDITIONS

01-04 - CASH DISBURSEMENTS (CONTINUED)

A \$ 1,357,632 questioned cost was reported.

Recommendation:

The Municipality should enforce compliance with the procedures prescribed by the Regulation on Basic Standards for the Municipalities of Puerto Rico, Article 8. Such section provides the procedures to be followed by the Pre-intervention Department to prevent errors or irregularities when a payment is processed. Furthermore, Section 17 of the aforementioned regulation established that the voucher, canceled checks and any other document that justifies a payment shall be filed by the Finance Director for future examination.

Auditee Response:

Management instructed the Finance Director to enforce the actual procedure regarding cash disbursements.

01-05 - MUNICIPAL LICENSE TAX

Statement of Condition:

From 19 files selected for examination the following deficiency was noted:

6 volume of business returns were received after due date (April 15, 2001) and no interest and penalty charge was made by the Municipality.

Recommendation:

The Municipal Gross Volume Tax Law (No. 113) as amended, established among other things the following:

Once the taxpayer made the payment in full or the first installment of the gross volume tax, the Finance Director or his designee, should issue a certificate as evidence that the taxpayer is a registered business person in the Municipality's files. Such certificate should be accessible in the taxpayer office or business area. The Finance Director is empowered by law to bill the taxpayer on required late charges.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

REPORTABLE CONDITIONS

01-05 - MUNICIPAL LICENSE TAX (CONTINUED)

Auditee Response:

Management accepted the condition and will instruct the Collection Director to enforce the actual internal control procedure in order to conduct the annual gross Volume of Business Returns requirements according to the law.

01-06 - INDIRECT COSTS

Statement of Condition:

The Municipality has an approved indirect cost allocation plan. However, I noted that certain indirect costs are not being properly allocated to the federally assisted programs. Accordingly, such costs are not being recovered by the Municipality. *

Recommendation:

The Municipality should implement the indirect cost allocation plan to ascertain that costs incurred by the Municipality in the administration of federal programs are fully recovered on a timely basis.

Auditee Response:

Management accepted the condition and will instruct all Federal Programs Directors to include the indirect cost in all proposals in order to budget the amounts to be reimbursed to the Municipality general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

REPORTABLE CONDITIONS

01-07 – INCREASE IN GENERAL FUND DEFICIT

CONDITION: During the past fiscal years, municipal deficit presented in the general fund has been as follows:

<u>Fiscal Years</u>	<u>Deficit Presented</u>	<u>Increase</u>	<u>Decrease</u>
1993-94	\$ 955,527		
1994-95	6,305,193	\$ 5,349,666	
1995-96	8,757,199	3,407,533	
1996-97	7,481,197		\$ 1,276,002
1997-98	7,111,052		370,145
1998-99	6,469,652		641,400
1999-00	11,071,106	4,601,454	
2000-01	13,651,509		2,569,753

CAUSE OF CONDITION: When the municipal budget is presented for the fiscal year, for some budgetary items in the revenue section of the budget, the estimation of the actual revenue to be collected for the fiscal year is overstated, and therefore, the expenditure section of the budget will include more balance available for expenditures, since it is estimated revenue in excess of real collections later made during fiscal year. This is done even knowing that in prior fiscal years the collections for this budgetary items (mainly in the areas of license and permits and construction taxes) do not reach the original revenues estimated in the budget. Therefore, historical trend of collections and budget estimations are not considered when budget is prepared each year.

CRITERIA: Sound management requires proper estimation of balances for budgetary purposes. These balances should be based on facts and tendencies based on available documents and prior year experiences.

EFFECT OF CONDITION: Commitments and expenditures are made based on revenues that are not reasonably estimated for budget, creating an increase in the deficit. Also, Law #81 named municipal autonomous law of August 1991, requires that each year a portion of the budget be segregated to cover any budget deficit from prior fiscal years. If deficit continues to increase, the portion to be segregated each year will also increase, leaving less balance available to municipality for expenditures.

RECOMMENDATION: To implement a more careful process of estimating this revenue items, based on historical trends of collections. Finance Department should apply a more careful process of estimation on those items. This estimation process should be documented, and used as a reference each fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

REPORTABLE CONDITIONS

01-07 - INCREASE IN GENERAL FUND DEFICIT (CONTINUED)

AUDITEE RESPONSE: The Municipality agrees with the finding. During the Budgetary Process of next years careful consideration will be applied by the municipality regarding budget estimates for the revenue items.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

*SECTION 8
VOUCHER*

RECORDS RETENTION

Criteria: OMB Circular A-133 requires that Financial management systems shall include accounting records that are properly supported by source documentation. In addition, OMB Circular A-133 requires that financial records, supporting documents, statistical records, and all other records pertinent to a grant shall be retained for a period of three years, or longer until an audit of the grant is performed.

Condition: There was no documentation or incomplete data to support transactions pertinent to this grant as shown on below detail.

Effect: As part of my test of cash disbursements during the year, I selected a sample of 33 disbursement vouchers amounting to \$40,198. For 32 of the items selected amounting to \$39,251 the Municipality could not provide us the following missing documents or elements of the disbursement vouchers. I do not consider this to be material to the program.

\$ 39,251

- ◆ 28 disbursements vouchers did not show the payment stamp.
- ◆ 1 disbursement voucher did not include the invoice.
- ◆ 32 disbursement vouchers were not completed on all required parts or items as official signatures, etc.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

SECTION 8
VOUCHER

RECORDS RETENTION CONTINUED

Cause: I found that there was a lack of adherence to prescribed accounting policies and procedures and to federal regulations requiring that complete and adequate records be retained for a period of three years.

Recommendation: Procedures should be implemented to comply with financial management system and records retention requirements as required by OMB Circular A-133.

Auditee Response: Will comply with recommended action and revise filing and review procedures in order to avoid the loss or misplacement of documents.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

SECTION 8
EXISTING

RECORDS RETENTION

Criteria: OMB Circular A-133 requires that financial management systems shall include accounting records that are properly supported by source documentation. In addition, OMB Circular A-133 requires that financial records, supporting documents, statistical records, and all other records pertinent to a grant shall be retained for a period of three years, or longer until an audit of the grant is performed.

Condition: There was no documentation or incomplete data to support transactions pertinent to this grant as shown on below detail.

Effect: As part of my test of cash disbursements during the year, I selected a sample of 11 disbursement vouchers amounting to \$11,686. For 11 of the items selected amounting to \$11,686 the Municipality could not provide us the following missing documents or elements of the disbursement vouchers. I do not consider this to be material to the program.

\$ 11,686

- ◆ 11 disbursements vouchers did not show the payment stamp.
- ◆ 1 disbursement voucher did not include the invoice..
- ◆ 12 disbursements vouchers were not completed on all required parts or items as official signatures, etc.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

*SECTION 8
EXISTING*

RECORDS RETENTION - CONTINUED

Cause: I found that there was a lack of adherence to prescribed accounting policies and procedures and to federal regulations requiring that complete and adequate records be retained for a period of three years.

Recommendation: Procedures should be implemented to comply with financial management system and records retention requirements as required by OMB Circular A-133.

Auditee Response: Will comply with recommended action and revise filing and review procedures in order to avoid the loss or misplacement of documents.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

HOME

RECORDS RETENTION

Criteria: OMB Circular A-133 requires that financial management systems shall include accounting records that are properly supported by source documentation. In addition, OMB Circular A-133 requires that financial records, supporting documents, statistical records, and all other records pertinent to a grant shall be retained for a period of three years, or longer until an audit of the grant is performed.

Condition: There was no documentation or incomplete data to support transactions pertinent to this grant as shown on below detail.

Effect: As part of my test of cash disbursements during the year, I selected a sample of 26 disbursement vouchers amounting to \$173,788. For 25 of the items selected amounting to \$172,638 the Municipality could not provide us the following missing documents or elements of the disbursement vouchers. I do not consider this to be material to the program.

\$ 172,638

- ◆ 11 disbursements vouchers did not show the payment stamp.
- ◆ 1 disbursement voucher did not include the purchase order.
- ◆ 12 disbursements vouchers were not completed on all required parts or items as official signatures, etc.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

HOME

RECORDS RETENTION

Cause: I found that there was a lack of adherence to prescribed accounting policies and procedures and to federal regulations requiring that complete and adequate records be retained for a period of three years.

Recommendation: Procedures should be implemented to comply with financial management system and records retention requirements as required by OMB Circular A-133.

Auditee Response: Will comply with recommended action and revise filing and review procedures in order to avoid the loss or misplacement of documents.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

FOOD PROGRAM

RECORDS RETENTION

Criteria: OMB Circular A-133 requires that financial management systems shall include accounting records that are properly supported by source documentation. In addition, OMB Circular A-133 requires that financial records, supporting documents, statistical records, and all other records pertinent to a grant shall be retained for a period of three years, or longer until an audit of the grant is performed.

Condition: There was no documentation or incomplete data to support transactions pertinent to this grant as shown on below detail.

Effect: As part of my test of cash disbursements during the year, I selected a sample of 14 disbursement vouchers amounting to \$213,381. For 8 of the items selected amounting to \$99,162 the Municipality could not provide us the following missing documents or elements of the disbursement vouchers. I do not consider this to be material to the program.

\$ 99,162

♦ 9 disbursements vouchers were not completed on all required parts or items as official signatures, etc.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

FOOD PROGRAM

RECORDS RETENTION (CONTINUED)

Cause: I found that there was a lack of adherence to prescribed accounting policies and procedures and to federal regulations requiring that complete and adequate records be retained for a period of three years.

Recommendation: Procedures should be implemented to comply with financial management system and records retention requirements as required by OMB Circular A-133.

Auditee Response: Will comply with recommended action and revise filing and review procedures in order to avoid the loss or misplacement of documents.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

CDBG

RECORDS RETENTION

Criteria: OMB Circular A-133 requires that financial management systems shall include accounting records that are properly supported by source documentation. In addition, OMB Circular A-133 requires that financial records, supporting documents, statistical records, and all other records pertinent to a grant shall be retained for a period of three years, or longer until an audit of the grant is performed.

Condition: There was no documentation or incomplete data to support transactions pertinent to this grant as shown on below detail.

Effect: As part of my test of cash disbursements during the year, I selected a sample of 20 disbursement vouchers amounting to \$183,395. For 19 of the items selected amounting to \$181,760 the Municipality could not provide us the following missing documents or elements of the disbursement vouchers. I do not consider this to be material to the program.

\$ 181,760

- ◆ 2 disbursements vouchers did not include the purchase order.
- ◆ 25 disbursements vouchers were not completed on all required parts or items as official signatures, etc.
- ◆ 4 disbursements vouchers were not presented for examination.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

CDBG

RECORDS RETENTION (CONTINUED)

Cause: I found that there was a lack of adherence to prescribed accounting policies and procedures and to federal regulations requiring that complete and adequate records be retained for a period of three years.

Recommendation: Procedures should be implemented to comply with financial management system and records retention requirements as required by OMB Circular A-133.

Auditee Response: Will comply with recommended action and revise filing and review procedures in order to avoid the loss or misplacement of documents.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

HEAD START

RECORD RETENTION

Criteria: OMB Circular A-133 requires that financial management systems shall include accounting records that are properly supported by source documentation. In addition, OMB Circular A-133 requires that financial records, supporting documents, statistical records, and all other records pertinent to a grant shall be retained for a period of three years, or longer until an audit of the grant is performed.

Condition: There was no documentation or incomplete data to support transactions pertinent to this grant as shown on below detail.

Effect: As part of my test of cash disbursements during the year, I selected a sample of 33 disbursement vouchers amounting to \$262,050. For 29 of the items selected amounting to \$230,637 the Municipality could not provide us the following missing documents or elements of the disbursement vouchers. I do not consider this to be material to the program.

\$ 230,637

- ◆ 1 disbursement voucher did not show the payment stamp.
- ◆ 7 disbursements vouchers did not include the purchase order.
- ◆ 24 disbursements vouchers were not completed on all required parts or items as official signatures, etc.
- ◆ 7 disbursements vouchers were not presented for examination.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

HEAD START

RECORDS RETENTION (CONTINUED)

Cause: I found that there was a lack of adherence to prescribed accounting policies and procedures and to federal regulations requiring that complete and adequate records be retained for a period of three years.

Recommendation: Procedures should be implemented to comply with financial management system and records retention requirements as required by OMB Circular A-133.

Auditee Response: Will comply with recommended action and revise filing and review procedures in order to avoid the loss or misplacement of documents.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

*EARLY
HEAD START*

RECORD RETENTION

Criteria: OMB Circular A-133 requires that financial management systems shall include accounting records that are properly supported by source documentation. In addition, OMB Circular A-133 requires that financial records, supporting documents, statistical records, and all other records pertinent to a grant shall be retained for a period of three years, or longer until an audit of the grant is performed.

Condition: There was no documentation or incomplete data to support transactions pertinent to this grant as shown on below detail.

Effect: As part of my test of cash disbursements during the year, I selected a sample of 27 disbursement vouchers amounting to \$83,227. For 27 of the items selected amounting to \$83,227 the Municipality could not provide us the following missing documents or elements of the disbursement vouchers. I do not consider this to be material to the program.

\$ 83,227

- ◆ 1 disbursement voucher did not show the payment stamp.
- ◆ 4 disbursements vouchers did not include the purchase order.
- ◆ 24 disbursements vouchers were not completed on all required parts or items as official signatures, etc.
- ◆ 12 disbursements vouchers were not presented for examination.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

*EARLY
HEAD START*

RECORDS RETENTION (CONTINUED)

Cause: I found that there was a lack of adherence to prescribed accounting policies and procedures and to federal regulations requiring that complete and adequate records be retained for a period of three years.

Recommendation: Procedures should be implemented to comply with financial management system and records retention requirements as required by OMB Circular A-133.

Auditee Response: Will comply with recommended action and revise filing and review procedures in order to avoid the loss or misplacement of documents.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

<u>PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND RECOMMENDATIONS</u>	QUESTIONED COSTS
---	------------------

CHILD CARE

RECORD RETENTION

Criteria: OMB Circular A-133 requires that financial management systems shall include accounting records that are properly supported by source documentation. In addition, OMB Circular A-133 requires that financial records, supporting documents, statistical records, and all other records pertinent to a grant shall be retained for a period of three years, or longer until an audit of the grant is performed.

Condition: There was no documentation or incomplete data to support transactions pertinent to this grant as shown on below detail.

Effect: As part of my test of cash disbursements during the year, I selected a sample of 10 disbursement vouchers amounting to \$22,726. For 10 of the items selected amounting to \$22,726 the Municipality could not provide us the following missing documents or elements of the disbursement vouchers. I do not consider this to be material to the program.

\$ 22,726

- ◆ 1 disbursements vouchers did not include the purchase order.
- ◆ 10 disbursements vouchers were not completed on all required parts or items as official signatures, etc.
- ◆ 2 disbursements vouchers were not presented for examination.

Total Questioned Costs

\$ 841,087

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM 01-08 FINDINGS/NONCOMPLIANCE AND
RECOMMENDATIONS

QUESTIONED
COSTS

CHILD CARE

RECORDS RETENTION (CONTINUED)

Cause: I found that there was a lack of adherence to prescribed accounting policies and procedures and to federal regulations requiring that complete and adequate records be retained for a period of three years.

Recommendation: Procedures should be implemented to comply with financial management system and records retention requirements as required by OMB Circular A-133.

Auditee Response: Will comply with recommended action and revise filing and review procedures in order to avoid the loss or misplacement of documents.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

FEDERAL GRANTOR PASS- THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR NUMBER	DISBURSEMENTS EXPENDITURES
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
Community Development Block Grants/Entitlement Grants (All award years)	14.218	N/A	\$ 893,689
Housing Assistance Payments Programs			
Program for low-income Families (Note 4)			
Existing Housing (Rental Certificate)	14.857	N/A	275,025
Voucher Housing (Rental Voucher)	14.857	N/A	820,069
Section 108 - loan			
Guarantee Assistance of the Housing and Community Development Act of 1974 Programs	14.248	N/A	1,457,403
Emergency Shelter Grants Program (ESG)	14.231	N/A	165,177
Home Investment Partnerships Program (Home Program)	14.239		459,226

Total U.S. Department of Housing and Urban Development Direct Programs			4,070,589

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

FEDERAL GRANTOR PASS- THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR NUMBER	DISBURSEMENTS EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Pass-through Commonwealth of P.R. Governor's Office for Human Development: Head Start	93.600	02-CH-0483	7,147,830
Contribution Child Care: Child Care	93.575		276,927
Total U.S. Department of Health and Human Services Pass-through programs			----- 7,424,757
<u>Federal Emergency Management Agency</u> Pass- through Adjutant General for the Commonwealth of P.R. National Guard:			
Disaster Assistance Program	83.516	137-00000	47,018
Total Federal Emergency Management Agency Pass-through Programs			----- 47,018
Total Federal Awards Expended			----- <u>\$ 11,542,364</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2001

NOTE 1 – GENERAL

The accompanying schedule of federal awards presents balances expended, including loan guarantee assistance, of all federal award programs of the Municipality of Toa Baja, Puerto Rico. The reporting entity is defined in Note 1 (A) to the general –purpose financial statements.

NOTE 2 – RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Revenues and expenditures of the Federal Financial Assistance Programs are included in the Municipality's general purposes financial statements within the Special Revenues and Capital Projects Funds. The reconciliation between the expenditure in the general purpose financial statements and expenditures in the Schedule of Federal Financial Assistance is as follows:

Expenditures in the general purpose financial statements:

Special Revenues Fund	\$ 11,622,701
Capital Projects Fund	1,592,107
	13,214,808
Less Non-federal Expenditures	1,672,444
	\$ 11,542,364
Expenditures in the Schedule of Federal Financial Assistance	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2001

NOTE 3 – FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 – SECTION 8 PROGRAMS

Both Section 8 programs, existing rental certificate and rental voucher, receives a reimbursement income, arising from rents paid to participants under the Section 8 Program, pertaining to another Municipality, but for which the property is rented in the Municipality of Toa Baja. Also, the Municipality charges an administrative fee for this service. Therefore, expenditures includes those paid by the Municipality under this agreement, not included in program award amount.

COMMONWEALTH OF PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2001

Federal Awards

FINDING 1: HEAD START PROGRAM, CFDA 93.600

Condition:

This finding was a reportable condition stating that Bank Reconciliation of the Head Start program reflects differences in the operational and payroll account.

Recommendation:

The auditor recommended that procedures be implement requiring the reconciliation on time of all program Bank Accounts. Management concurred with the recommendation and indicate that the procedures would be implemented.

Current Status:

Situation still prevail. Similar finding was noted in the 2001 audit.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM	FINDINGS/NONCOMPLIANCE	COMMENTS
<i>MUNICIPAL OPERATIONS</i>	00-01 – FINANCIAL MANAGEMENT SYSTEM – PROPERTY RECORDS	
	Statement of Condition:	
	The Municipality do not have available complete property based on a physical inventory count.	Situation still prevail
	Management's Corrective Action:	
	<p>α The Municipality is in the process to update the accounting records of property, plant and equipment. Property ledger will be corrected to reflect the information required by Common Rules regulations. A new physical inventory of property will be made in order to obtain the necessary information to up-date the property ledger.</p>	
	00-02 – CONTRACTS SEND TO THE COMPTROLLER'S OFFICE	
	Statement of Condition:	
	Of fifteen (15) contracts examined, for nine (9) of them, there is no evidence that the contract was sent to the Comptroller's Office within the required fifteen days.	Corrected

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM	FINDINGS/NONCOMPLIANCE	COMMENTS
<i>MUNICIPAL OPERATIONS</i>	<p>00-03 – MUNICIPALITY DOES NOT RECONCILIATES SALARIES REPORTED ON QUARTELY TAX RETURNS 941 PR SOCIAL SECURITY WITH ACCOUNTING RECORDS</p> <p>Statement of Condition:</p> <p>Salaries reported on Quarterly Tax Returns (941 PR Social Security) are not reconciled with accounting records.</p> <p>Management's Corrective Action:</p> <p>9 Will establish policies and procedures to comply with this specific requirement.</p>	<p>Situation still prevails</p>
	<p>00-04 – SUPPORTING EVIDENCE OF DISBURSEMENTS</p> <p>Statement of Condition:</p> <p>Incomplete Accounting Records. 2 out of 25 disbursement vouchers tested were not provided for our examination.</p> <p>Management's Corrective Action:</p> <p>f Will establish policies and procedures to comply with this specific requirement.</p>	<p>Situation still prevails</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM	FINDINGS/NONCOMPLIANCE	COMMENTS
<i>MUNICIPAL OPERATIONS</i>	00-05 – DAILY REPORT OF COLLECTIONS AND DISBURSEMENTS	
	Statement of Condition:	
	Daily report of collections and disbursements Model # 3 was not available to trace (5) five disbursements of Federal Awards.	Situation still prevails
	Management's Corrective Action:	
	Will establish policies and procedures to comply with this requirement.	
	00-06 – BALANCES DUE TO SPECIAL REVENUE FROM GENERAL FUND OF PRIOR FISCAL YEAR	
	Statement of Condition:	
	Balances due to special revenue funds that were deposited in the bank account of the general funds.	Situation still prevails
	Management's Corrective Action:	
	Will establish policies and procedures to comply with this specific requirement.	
	00-07 – EXPENDITURES MADE UNDER EMERGENCY DECLARED AFTER HURRICANE GEORGES	
	Statement of Condition:	
	Several deficiencies in the process of accountability of the funds received and expended after Hurricane Georges Emergency.	Situation still prevails

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM	FINDINGS/NONCOMPLIANCE	COMMENTS
<i>MUNICIPAL OPERATIONAL</i>	00-07 - EXPENDITURES MADE UNDER EMERGENCY DECLARED AFTER HURRICANE GEORGES (CONTINUED) Management's Corrective Action: K Will establish policies and procedures to comply with this specific requirement.	
	00-08 - INCREASE IN GENERAL FUND DEFICIT Statement of Condition: Increase in General Fund deficit yearly from 1993 - 1994 to 1999 - 2000.	Situation still prevails
	Management's Corrective Action: q Will establish policies and procedures to correct this deficiency.	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2001

01 DEC 27 PM 2:25

*SINGLE AUDIT REPORTS FOR THE
YEARS ENDED JUNE 30, 1994,
1995, 1996, 1997, 1998,
1999*

AUDIT REPORT
AND PROGRAM FINDINGS/NONCOMPLIANCE
MUNICIPAL OPERATIONS

1. There is no evidence to trace some funds received by the Municipality and recorded in the cash book.

(Finding 00-9) Situation still prevails. All funds received should let an auditable trail in order to permit its tracing to other supporting documents.

2. One (1) municipal contract of a sample of fifteen (15) examined was not remitted to the Puerto Rico's Comptroller's Office within a period of fifteen (15) labor days, as required by Municipal Law Number 33.

(Finding 00-2) Situation still prevails. For nine (9) contract of a sample of fifteen (15) examined, the contract was not submitted within the required time limits, as required Law Number 33.

FEDERAL AWARDS

1. Bank reconciliation of the Head Start Program reflects differences between cash reconciled balance and cash balance per accounting records of \$ 12,268,628 in the operational account, and of \$ 31,022,855 in the payroll account. These differences are carried on all monthly conciliation and represents reconciliation items accumulated over the years never adjusted on the program accounting records. Nevertheless, we can determine the correct reconciled cash balances, revenues and expenditures of the program as of June 30, 1999. This represents a noncompliance with federal ruling 45 CFR 92.20 (b) (1). Also, unnecessarily clerical work is made because every month conciliation continues to present a summary of all differences with accounting records, instead of posting items creating the difference.

(Finding: Prior year 00-10, current year 00-16) Situation still prevails. Bank reconciliation of the Head Start Program reflects differences of \$ 14,605,493 in the operational account and of \$ 40,126,401 in the payroll account. We were able to determine the corrected reconciled cash balances, revenues and expenditures for the program as of June 30, 2001.

**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates On or After January 1, 2001**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

<p>1. Fiscal period ending date for this submission</p> <p>Month Day Year Fiscal Period End Dates Must Be On or After January 1, 2001</p> <p>06 / 30 / 2001</p>	<p>2. Type of Circular A-133 audit</p> <p>1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit</p>									
<p>3. Audit period covered</p> <p>1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other – Months 2 <input type="checkbox"/> Biennial</p>	<p>4. Date received by Federal clearinghouse</p> <p>FEDERAL GOVERNMENT USE ONLY</p>									
<p>5. Employer Identification Number (EIN)</p> <p>a. Auditee EIN <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center;"> <tr><td>6</td><td>6</td><td>0</td><td>4</td><td>3</td><td>3</td><td>5</td><td>3</td><td>6</td></tr> </table></p> <p>b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No</p> <p><i>If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)</i></p>		6	6	0	4	3	3	5	3	6
6	6	0	4	3	3	5	3	6		

<p>6. AUDITEE INFORMATION</p> <p>a. Auditee name MUNICIPALITY OF TOA BAJA</p> <p>b. Auditee address (Number and street) PO BOX 2359 City TOA BAJA State ZIP + 4 Code PR 0 0 9 5 1 - 2 3 5 9</p> <p>c. Auditee contact Name JOSE DAVID RIOS Title FINANCE DIRECTOR</p> <p>d. Auditee contact telephone (787) 261 - 0202</p> <p>e. Auditee contact FAX (Optional) () -</p> <p>f. Auditee contact E-mail (Optional)</p>	<p>7. AUDITOR INFORMATION (To be completed by auditor)</p> <p>a. Auditor name RAMON L. MARRERO, CPA</p> <p>b. Auditor address (Number and street) PO BOX 50764 City TOA BAJA State ZIP + 4 Code PR 0 0 9 5 0 - 0 7 6 4</p> <p>c. Auditor contact Name RAMON L. MARRERO Title PARTNER IN CHARGE</p> <p>d. Auditor contact telephone (787) 269 - 6911</p> <p>e. Auditor contact FAX (Optional) (787) 269 - 6915</p> <p>f. Auditor contact E-mail (Optional)</p>
--	--

g. AUDITEE CERTIFICATION STATEMENT – This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

g. AUDITOR STATEMENT – The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of certifying official Date
Month Day Year
12 / 19 / 01
Printed Name/Title of certifying official
JOSE DAVID RIOS - FINANCE DIRECTOR

Signature of auditor Date
Month Day Year
12 / 19 / 01

PART I GENERAL INFORMATION - Continued

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
1 Yes - Identify Cognizant Agency in Part I, Item 9 2 No - SKIP to Part II, Item 1

9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.

- | | | | |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ __ .520(b)) \$ 300,000

4. Did the auditee qualify as a low-risk auditee? (§ __ .530) 1 Yes 2 No

5. Is a reportable condition disclosed for any major program? (§ __ .510(a)(1)) 1 Yes 2 No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (§ __ .510(a)(1)) 1 Yes 2 No

7. Are any known questioned costs reported? (§ __ .510(a)(3) or (4)) 1 Yes 2 No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ __ .315(b)) 1 Yes 2 No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

- | | | | |
|--|--|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9)

Count total number of boxes marked above and submit this number of reporting packages

PART III FEDERAL PROGRAMS - Continued

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²							
1 4	218	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANTS	\$ 893,689.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	I	01-12
1 4	857	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 - EXISTING	\$ 275,025.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	I	01-09
1 4	857	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8- VOUCHER	\$ 820,069.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	I	01-08
1 4	248	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8- LOAN	\$ 1,457,403.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NA	NA
1 4	231	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EMERGENCY SHELTER GRANT PROGRAM	\$ 165,177.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NA	NA
1 4	239	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOME PROGRAM	\$ 459,226.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	I	01-10
9 3	600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START	\$ 7,147,830.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	I	01-11 01-14 01-13 01-16
9 3	575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE	\$ 276,927.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	I	01-15
8 3	516	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DISSATER ASSISTANCE PROGRAM	\$ 47,018.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NA	NA
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED →				\$ 11,542,364.00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a) reported for each Federal program.

- | | | | |
|------------------------------------|---|--|----------|
| A. Activities allowed or unallowed | F. Equipment and real property management | K. Real property acquisition and relocation assistance | O. None |
| B. Allowable costs/cost principles | G. Matching, level of effort, earmarking | L. Reporting | P. Other |
| C. Cash management | H. Period of availability of Federal funds | M. Subrecipient monitoring | |
| D. Davis - Bacon Act | I. Procurement and suspension and debarment | N. Special tests and provisions | |
| E. Eligibility | J. Program income | | |

⁴ N/A for NONE

PART I **Item 5 Continuation Sheet**

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1		16		31		46		61	
2		17		32		47		62	
3		18		33		48		63	
4		19		34		49		64	
5		20		35		50		65	
6		21		36		51		66	
7		22		37		52		67	
8		23		38		53		68	
9		24		39		54		69	
10		25		40		55		70	
11		26		41		56		71	
12		27		42		57		72	
13		28		43		58		73	
14		29		44		59		74	
15		30		45		60		75	

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.