

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

MUNICIPIO DE TOA BAJA
AUDITORIA 2002-2003
30 DE JUNIO DE 2003

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ASUNTOS MUNICIPALES

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF TOA BAJA

FINANCIAL STATEMENTS

JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2003

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report on General Purpose Financial Statements.....	1-2
Management's Discussion and Analysis.....	3-11
Basic Financial Statements:	
❖ Statement of Net Assets	12
❖ Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
❖ Balance Sheet	14-15
❖ Reconciliation of the Governmental Funds Balance Sheet to Statement of net Assets.	16
❖ Statement of Revenues, Expenditures and Changes in Fund Balance.....	17-18
❖ Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	19
❖ Statement of Revenues, Expenditures, Encumbrances and Changes in Fund Balance Budget and Actual - General Fund.....	20-21
Notes to Basic Financial Statements	22-52
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	53-54
Report on Compliance with Requirements Applicable to each major program and on internal control Over Compliance in Accordance with OMB Circular A-133.....	55-57
Schedule of Findings and Questioned Cost.....	58-61
Schedule of Expenditures of Federal Awards.....	62-63
Notes to Schedule of Expenditures of Federal Awards.....	64-65
Schedule of Prior Years Audit Findings.....	66-72



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INDEPENDENT AUDITOR'S REPORT

To the Toa Baja's Honorable Major and
Members of the Municipality's Assembly
Toa Baja, Puerto Rico

I have audited the financial statements of the Governmental Activities, major funds and the remaining fund information of the Municipality of Toa Baja, Puerto Rico, as of and for the year ended June 30, 2003, which collectively comprise the basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Municipality's of Toa Baja Management. My responsibility is to express opinions on these financial statements based on our audit.

Except as explained in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Controller 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in note 8 to the Financial Statements, the Municipality is in process to complete the identification of and valuation of the investment in capital assets. However, a reasonable estimate of the investment in capital assets were identified from their accounting records, resolutions of the municipal assembly and procurement records. The municipality is in process to validate records with original documents.

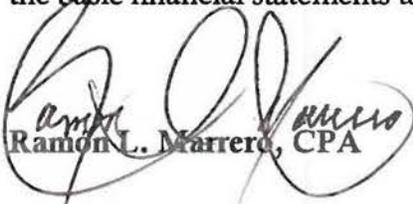
In my opinion except for the effects, if any, on the uncertainty to determine the effect, of the balances of the investment in capital assets when comparing accounting records and others to original documents as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, mayor funds and the remaining fund information of the

Municipality of Toa Baja, Puerto Rico, as of June 30, 2003, and the changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the **Municipality of Toa Baja** has implemented a new financial reporting model, as required by the provisions of GASB Statement no. 34 "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments" as of and for the year ended June 30, 2003.

The Management's Discussion and Analysis information, on pages I through VII, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. office of Management and Budget Circular A-133, audits of states, local governments, and non-profit organizations, and is not a required part of the basic financial statements of Municipality of Toa Baja. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and , in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.


Ramon L. Marrero, CPA

Lic. # 3305

January 20, 2004

San Juan, Puerto Rico



NOTE: Stamp No. 1930246 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003**

As management of **Municipality of Toa Baja**, we offer readers of the Municipality's financial statement this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the municipality's financial statements. The Municipality implemented Governmental Accounting Standards Board Statement 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (Statement 34) for the first time for fiscal year 2003. To account for capital assets, Statement 34 allows for certain transition treatments in regards to infrastructure.

The Municipality elected to capitalize its infrastructure capital assets utilizing the transition treatments allowed by Statement 34.

FINANCIAL HIGHLIGHTS

- The assets of the **Municipality of Toa Baja** exceeded its liabilities at the close of the most recent fiscal year by \$ 70,985,939 (Net assets). Of this amount, \$ 151,551 are unrestricted. Net assets may be used to meet the Municipality's current operations.
 - The operations of the General Fund resulted in an unfavorable variance of \$ 2.6 millions as compared to the revised budget.
 - At June 30, 2003 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$ 6.3 millions, an increase of \$ 5.1 millions in comparison with the prior year. The municipality reduced its accounts payable by \$ 3.2 millions and recorded a prior period adjustment, of \$ 175,038 because of encumbrances (orders and contracts) incorrectly recorded as accounts payable. In addition, interfunds payable decreased by \$.5 millions and total receivables increased by \$ 1.6 millions.
 - Of the total unrestricted cash of \$ 11,488,408 there was investment in certificates of deposit amounting to \$ 6,425,153.
 - Loans principal payments were \$ 3.8 millions during fiscal year 2002-03. Loan proceeds from new debt issued amounted to \$ 3.2 millions during the same fiscal year.

- Certificates of deposit amounting to \$ 6.8 millions were transferred to the General Fund operations, recorded in the financial statements as other financing sources.
- The Municipality was able to develop the improvements to the parking lot of the municipal coliseum.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the Municipality's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

The Municipality is principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Municipality include general government and administration, public safety, development services, and cultural and recreation. The government-wide financial statements can be found on page 12-13 of this report.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Municipality are classified in the category of governmental funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities

The Municipality maintains 5 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, and Special Funds, Federal Funds all of which are considered to be major funds. Data from the other Capital Project funds are combined into a single, aggregated presentation. The basic governmental funds financial statements can be found on pages .

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages .

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the **Municipality of Toa Baja**, assets exceeded liabilities by **\$ 70,985,939** as of June 30, 2003.

The principal increase of the net assets was due mainly to the inclusion of the capital assets of the Municipality. (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. These capital assets will increase as the infrastructure assets become fully identified and included in the financial statements. The Municipality uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed of repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following represents the condensed statement of net assets of the Primary Government.

MUNICIPALITY OF TOA BAJA'S NET ASSETS

	Governmental Activities 2003
Current and other assets	\$ 33,596,987
Capital Assets, net	<u>89,375,156</u>
Total Assets	<u>122,972,143</u>
Long term liabilities	34,738,130
Other liabilities	<u>17,248,074</u>
Total Liabilities	<u>51,986,204</u>
 Net Assets:	
Invested in capital assets, net of related debt	63,332,050
Restricted for debt service	7,502,338
Unrestricted	<u>151,551</u>
Total Net Assets	<u>\$ 70,989,939</u>

Analysis of the Municipality's Operations - Overall the Municipality had an increase in net assets of \$ 8,309,590.

Governmental Activities: Governmental activities increased the net assets by \$ 8,309,590 or 13% of the total growth in net assets.

Total revenues for governmental activities decreased from the previous year by \$5,523,723. General revenue had a net decrease of 12% which was due to a decrease in sales tax and investment earnings due to a slow economy and low interest rates, offset by increases in ad valorem taxes and franchise fees.

The following table provides a summary of the Municipality's operations for year ended June 30, 2003 with comparative totals for year ended June 30, 2002.

MUNICIPALITY OF TOA BAJA'S CHANGES IN NET ASSETS

**Governmental Activities
2003**

Revenues:

Program Revenues:

Fees, fines and

Charges for services	\$ 343,980
Operating grants and contributions	21,664,975
Capital grants and contributions	1,726,140
General revenues:	

Ad valorem taxes

Property taxes	19,481,909
Volume of business tax	9,196,696
Licenses, permits fines and forfeits	1,547,951
Rent	8,521,097
Miscellaneous	2,462,512
Transfers	<u>6,769,249</u>
Total revenues	<u>71,714,509</u>

Expenses:

General government

and administration	23,412,162
Public works and permanent improvements	5,934,293
Health and Sanitation	10,827,912
Human services and welfare	18,017,719
Cultural and recreational	1,652,103
Economic Development	252,554
Interest on long term debt	<u>3,308,176</u>

Total expenses	<u>63,404,919</u>
Increases in net assets	8,309,590
Net assets-Beginning	<u>62,676,349</u>
Net assets -June 30	<u>\$ 70,985,939</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the **Municipality of Toa Baja's** governmental funds reported combined ending fund balances of \$ 16,348,913. Approximately 23 % of this total amount (\$ 3,753,359) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay for encumbrances (\$ 2,591,799), 2) to provide for next year expenditures (\$ 2,501,417) and 3) to pay for debt service (\$ 7,502,338).

In the general fund, the Municipality budgeted for a decrease in the fund balance of \$ 1,281,466, which was primarily resulting from transfers to federal funds to pay payrolls. Also, the special revenue funds transfers \$ 1,231,739 to General Fund to reimbursed loaned funds. Special funds transfers \$ 1,197,658 to capital projects funds for the construction in progress of various. Debt service fund balance decreased in 2003 by \$ 861,513 and was primarily due to lower than projected debt service requisition on the 2003 debt issue.

General Fund Budgetary Highlights - The Municipality made revisions to the original appropriations approved by the Municipality Council. Overall these changes resulted in a decrease in budgeted expenditures from the original budget of \$ 175,038. The majority of the decrease was due to reductions in various encumbrances reduced when analyzed during 2003.

The General Fund's budgeted revenues decreased 6%, and was the result of decreased revenue projections in sales and property tax collections.

CAPITAL ASSETS

The Municipality of Toa Baja's investment in capital assets for its governmental activities as of June 30, 2003, amounts to \$ 89,375,156 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Several, improvements to Head Start Centers \$ 249,315.
- Improvements to Toa Baja Community Activities & Recreation Center \$ 199,134.
- Improvements to the parking lot of the Municipal Coliseum \$ 1,189,000.

Capital Assets at Year-end Net of Accumulated Depreciation

	Balance 6-30-03
Capital Assets	
Governmental Activities:	
<i>Non-depreciable assets:</i>	
Land	\$ 3,191,186
Construction in progress	14,046,374
Total Non-depreciable assets	\$ 17,237,560
<i>Depreciable assets:</i>	
Buildings and other facilities	29,938,989
Improvements	15,485,823
Furniture & Fixture and Equipment	2,436,922
Computer Equipment	602,577
Heavy Equipment	691,262
Vehicles	7,107,123
Infrastructure	39,696,772
Sub-totals	95,959,468
Less Accumulated Dep.	23,821,872
Depreciable assets, net	72,137,596
Governmental activities capital assets, net	\$ 89,375,156

Additional information on the **Municipality of Toa Baja's** capital assets can be found in note 8 on the notes to Basic Financial Statements.

DEBT ADMINISTRATION

At the end of the current fiscal year, the **Municipality of Toa Baja** had a total bonded debt and notes payable of \$ 48,719,951. This amount, \$ 48,719,951 comprises bonded debt backed by the full faith and credit of the government.

Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities	
	2003	2002
General Obligations	\$ 39,074,291	\$ 38,270,299
Special Obligation Loans	6,455,000	6,840,000
Notes Payable	<u>3,190,000</u>	<u>4,250,000</u>
Total	<u>\$ 48,719,951</u>	<u>\$ 49,360,299</u>

During the fiscal year, the Municipality's total debt increased by a \$ 3,200,000 bonds new issuance. The issuance will be used on the following:

• Construction of a Public Municipal GYM	\$ 900,000
• Remodelation of Virgilio Dávila City Hall	450,000
• Improvements to Levittown Fourth Section Sports Center	606,368
• Sidewalks and Roads construction in rural areas	655,700
• Improvements to Municipal Cementery	567,392
• Legal and Financing expenses	20,540

	<u>\$ 3,200,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 16 members.

As previously discussed in this report, the Municipality provides a full range of services to its community in general. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government, fees on the use of the Landfill by other Municipalities, and Federal Grants.

The municipality has a moderate industrial base which includes motels, small pharmaceuticals, factories and industries, wholesalers, retail stores, financial institutions, restaurants and automobiles dealers, among others. This industrial base has maintain almost the same level during the most recent years.

The Municipality's Budget for fiscal year 2002-2003 increased in \$ 218,325 over last fiscal year. This short amount in expected income is in accordance with the slow down in economic growth which will impact the Municipality's revenues budget in regard to collections of municipal licenses taxes on existing business. However, the municipality has identified several new warehouse business to start operations during 2003-2004 and anticipates \$ 500,000 on additional collections on municipal licenses taxes.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the Municipality's finances. If you have questions about this report or need any additional information, contact the Department of Finance, Attn: Maria L. Molina, at P.O. Box 2359, Toa Baja, PR, 00951 call (787) 261-0202.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2003

<u>ASSETS</u>	Primary Government Governmental Activities
Cash	\$ 17,748,617
Cash with Fiscal Agents	7,502,338
Receivables	
Landfill and Rent	5,318,677
Federal Funds	16,068
Excise Tax	19,870
Sales Taxes	1,472,912
Other	1,518,505
Capital assets:	
Land	3,191,186
Buildings and Other Facilities	29,938,989
Furniture, Fixtures & Equipment	3,730,761
Improvements	15,485,823
Vehicles	7,107,123
Infrastructure	39,696,772
Construction in Progress	14,046,374
Accumulated Depreciation	(23,821,872)
Total Assets	122,972,143
 <u>LIABILITIES</u>	
Accounts Payable	5,076,508
Due to:	
Other Governmental Units	1,920,435
Federal Agencies	108,156
Deferred Revenues:	
Volume of Business Tax	6,466,067
Special Funds	3,283,469
Federal Awards	393,439
Noncurrent Liabilities:	
Due Within One Year	10,976,096
Due in More Than One Year	23,762,034
Total Liabilities	51,986,204
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	63,332,050
Restricted for:	
Debt Service	7,502,338
Unrestricted	151,551
Total Net Assets	\$ 70,985,939

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

Program Activities	Expenses	Program Revenues		Capital Grants and Contributions	Total Net (Expenses) Revenue and Change in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
General Government and Administration	\$ 23,412,162	\$ 133,082	\$ 8,815,710	\$	(14,463,370)
Public Works and Permanent Improvements	5,934,293			\$ 1,558,062	(4,376,231)
Health and Sanitation	10,827,912		694,358		(10,133,554)
Human Services and Welfare	18,017,719		9,673,311	168,078	(8,176,330)
Cultural and Recreational	1,652,103	210,898			(1,441,205)
Economic Development	252,554		13,333		(239,221)
Interest on Long Term Debt	3,308,176		2,468,263		(839,913)
Total governmental activities	\$ 63,404,919	\$ 343,980	\$ 21,664,975	\$ 1,726,140	\$ (39,669,824)
General Revenues:					
Property Taxes					19,481,909
Volume of Business Taxes					9,196,696
Licenses, Permits, Fines and Forfeits					1,547,951
Rent					8,521,097
Miscellaneous					2,462,512
Transfers					6,769,249
					47,979,414
					8,309,590
					<u>62,676,349</u>
Net assets at Beginning of Year					<u>62,676,349</u>
Net assets at End of Year					<u>\$ 70,985,939</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2003

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals Governmental Funds</u>
ASSETS					
Cash	\$ 11,488,408	\$ 4,789,503		\$ 1,470,706	\$ 17,748,617
Cash with Fiscal Agents			\$ 7,502,338		7,502,338
Receivables					
Landfill and Rent	5,318,677				5,318,677
Other Funds	1,390,858	3,705,901			5,096,759
Federal Funds		16,068			16,068
Excise Tax	19,870				19,870
Sales Taxes	1,472,912				1,472,912
Other	1,514,738	3,767			1,518,505
Total Assets	\$ 21,205,463	\$ 8,515,239	\$ 7,502,338	\$ 1,470,706	\$ 38,693,746

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
June 30, 2003

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals Governmental Funds</u>
<u>LIABILITIES AND AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 2,767,902	\$ 2,291,356		\$ 17,250	\$ 5,076,508
Due to:					-
Other Funds	3,705,901	1,390,858			5,096,759
Other Governmental Units	1,920,435				1,920,435
Federal Agencies		108,156			108,156
Deferred Revenues:					-
Volume of Business Tax	6,466,067				6,466,067
Special Funds		3,283,469			3,283,469
Federal Awards				393,439	393,439
Total Liabilities	<u>14,860,305</u>	<u>7,073,839</u>	<u>-</u>	<u>410,689</u>	<u>22,344,833</u>
<u>FUND BALANCES</u>					
Fund Balances:					-
Reserved for Encumbrances	2,591,799				2,591,799
Unreserved:					-
Designates for Debt Service			\$ 7,502,338		7,502,338
Designates for Subsequent Year					-
Expenditures		1,441,400		1,060,017	2,501,417
Undesignated, reported in:					-
General fund	<u>3,753,359</u>				<u>3,753,359</u>
Total Fund Balances	<u>6,345,158</u>	<u>1,441,400</u>	<u>7,502,338</u>	<u>1,060,017</u>	<u>16,348,913</u>
Total Liabilities and and Fund Balances	<u>\$ 21,205,463</u>	<u>\$ 8,515,239</u>	<u>\$ 7,502,338</u>	<u>\$ 1,470,706</u>	<u>\$ 38,693,746</u>

See accompanying notes to basic financial statements.

COMMONWELATH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS
June 30, 2003

Total Fund Balance-Total Governmental Funds	\$	16,348,913
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital Assets Used in Governmental Activities are not Current Financial Resources and Therefore are not Reported in the Governmental Funds Balance Sheet.		89,375,156
Long Term Liabilities are not Due and Payable in the Current Period and, Therefore, They are not Reported in the Governmental Funds Balance Sheet .		
Due Within One Year	\$	10,976,096
Due in More Than One Year		<u>23,762,034</u>
		<u>(34,738,130)</u>
Net Assets of Governmental Activities	\$	<u>70,985,939</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	General	Special Revenue	Debt Service	Capital Projects	Totals Governmental Funds
REVENUES					
Property Taxes	\$ 19,481,909		\$ 8,997,840		\$ 28,479,749
Volume of Business Taxes	9,196,696				9,196,696
Federal Assistance		\$ 8,637,220		\$ 4,199,608	12,836,828
Intergovernmental		1,900,427			1,900,427
Licenses and Permits	1,352,481				1,352,481
Fines and Foreits	195,470				195,470
Rent	8,521,097				8,521,097
Others	2,462,512				2,462,512
Total Revenues	41,210,165	10,537,647	8,997,840	4,199,608	64,945,260
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	2,164,369				2,164,369
General Government	19,534,401	556,798			20,091,199
Public Works	3,119,539				3,119,539
Culture and Recreation	1,601,187				1,601,187
Health and Sanitation	10,494,207				10,494,207
Human Services and Welfare	6,630,266	11,625,678			18,255,944
Planning and Development	244,771				244,771
Urban Development					-
Permanent Improvements		13,220		4,337,249	4,350,469
Others		216,440			216,440
Debt Service:					
Principal Retirement-Bonds and Notes			3,785,349		3,785,349
Interests			3,308,176		3,308,176
Total Expenditures	43,788,740	12,412,136	7,093,525	4,337,249	67,631,650
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,578,575)	\$ (1,874,489)	\$ 1,904,315	\$ (137,641)	\$ (2,686,390)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND (CONTINUED)
YEAR ENDED JUNE 30, 2003

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
<u>OTHER FINANCING SOURCES (USES)</u>					
Bonds issued					
Reserve Reduction			(861,513)		\$ (861,513)
Operating Transfer-In	8,862,501	1,281,466		1,197,658	11,341,625
Operating Transfer-Out	\$ (1,281,466)	\$ (2,429,397)			(3,710,863)
Total Other Financing Sources (Uses)	7,581,035	(1,147,931)	(861,513)	1,197,658	6,769,249
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	5,002,460	(3,022,420)	1,042,802	1,060,017	4,082,859
Fund Balances (Deficit) at Beginning of Year	1,167,660	4,463,820	6,459,536	-	12,091,016
Prior Period Adjustments	175,038	-	-		175,038
Fund Balances (Deficit) at Beginning of Year, as adjusted	1,342,698	4,463,820	6,459,536	-	12,266,054
Fund Balances at End of Year	\$ 6,345,158	\$ 1,441,400	\$ 7,502,338	\$ 1,060,017	\$ 16,348,913

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
June 30, 2003

Net in Fund Balances - Total Governmental Funds	\$	4,082,859
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Governmental Funds Reported Capital Outlay as Expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the Cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of Capital assets recorded in the current period.		2,591,998
The Net Effect of Various Transactions Involving Capital Assets (ie., Sales, Trade - Ins, and Contributions) is to Increase Net Assets.		3,785,349
Depreciation Expense on Capital Assets is Reported in the Government-Wide Statement of Activities and Changes in Net Assets, but They do not Require the Use of Current Financial Resources. Therefore, Depreciation Expense is not Reported as Expenditure in Governmental Funds.		(2,150,616)
Change in net assets of governmental activities	\$	<u>8,309,590</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2003

	GENERAL				DEBT SERVICE			
	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property Taxes	\$ 19,239,481	\$ 19,481,910	\$ 19,481,909	\$ (1)	\$ 3,973,945	\$ 3,973,945	\$ 8,997,840	\$ 5,023,895
Sales Taxes	9,909,000	9,909,000	9,196,696	(712,304)				
Licenses & Permits	956,700	956,700	1,352,481	395,781				
Rent	11,200,000	11,200,000	8,521,097	(2,678,903)				
Intergovernmental	1,402,396	1,402,396	1,514,737	112,341				
Fines & Forfeits	70,000	70,000	195,470	125,470				
Miscellaneous	933,725	933,725	947,774	14,049				
Total Revenues	43,711,302	43,953,731	41,210,164	(2,743,567)	3,973,945	3,973,945	8,997,840	5,023,895
EXPENDITURES AND ENCUMBRANCES								
Mayor and Municipal Assembly	1,809,087	1,880,899	2,164,369	(283,470)				
General Government	#####	17,005,987	19,534,401	(2,528,414)				
Public Works	3,676,336	3,578,412	3,119,539	458,873				
Culture and Recreation	1,452,518	1,579,569	1,601,187	(21,618)				
Health and Sanitation	#####	11,634,619	10,494,207	1,140,412				
Human Services and Welfare	6,953,128	7,905,591	6,630,266	1,275,325				
Planning and Development	304,932	368,654	244,771	123,883				
Debt Service			-	-	3,973,945	3,973,945	7,093,525	3,119,580
Total Expenditures and Encumbrances	43,711,302	43,953,731	43,788,740	164,991	3,973,945	3,973,945	7,093,525	3,119,580
Excess (Deficiency) Of Revenues Over (Under) Expenditures and Encumbrances	\$ -	\$ -	\$(2,578,576)	\$(2,578,576)	\$ -	\$ -	\$ 1,904,315	\$ 1,904,315

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2003

	GENERAL				DEBT SERVICE			
	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
Other Financial Sources (Uses):								
Operating Transfer-In	-	-	6,769,249	6,769,249				
Operating Transfer-Out	-	-	(1,281,466)	(1,281,466)				
Total other financing sources (uses)			5,487,783	5,487,783				
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	2,909,207	2,909,207		1,904,315	1,904,315	
Fund Balance at Beginning of Year as Restated	-	-	3,435,950	3,435,950		5,598,023	5,598,023	
Fund Balance at End of Year	-	-	\$ 6,345,157	\$ 6,345,157		\$ 7,502,338		

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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 is a political legal entity with full legislative and administrative faculties in every municipal affair, 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 accounting and reporting policies of the **Municipality of Toa Baja** relative to the funds included on the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the governmental accounting standards board (GASB), the American Institute of Certified Public Accountants in the publication entitle audits of state and local government units and by the accounting Financial Standards Board (when applicable). The more significant accounting policies of the municipality are described as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Summary of Significant Accounting Policies

A) Financial

The Municipality's basic financial statements include the accounts of all the Municipality's operations.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

The **Municipality of Toa Baja** is required to implement this Standard for the fiscal year ended June 30, 2003.

Component Unit

The financial reporting entity included in this report consists solely of the financial statements of the Municipality of Toa Baja as primary government. The Municipality does not have any component unit.

Basic of Presentation

The government – wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all the activities of the **Municipality of Toa Baja**.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Capital Projects Fund - Capital projects fund is used to account for the funds received and expended for construction, renovation, expansion and mayor improvements of various facilities, acquisition of land and other large nonrecurring projects.

Measurement Focus / Basis of Accounting

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement mode, regardless of the measurement focus applied.

Government-wide Financial Statements The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Funds Financial Statement Governmental funds financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or 60 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. 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. General capital asset acquisitions are reported as expenditures in governmental funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Measurement Focus. Basis of Accounting (Continued)

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

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

Encumbrances

Governmental funds employ encumbrances accounting. 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 constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and, accordingly, are reported with expenditures in all budgetary basis statements. The Municipality's records shows encumbrances amounting to \$ 2,591,799 as of June 30, 2003, which were reserved against fund balance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Budgetary Data

The Municipality follows these procedures, which are in accordance with the municipal law; in establishing the budgetary data reflected in the basic financial statements.

- (1) On or prior to May 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st., the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the basic financial statements.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances as described below.

The actual results of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences regarding comparability presented or reconciled in the said statement are the following:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Budgetary Data (Continued)

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) **The Municipality** receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

The budget prepared for each of the components of the Special Revenue Fund, Capital Project Fund and Other Funds are based on a program period, which is not necessarily the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for others major and non-major funds.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

Investments consist of short-term certificates of deposit and are stated at cost, which approximates fair value.

Inventories

The general and special funds purchases office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as an expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements since amount is insignificant.

Fund Financial Statements

The Municipality charged costs of capitalizable outlays as expenditures categories in the Governmental Fund Financial Statements.

Government Wide Financial Statements

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Government Wide Financial Statements (Continued)

Asset Classification	Estimated Useful Lives	Capitalization Threshold
Vehicles	5	\$ 500
Heavy Equipment, Furniture and Fixtures	10	\$ 300
Computer and Electronic Equipment	3	\$ 300
Buildings	50	\$ 1
Infrastructure	60	\$ 1
Improvements	40	\$ 1

In addition, the Municipality assigned a 10% residual value on most capital assets.

Vested Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation 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 or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. **The Municipality** is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of prior year.

Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, are accounted in the Statement of Net Asset.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Insurance

The Municipality has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance coverage for the Municipality. Premiums payable are withheld in the collection center of municipal revenues (CRIM) from monthly advance of property tax and subsidy send to the Municipality.

Restricted Assets

Cash with fiscal agent

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

Debt Service - Represents net assets available to finance future debt service payments.

Capital Projects - Represent net assets available to finance future capital outlays.

For equipment and other purposes - Represents net assets legally segregated for acquisition of equipment and other specific future use.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

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

Reservations of Fund Balance (Continued)

For loans and grants - Represent net assets available to finance and subsidize other projects.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed of their use either through the enabling legislations adopted by the municipality or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Claims and Judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net Assets.

Use of Estimates

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 2 – PROPERTY TAXES

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 BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

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 BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 3 – VOLUME OF BUSINESS TAX (CONTINUED)

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

- 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. Financial institutions are required to pay 1.5% of his volume of business.

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 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, 2003**

NOTE 5 – LANDFILL AND RENTS RECEIVABLES

The Municipality maintains several accounts receivables included in the Basic Financial Statement as of June 30, 2003. Those receivables arose from ordinary operating activities recorded during the fiscal year ended as of this date, as follows:

Landfill outstanding accounts	\$ 5,076,300
Other Rents	242,377
Total	<u>\$ 5,318,677</u>

From the above total, the Municipality collected the amount of \$552,999 from July to the middle of October 2003.

NOTE 6 – LONG – TERM DEBT

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. 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, 2003, are composed of the following individual issues:

General Obligations – Bonds and Notes

\$ 9,725,000, series 1994, payable in annual installments ranging from \$ 135,000 to \$ 850,000, through July 2019; interest at 8%.	\$ 8,060,000
\$ 8,150,000, series 1994, payable in annual installments ranging from \$ 300,000 to \$ 880,000, through July 2009; interest at 12%.	4,400,000
\$ 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%.	1,385,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 6 – LONG – TERM DEBT (CONTINUED)

<p>\$ 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%.</p>	<p>2,755,000</p>
<p>\$ 2,755,000, series 1994, payable in annual installments ranging from \$ 60,000 to \$ 265,0010 through July 1, 2014; interest ranging from 7.250% to 6.580%.</p>	<p>2,005,000</p>
<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>1,315,000</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>685,000</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>3,090,000</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>440,000</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>4,130,000</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>1,258,106</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>2,850,000</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 6 – LONG – TERM DEBT (CONTINUED)

\$ 2,062,000, series 1996, payable in annual installments ranging from \$ 62,799.66 through January 1, 2021; interest at 2%.	1,846,845
\$ 605,000, series 2000, payable in annual installments ranging from \$ 70,000 to \$ 105,000 through June 2006, interest at approximately 8%.	295,000
\$ 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%.	575,000
\$ 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%.	840,000
\$ 3,200,000, series 2002, payable in annual installments ranging from \$ 55,000 to \$ 245,000 through July 1, 2027; interest ranging from 5.00% to 6.500%.	3,145,000
Total general Obligations – Bonds and Notes	39,074,951
 <i>Special Obligation – Notes</i>	
\$ 10,500,000 series 1986, payable in annual installments of \$ 585,000, through July 1, 2006; interest at 6.00%.	5,745,000
\$ 400,000, series 1996, payable in annual installments ranging from \$ 10,000 to \$ 40,000, through July 1, 2016; interest at 8.00%.	315,000
\$ 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%.	395,000
Total Special Obligations – Notes	6,455,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 6 – LONG – TERM DEBT (CONTINUED)

Promissory Notes – Loan Guarantee Assistance (Continued)

Total General and Special Obligations – Bond and Notes	45,529,951
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Federal Funds

\$ 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.	3,190,000
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<i>Annual requirements to retire debt obligations</i>	<u>\$ 48,719,951</u>
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The annual aggregate maturities for each bond type for the years subsequent to June 30, 2003, are as follows:

General Obligation Bonds and Notes

	Governmental Activities		
Year Ending June 30,	Principal	Interest	Total
2004	\$ 2,564,104	\$ 2,411,603	\$ 4,975,708
2005	2,763,895	2,262,497	5,026,392
2006	2,722,722	2,098,922	4,821,645
2007	2,817,586	1,924,634	4,742,220
2008	3,022,487	1,758,034	4,780,521
2009 – 2013	11,619,319	6,312,290	17,931,609
2014 – 2018	9,136,922	3,143,330	12,280,252
2019 – 2023	3,387,917	732,593	4,120,510
Total	<u>\$ 39,074,954</u>	<u>\$ 20,806,048</u>	<u>\$ 59,881,002</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 6 – LONG – TERM DEBT (CONTINUED)

Special Obligation and Notes

	Governmental Activities		
Year Ending June 30,	Principal	Interest	Total
2004	\$ 410,000	\$ 381,672	\$ 791,672
2005	435,000	360,612	795,612
2006	470,000	338,255	808,255
2007	345,000	313,700	658,700
2008	365,000	292,600	657,600
2009 – 2013	2,185,000	1,100,000	3,285,000
2014 – 2018	2,245,000	349,200	2,594,200
Total	<u>\$ 6,455,000</u>	<u>\$ 3,136,038</u>	<u>\$ 9,591,038</u>

Federal Funds

	Governmental Activities		
Year Ending June 30,	Principal	Interest	Total
2004	\$ 1,060,000	\$ 184,237	\$ 1,244,237
2005	1,060,000	111,362	1,171,362
2006	1,070,000	37,343	1,107,343
Total	<u>\$ 3,190,000</u>	<u>\$ 332,942</u>	<u>\$ 3,522,942</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 6 – LONG TERM - LIABILITIES (CONTINUED)

The following is a summary of changes in long – term obligations for the year ended June 30, 2003:

	Balance July 1, 2002	or Additions	Payments, or Expenditures	Balance June 30, 2003	Due within one year
General Obligations Loans	\$ 38,270,299	\$ 3,200,000	\$ (2,395,348)	\$ 39,074,951	\$ 2,564,104
Special Obligation Loans	6,840,000	-0-	(385,000)	6,455,000	410,000
Federal Funds	4,250,000	-0-	(1,060,000)	3,190,000	1,060,000
Compensated Absences	2,589,773	1,455,448	-0-	4,045,221	2,669,855
Total	<u>\$ 51,950,072</u>	<u>\$ 4,655,448</u>	<u>\$(3,840,348)</u>	<u>\$ 52,765,172</u>	<u>\$ 6,703,959</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.

Compensated Absences

Accounts for vacation and sick leave absences to be financed with governmental funds.

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 6 – LONG TERM - LIABILITIES (CONTINUED)

In addition, the liabilities for retirement obligations were recorded in the government-wide Financial Statements. The balance consists of unpaid, accumulated pension obligations. The current portion of the liability has been calculated using the vesting method, in which every employee with 58 years of age and at least 10 years of creditable service is entitled to an early retirement benefit. On the other hand, the long-term portion consist of those employees, which at the close of the fiscal year have not attained 58 years of age nor 10 years of creditable service.

NOTE 7 – DEBT RETIREMENT (SERVICE FUND)

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 2). Payments are made by the CRIM to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds. Since the notes represents a general obligation of the Municipality, they are recorded as a liability in the Government-wide financial statements.

NOTE 8 – CAPITAL ASSETS

The municipality is organizing its property records to determine the amount invested in capital assets. This process requires the identification of all real and personal property through physical inventories and their subsequent valuation. Once this process of completed, the Municipality will determine the correct amount of its investment in capital assets recorded in the Statement of Net Assets. As of June 30, 2003, the Municipality has identified most of its capital assets and is in the process to validate records with original documents.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 8 – CAPITAL ASSETS (CONTINUED)

Capital Assets	Balance 6-30-02	Additions/ Completions	Retirements / Adjustments	Balance 6-30-03
Governmental Activities:				
<i>Non-depreciable assets:</i>				
Land	\$ 4,209,556	\$ -0-	\$(1,018,370)	\$ 3,191,186
Construction in progress	20,243,482	1,189,000	(7,386,108)	14,046,374
Total Non-depreciable assets	\$ 24,453,038	\$ 1,189,000	\$ (8,404,478)	\$ 17,237,560
<i>Depreciable assets:</i>				
Buildings and other facilities	22,552,881	7,386,108	-0-	29,938,989
Improvements	11,670,005	3,815,818	-0-	15,485,823
Furniture & Fixture and Equipment	1,917,821	519,101	-0-	2,436,922
Computer Equipment	676,976	-0-	(74,399)	602,577
Heavy Equipment	955,522	36,490	(300,750)	691,262
Vehicles	6,832,731	274,392	-0-	7,107,123
Infrastructure	-0-	39,696,772	-0-	39,696,772
Sub-totals	44,605,936	51,728,681	(375,149)	95,959,468
Less Accumulated Dep.	21,671,256	2,150,616	-0-	23,821,872
Depreciable assets, net	22,934,680	49,578,065	(375,149)	72,137,596
Governmental activities capital assets, net	\$ 47,387,718	\$ 50,767,065	\$ (8,779,627)	\$ 89,375,156

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 8 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Major and municipal assembly	\$ 68,825
General Government	871,329
Public works	237,538
Culture & Recreation	50,916
Health and sanitation	333,705
Human services & welfare	580,520
Planning & Development	7,783

Total	<u>\$ 2,150,616</u>

NOTE 9 – 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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 9 – CONTINGENCIES (CONTINUED)

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" for the year ended June 30, 2003, disclosed several instances of noncompliance with applicable laws and regulations and with internal accounting and administrative control structure. On March 28, 2003, The Department of Housing and Urban Development presented a Monitoring Review Report for the programs CDBG, Home Investment Partnership, Emergency Shelter Grant and Disaster Recovery Initiative which disclosed several instances of noncompliance findings and concerns. The report disallowed the amount of \$ 318,941 and questioned costs of \$ 1,590,356. After submitting additional evidence in the response to the findings and concerns, the Municipality entered in an agreement with the Community Planning and Development Division to reimburse the amount of \$ 161,100 from its local funds to the following programs on a five years installment payment plan:

Program

HOME	\$ 80,000
CDBG	8,387
ESGP	72,713
	<u>\$ 161,100</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 9 – CONTINGENCIES (CONTINUED)

Annual payments requirements which due on June 30, each year are as follows.

HOME year ending June 30,	Principal	ESGP year ending June 30,	Principal
2005	\$ 10,000	2005	\$ 17,100
2006	16,000	2006	17,000
2007	22,000	2007	17,000
2008	27,000	2008	17,000
Total	<u>\$ 75,000</u>	Total	<u>\$ 68,100</u>

The Municipality financial statements were affected as follows:

The total amount of period 2003-2004 (\$ 18,000) for HOME, CDBG and ESGP was recorded as a current liability in General Fund in the Governmental Fund Financial Statement and the total amount (\$ 161,1007) was recorded as a liability in the Government-wide Financial Statements.

NOTE 10 – RETIREMENT SYSTEM

Plan Description

Regular employees of the **Municipality** contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P.O. Box 42003, San Juan, Puerto Rico 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 10 – RETIREMENT SYSTEM (CONTINUED)

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

OLD PLAN

Eligibility

Age 55 and 30 years
of service

Under 55 and 30 years
of service

Pension Benefits

75% of average highest compensation
during any 3 years of credited service

65% of average highest compensation
during any 3 years of credited service

Participants in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

NEW PLAN

Eligibility

Age 65 with 10 years
of service

Pension Benefits

1.5% of average compensation during
the final 5 years of credited services
multiplies by the numbers of years
credited service

For both plans, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature fo Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 10 – RETIREMENT SYSTEM (CONTINUED)

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by the Municipality were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The Municipality total payroll for the fiscal year 2003 was approximately \$19,904,964 of which \$ 12,687,261 were subject to the System. The annual employer and employees contribution for the year ended June 30, 2003 amounted approximately \$1,133,872 and \$969,277 respectively. Members' contributions are 5.775% for gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary.

Actuarial Valuation

The actuarial determined present value of benefits accrued as of June 30, 2001 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$9.5 billion. The net assets available for benefits at such date were \$2.1 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$7.4 billion. This information is not available by each participant government agencies nor municipalities.

Net assets of the System consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 10 – RETIREMENT SYSTEM (CONTINUED)

Actuarial Valuation

a) Interest rate	8.5% a year
b) Salary increases	5.0% a year
c) Mortality	GAM'83 Mortality Table set forward two years.
d) Termination	Medium Turnover Table commensurate with anticipated experience.
e) Disability	65% of Third Railroad Retirement Table Rates.
f) Retirement age	Graded scale of retirement ages commensurate with anticipated experience.
g) Proportion of participants with spouses	80% of participants assumed to be married, with wives assumed to be four years younger than husbands.
Number of employees electing higher contributions	15% of retiring employees assumed to pay retroactive contributions at retirement.
i) Cost-of living adjustment	3% every third year

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 11 - CASH

As of June 30, 2003 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 \$ 14,934,917. Nevertheless, management believes that concentration of credit risks is limited because balances are deposited with high standing financial institutions which maintains a bond with the Treasury Department for the amounts of governmental funds deposited in their banks. Cash with GDB is completely guaranteed by the Commonwealth of Puerto Rico.

Certificates of deposit of the general and the special revenue fund, which amounted to \$ 6,425,151 as of June 30, 2003 earns interest ranging from 4.50% to 4.75% with variable maturity terms, renewable at option of the Municipality. Interests earned on certificates of deposit are recognized as revenues of the corresponding fund.

NOTE 12 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2003, the balance due to other governmental units of the general fund, for services rendered to the municipality, consists of the following:

Water and Sewer Authority	\$ 117,276
Electric Power Authority	1,249,507
General Service Administration	48,062
Unemployment	52,835
Collection Center of Municipal Revenues (CRIM)	105,817
Retirement System Administration	219,576
Treasury Department	123,640
Internal Revenue Service	3,722
	<u>\$ 1,920,435</u>

NOTE 13 – 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, 2003, are as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

**NOTE 13 – INTERFUND RECEIVABLE AND PAYABLE BALANCES
(CONTINUED)**

<i>Fund</i>	Inter-fund Receivable	Inter-fund Payables
General	\$ 1,390,858	\$ 3,705,901
Special Revenue:		
Special Funds	3,705,901	-0-
Head Start		1,176,354
Child Care		206,386
Early Head Start		8,118
	<u>\$ 5,096,759</u>	<u>\$ 5,096,759</u>

NOTE 14 – 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, 2003, amounted to approximately \$ 895,800.

NOTE 15 – 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 \$ 8,306,250 as of June 30, 2003, 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

**NOTE 15- LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS
(CONTINUED)**

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 \$ 22,236,659 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, 2003. 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 16 - 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.

(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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 17 – PRIOR PERIOD ADJUSTMENT

General Fund

The beginning balance of the general fund deficit has been adjusted by \$ 175,038 because of prior year overstated accounts payable. In our analysis for the current year we determined that several orders and contracts for service were recorded as accounts payable in lieu of encumbrances. The municipality was instructed to reconcile the encumbrances and accounts payable records.



Ramón L. Marrero Rosado

Certified Public Accountants & Consultants

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**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, 2003, and has issued my report thereon dated January 20, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Toa 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 03-01 and 03-02 and in the schedule of prior audit findings and questioned costs, identified as item #00-01,01-01 to 01-08 and 02-01.

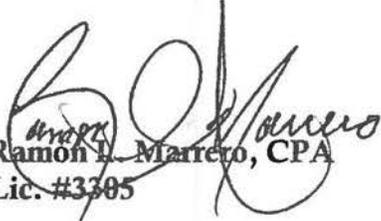
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the **Municipality of Toa Baja's** 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 03-01 and 03-02 and in the schedule of prior audit findings and questioned costs identified item 00-01, 01-01 to 01-08 and 02-01.

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 03-01 and 03-02, 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.


Ramón L. Marrero, CPA
Lic. #3385



January 20, 2004
Bayamón, Puerto Rico

NOTE: Stamp No. 1930247 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.



Ramón L. Marrero Rosado

Certified Public Accountants & Consultants

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**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 compliance of the **Municipality of Toa Baja** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The **Municipality of Toa Baja's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Toa Baja's** management. My responsibility is to express an opinion on the **Municipality of Toa Baja's** compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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's** 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's** compliance with those requirements.

As described in items 02-01 in the accompanying schedule of prior audit 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 and in audits, findings 01-01 to 01-08 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 00-01 in the Schedule of Prior Audit Findings and Questioned Costs, the Municipality did not comply with the requirement of recording in the accounting records the differences between the cash balance per bank reconciliation's 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, 2003.

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's** ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of prior audits findings and questioned costs as item 02-01. 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 item 02-01 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



January 20, 2004
Bayamón, Puerto Rico

NOTE: Stamp No. 1930248 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, 2003**

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, 2003**

SECTION I - SUMMARY OF AUDITOR'S RESULTS - CONTINUED

<i>CFDA #</i>	<i>Name of Federal Programs or Cluster</i>
14.857	Section 8 - Voucher
93.600	Head Start & Early Head Start - Cluster
14.218	CDBG

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

03-01 - 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:

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

REPORTABLE CONDITIONS (CONTINUED)

03-01 - ACCOUNTING SYSTEM (CONTINUED)

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, reconciliation's, 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, 2003, 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.

Recommendation:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Auditee Response:

Management accepted the condition and is actually working on the application of OCAM Accounting System and other internal accounting systems, softwares and procedures allowed by enacted laws in order to record all the operations according to actual Governmental Accounting requirements.

03-02 - 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 EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

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	\$ 1,276,142
Housing Assistance Payments Programs Program for low-income Families Voucher Housing (Rental Voucher)	14.857	N/A	1,298,668
Section 108 - loan Guarantee Assistance of the Housing and Community Development Act of 1974 Programs	14.248	N/A	2,486,368
Emergency Shelter Grants Program (ESG)	14.231	N/A	6,001
Home Investment Partnerships Program (Home Program)	14.239		568,738
(HOPWA)	14.241		186,393
Total U.S. Department of Housing and Urban Development Direct Programs			5,822,310

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

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	\$ 9,447,742
Contribution Child Care:			
Child Care	93.575		854,937

Total U.S. Department of Health and Human Services Pass-through programs			10,302,679

Total Federal Awards Expended			<u>\$ 16,124,989</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

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 basic financial statements.

NOTE 2 – RELATIONSHIP TO BASIC 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 basic financial statements:

Special Revenues Fund	\$ 12,412,136
Capital Projects Fund	4,337,249
	<hr/>
	16,749,385
Less Non-federal Expenditures	624,396
	<hr/>
Expenditures in the Schedule of Federal Financial Assistance	<u>\$ 16,124,989</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003**

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
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

For all prior year findings and questioned costs the Municipality has filed The Corrective Action Plan.

During the current audit, we inquired about the status of the prior year's audit findings and questioned costs, communicated to the Municipality of Toa Baja. It was noted that corrective action has been taken, except for certain conditions that still exists.

SINGLE AUDIT REPORTS FOR THE
YEAR ENDED JUNE 30, 2002

PROGRAM 02-01 – FINDINGS/NONCOMPLIANCE

COMMENTS

*MUNICIPAL
OPERATIONS*

02-01 – FINANCIAL MANAGEMENT SYSTEM – PROPERTY RECORDS

Statement of Condition:

The Municipality do not have available complete property based on a physical inventory count.

Partially
Corrected

Management's Corrective Action:

The Municipality has substantially completed the process of identifying and valuing the investment in general capital assets. Property ledger will be corrected to reflect the information required by Common Rules regulations. A new physical inventory of property was realized in order to obtain the necessary information to up-date the capital assets ledger.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2003

Federal Awards

<u>PROGRAM</u>	<u>FINDINGS/NONCOMPLIANCE</u>	<u>COMMENTS</u>
----------------	-------------------------------	-----------------

SECTION 8 VOUCHER 01-01 - RECORDS RETENTION

Statement of Condition:

Incomplete Accounting Records.
In 32 disbursement vouchers the
Municipality could not provide the
proper documentation. A \$39,251
Questioned Cost was reported.

Situation
Still Prevails
No similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures
to comply with all general and specific
requirements of the grant.

SECTION 8 EXISTING 01-02 - RECORDS RETENTION

Statement of Condition:

Incomplete Accounting Records.
In 11 disbursement vouchers the
Municipality could not provide the
proper documentation. A \$11,686
Questioned Cost was reported.

Situation
Still Prevails
No similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures
to comply with all general and specific
requirements of the grant.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2003

Federal Awards

PROGRAM	FINDINGS/NONCOMPLIANCE	COMMENTS
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HOME

01-03 - RECORDS RETENTION

Statement of Condition:

Incomplete Accounting Records.
In 25 disbursement vouchers the
Municipality could not provide the
proper documentation. A \$172,638
Questioned Cost was reported.

Situation
Still Prevails
No similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures
to comply with all general and specific
requirements of the grant.

FOOD PROGRAM

01-04 - RECORDS RETENTION

Statement of Condition:

Incomplete Accounting Records.
In 8 disbursement vouchers the
Municipality could not provide the
proper documentation. A \$99,162
Questioned Cost was reported.

Situation
Still Prevails
No similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures
to comply with all general and specific
requirements of the grant.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2003

Federal Awards

PROGRAM	FINDINGS/NONCOMPLIANCE	COMMENTS
----------------	-------------------------------	-----------------

*COMMUNITY
DEVELOPMENT
BLOCK GRANT*

01-05 - RECORDS RETENTION

Statement of Condition:

Incomplete Accounting Records.
In 19 disbursement vouchers the
Municipality could not provide the
proper documentation. A \$181,760
Questioned Cost was reported.

Situation
Still Prevails
No similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures
to comply with all general and specific
requirements of the grant.

HEAD START

01-06 - RECORDS RETENTION

Statement of Condition:

Incomplete Accounting Records.
In 29 disbursement vouchers the
Municipality could not provide the
proper documentation. A \$230,637
Questioned Cost was reported.

Situation
Still Prevails
No similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures
to comply with all general and specific
requirements of the grant.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2003

Federal Awards

PROGRAM	FINDINGS/NONCOMPLIANCE	COMMENTS
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<i>EARLY HEAD START</i>	01-07 - RECORDS RETENTION	
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Statement of Condition:

Incomplete Accounting Records.
In 27 disbursement vouchers the Municipality could not provide the proper documentation. A \$83,227 Questioned Cost was reported.

Situation
Still Prevails
No similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures to comply with all general and specific requirements of the grant.

<i>CHILD CARE</i>	01-08 - RECORDS RETENTION	
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Statement of Condition:

Incomplete Accounting Records.
In 10 disbursement vouchers the Municipality could not provide the proper documentation. A \$22,726 Questioned Cost was reported.

Situation
Still Prevails
No similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures to comply with all general and specific requirements of the grant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2003**

Federal Awards

PROGRAM	FINDINGS/NONCOMPLIANCE	COMMENTS
----------------	-------------------------------	-----------------

<i>HEAD START</i>	00-01 - RECORDS RETENTION	
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Statement of Condition:

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

Management Corrective Action:

The auditor recommended that procedures be implemented requiring the reconciliation be prepared on time for all program Bank Accounts. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status:

Situation still prevails. Similar finding was noted in the 2003 audit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2003**

*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, 2003.