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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE TOA BAJA

AUDITORIA 2003-2004

30 DE JUNIO DE 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
FINANCIAL STATEMENTS
JUNE 30, 2004

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

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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 accompanying financial statements of the Governmental Activities, each major fund and the aggregate remaining fund information of the **Municipality of Toa Baja**, Puerto Rico, as of and for the year ended **June 30, 2004**, which collectively comprise the **Municipality of Toa Baja's** 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 an opinion on these financial statements based on my 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, each mayor fund and the aggregate remaining fund information of the **Municipality of Toa Baja**, Puerto Rico, as of **June 30, 2004**, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the mayor Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated December 29, 2004 on my consideration of the **Municipality of Toa Baja's** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

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 accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Toa Baja** basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the **Municipality of Toa Baja**. The Schedule of Expenditures of Federal Awards 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

December 29, 2004

Bayamón, Puerto Rico



NOTE: Stamp No. 2021358 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, 2004**

Within this section of the **Municipality of Toa Baja annual financial report**, the **Municipalities ' provides narrative discussion and analysis of the financial activities of the Municipalities for the fiscal year ended June 30, 2004.** The **Municipality 's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.** The discussion focuses on the **Municipalities 's primary government.**

FINANCIAL HIGHLIGHTS

- ✚ The assets of the **Municipality of Toa Baja** exceeded its liabilities at the close of the most recent fiscal year by **\$ 46,949,631 (Net assets).**
- ✚ Capital assets increase by **\$ 4,652,368** in comparison to prior year, mainly through purchase of equipment, vehicles, scultures, and construction.
- ✚ The **Municipality 's governmental funds** reported total ending fund balance of **\$ 18,850,934** this year. This compares to the prior year ending fund balance of **\$ 16,348,913** showing an increase of **\$ 2,502,021** during the current year. Undesignated fund balance from the General Fund of **\$ 1,792,977** for fiscal year 2004 shows a **\$ 1,960,382** decrease over the prior year.
- ✚ Of the total unrestricted cash of **\$ 13,416,927** there was an investment in certificates of deposit amounting to **\$ 11,180,034.**
- ✚ Total account receivables increase in comparison to prior year for **\$ 5,406,962.**
- ✚ **Total liabilities of the Municipality** increase by **\$ 3,059,369** during the fiscal year.

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 include: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.** This report also contains other supplementary information.

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 provide 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 \$ 46,949,631 as of June 30, 2004.

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 ASSET

	Governmental Activities		Increase	
	2004	2003	(decrease)	% Change
Current and other assets	\$ 38,987,942	\$ 33,596,987	\$ 5,390,955	16.05 %
Capital Assets, net	<u>94,027,524</u>	<u>89,375,156</u>	<u>4,652,368</u>	<u>5.21 %</u>
Total Assets	<u>133,015,466</u>	<u>122,972,143</u>	<u>10,043,323</u>	<u>8.17 %</u>
Long term liabilities	65,928,827	34,738,130	31,190,697	89.79 %
Other liabilities	<u>20,136,978</u>	<u>17,248,074</u>	<u>2,888,904</u>	<u>16.75 %</u>
Total Liabilities	<u>86,065,835</u>	<u>51,986,204</u>	<u>34,079,631</u>	<u>65.55 %</u>
Net Assets:				
Invested in capital assets,				
net of related debt	66,745,881	63,332,050	3,413,831	5.39 %
Restricted for debt service	7,981,091	7,502,338	478,753	6.38 %
Unrestricted	<u>(27,777,341)</u>	<u>151,551</u>	<u>(27,928,892)</u>	<u>(184.29 %)</u>
Total Net Assets	<u>\$ 46,949,631</u>	<u>\$ 70,985,939</u>	<u>\$(24,036,308)</u>	<u>(33.86 %)</u>

Analysis of the Municipality's Operations - Overall the Municipality had a decrease in net assets of \$ 24,036,308, due to unrecognized landfill obligation and federal loans.

Governmental Activities: Governmental activities increased the net assets by \$ 8,601,758 or 18.31% of the total growth in net assets.

Total revenues for governmental activities increased from the previous year by \$1,525,740. General revenues and transfers had a net decrease of 18.64% which was due to a decrease in sales tax and excise tax due to a slow economy and low interest rates, offset by increases in ad valorem taxes, franchise fees and poor efforts to assess and imposed the taxes.

The following table provides a summary of the Municipality's operations for year ended June 30, 2004 with comparative totals for year ended June 30, 2003.

MUNICIPALITY OF TOA BAJA'S CHANGES IN NET ASSETS

	Governmental Activities		Increase	
	2004	2003	(decrease)	% Change
Revenues:				
Program Revenues:				
Fees, fines and charges for services	\$ -	\$ 343,980	\$ (343,980)	(100.00 %)
Operating grants and contributions	28,481,494	21,664,975	6,816,519	31.46 %
Capital grants and contributions	5,726,160	1,726,140	4,000,020	231.73 %
General revenues:				
Ad valorem taxes				
Property taxes	16,674,874	19,481,909	(2,807,035)	(14.41 %)
Volume of business tax	7,383,189	9,196,696	1,813,507	19.72 %
Licenses, permits fines and				
Forfeitures	2,016,917	1,547,951	468,966	30.30 %
Intergovernmental	2,570,654	-	2,570,654	100.00 %
Rent	6,583,059	8,521,097	1,938,038	22.74 %
Miscellaneous	2,517,033	2,462,512	54,521	2.21 %
Transfers	<u>1,154,525</u>	<u>6,769,249</u>	<u>(2,911,726)</u>	<u>(43.01 %)</u>
Total revenues	<u>73,107,905</u>	<u>71,714,509</u>	<u>1,393,396</u>	<u>5.96 %</u>

Expenses:

General government				
and administration	24,296,227	23,412,162	884,065	3.78 %
Public works and permanent				
Improvements	5,977,249	5,934,293	42,956	0.72 %
Health and Sanitation	9,549,086	10,827,912	(1,278,826)	(11.81 %)
Human services and welfare	19,721,693	18,017,719	1,703,974	9.46 %
Cultural and recreational	1,921,912	1,652,103	269,809	16.33 %
Economic Development	505,689	252,554	253,135	100.23 %
Interest on long term debt	<u>2,666,635</u>	<u>3,308,176</u>	<u>(641,541)</u>	<u>(19.39 %)</u>
Total expenses	<u>64,638,491</u>	<u>63,404,919</u>	<u>1,233,572</u>	<u>1.95 %</u>
Increases in net assets	8,469,414	8,309,590	159,824	1.92 %
Net assets-Beginning	70,985,939	62,676,349	8,309,590	13.26 %
Prior year adjustment	<u>(32,505,722)</u>	<u>-</u>	<u>(32,505,722)</u>	<u>(100.00 %)</u>
Net assets -June 30	<u>\$ 46,949,631</u>	<u>\$ 70,985,939</u>	<u>(\$24,036,308)</u>	<u>(33.86 %)</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 total governmental funds reported ending fund balances of \$ 18,850,934. Approximately 9.51 % of this total amount (\$ 1,792,977) 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 (\$ 3,822,603), 2) to provide for next year expenditures (\$ 5,254,263) and 3) to pay for debt service (\$ 7,981,091).

In the general fund, the Municipality had other financing sources for an increase in the fund balance of \$ 8,035,252, which was primarily resulting from transfers from debt service and capital projects to acquire capital assets or construct it. Also, the special revenue funds transfers \$ 1,231,739 to General Fund to reimburse loaned funds. Special funds transfer-in \$ 2,008,504 from capital projects funds for the construction in progress of various projects. Debt service fund balance decreased in 2004 by \$ 6,186,233 and was primarily due to the decrease in projected debt service requisition on the 2004 and remaining funds released to the general fund for acquisition or construction of capital projects.

General Fund Budgetary Highlights - The Municipality made revisions to the original appropriations approved by the Municipality Council. Overall these changes resulted in an increase in budgeted expenditures from the original budget by \$ 3,753,359. The majority of the increase was used for capital outlays.

CAPITAL ASSETS

The Municipality of Toa Baja's investment in capital assets for its governmental activities as of June 30, 2004, amounts to \$ 94,027,524 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

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

- ✚ Construction of "Plaza de Recreo Virgilio Dávila" \$ 1,679,000.
- ✚ Construction and repair of facilities at Head Start Centers \$ 51,400.
- ✚ Construction of municipal gym \$ 1,289,721.
- ✚ Improvements to the parking lot of the Municipal Coliseum \$ 1,189,000.
- ✚ Acquisition of equipment and installation of seesaw \$ 142,781.
- ✚ Construction of Early Head Start Center \$ 18,212.
- ✚ Construction of library at Levittown \$ 499,000.
- ✚ Construction of baseball park at Levittown \$ 799,999.
- ✚ Improvements at municipal library \$ 38,000.
- ✚ Improvements to roads \$ 31,998
- ✚ Improvements to parking at municipal coliseum \$ 221,300

- ✚ Acquisition of motor vehicles \$ 537,149.
- ✚ Acquisition of heavy equipment \$ 999,072.
- ✚ Acquisition of equipment \$ 164,975.
- ✚ Acquisition of sculptures \$ 224,075.

Capital Assets at Year-end Net of Accumulated Depreciation

Capital Assets	Balance 6-30-04	Balance 6-30-03	Total % Change
Governmental Activities:			
Non-depreciable assets:			
Land	\$ 3,191,186	\$ 3,191,186	-
Construction in progress	<u>17,407,486</u>	<u>14,046,374</u>	<u>23.93 %</u>
Total Non-depreciable assets	<u>20,598,672</u>	<u>17,237,560</u>	<u>19.50 %</u>
Depreciable assets:			
Buildings and other facilities	29,938,989	29,938,989	-
Improvements	16,896,123	15,485,823	9.11 %
Furniture & Fixture And equipment	1,997,313	2,436,922	22.01%
Computer Equipment	604,584	602,577	0.33%
Heavy Equipment	1,690,334	691,262	144.53%
Vehicles	7,664,272	7,107,123	7.84%
Infrastructure	<u>39,696,772</u>	<u>39,696,772</u>	-
Sub-totals	<u>98,468,387</u>	<u>95,959,468</u>	<u>2.61%</u>
Less Accumulated Dep.	25,039,182	23,821,872	5.11%
Depreciable assets, net	<u>73,429,205</u>	<u>72,137,596</u>	<u>1.79%</u>
Governmental activities capital assets, net	<u>\$ 94,027,877</u>	<u>\$ 89,375,156</u>	<u>5.21%</u>

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 \$ **44,684,383**. This amount represent bonded debt backed by the full faith and credit of the government.

Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities	
	2004	2003
General Obligations	\$ 36,509,383	\$ 39,074,291
Special Obligation Loans	6,045,000	6,455,000
Notes Payable	<u>2,130,000</u>	<u>3,190,000</u>
Total	<u>\$ 44,684,383</u>	<u>\$ 48,719,951</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 maintained almost the same level during the most recent years.

The Municipality's Budget for fiscal year 2003-2004 increased in \$ **5,950,116** over the last fiscal year. This includes a transfer from undesignated fund balance from 2003 for \$ **3,753,359**.

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: María 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
STATEMENT OF NET ASSETS
June 30, 2004**

<u>ASSETS</u>	Primary Government Governmental Activities
Cash	\$ 17,424,292
Cash with Fiscal Agents	7,981,091
Receivables	
Land fill and Rent	7,365,662
Federal Funds	590,853
Excise Tax	381,578
Sales Taxes	1,816,308
Other	3,428,158
Capital assets:	
Land	3,191,186
Buildings and Other Facilities	29,938,989
Furniture, Fixtures & Equipment	4,292,231
Improvements	16,896,123
Vehicles	7,644,272
Infrastructure	39,696,772
Construction in Progress	17,407,486
Accumulated Depreciation	<u>(25,039,535)</u>
Total Assets	<u>133,015,466</u>
 <u>LIABILITIES</u>	
Accounts Payable	5,040,304
Due to:	
Other Governmental Units	6,167,516
Federal Agencies	89,576
Deferred Revenues:	
Volume of Business Tax	7,433,846
Special Funds	1,020,552
Federal Awards	385,214
Noncurrent Liabilities:	
Due Within One Year	
General obligation debt	2,763,895
Special obligation debt	435,000
Federal fund loans	1,087,100
Accrued compensated absences	3,243,703
Due in More Than One Year	
General obligation debt	33,745,488
Special obligation debt	5,610,000
Federal fund loans	1,186,000
Accrued compensated absences	1,670,982
Landfill closure accrued liabilities	<u>16,186,659</u>
Total Liabilities	<u>86,065,835</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	66,745,881
Restricted for:	
Debt Service	7,981,091
Unrestricted	<u>(27,777,341)</u>
Total Net Assets	<u>\$ 46,949,631</u>

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, 2004**

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	\$ 24,296,227		\$ 1,135,399		\$ (23,160,828)
Public Works and Permanent Improvements	5,977,249		10,924,211	\$ 5,470,055	10,417,017
Health and Sanitation	9,549,086		528,552		(9,020,534)
Human Services and Welfare	19,721,693		13,196,279		(6,525,414)
Cultural and Recreational	1,921,912		286,523		(1,635,389)
Economic Development	505,689				(505,689)
Interest on Long -Term Debt	2,666,635		2,410,530	256,105	-
Total governmental activities	\$ 64,638,491	\$ -	\$ 28,481,494	\$ 5,726,160	(30,430,837)
General Revenues:					
Property Taxes					16,674,874
Volume of Business Taxes					7,383,189
Licenses, Permits, Fines and Forfeitures					2,016,917
Intergovernmental					2,570,654
Rent					6,583,059
Miscellaneous					2,517,033
Transfers					1,154,525
					<u>38,900,251</u>
					<u>8,469,414</u>
Net assets at Beginning of Year					70,985,939
Prior year adjustment					(32,505,722)
Restated net assets at beginning of year					<u>38,480,217</u>
Net assets at End of Year					<u>\$ 46,949,631</u>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2004**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals Governmental Funds</u>
<u>ASSETS</u>					
Cash	\$ 13,416,927	\$ 3,740,954		\$ 266,411	\$ 17,424,292
Cash with Fiscal Agents			\$ 7,981,091		7,981,091
Receivables					
Landfill and Rent	7,365,662				7,365,662
Other Funds	1,151,159	4,116,035			5,267,194
Federal Funds		590,853			590,853
Excise Tax	381,578				381,578
Sales Taxes	1,816,308				1,816,308
Other	3,428,158				3,428,158
	<u>\$ 27,559,792</u>	<u>\$ 8,447,842</u>	<u>\$ 7,981,091</u>	<u>\$ 266,411</u>	<u>\$ 44,255,136</u>
Total Assets					

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
June 30, 2004**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals Governmental Funds</u>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 4,226,815	\$ 675,822		\$ 137,667	\$ 5,040,304
Due to:					
Other Funds	4,116,035	1,151,159			5,267,194
Other Governmental Units	6,167,516				6,167,516
Federal Agencies		89,576			89,576
Deferred Revenues:					
Volume of Business Tax	7,433,846				7,433,846
Special Funds		1,020,552			1,020,552
Federal Awards		256,470		128,744	385,214
	<u>21,944,212</u>	<u>3,193,579</u>	<u>-</u>	<u>266,411</u>	<u>25,404,202</u>
Total Liabilities					
	<u>21,944,212</u>	<u>3,193,579</u>	<u>-</u>	<u>266,411</u>	<u>25,404,202</u>
<u>FUND BALANCES</u>					
Fund Balances:					
Reserved for Encumbrances	3,822,603				3,822,603
Unreserved:					
Designated for Debt Service			\$ 7,981,091		7,981,091
Designated for Subsequent Year Expenditures		5,254,263		-	5,254,263
Undesignated, reported in:					
General fund	1,792,977				1,792,977
	<u>5,615,580</u>	<u>5,254,263</u>	<u>7,981,091</u>	<u>-</u>	<u>18,850,934</u>
Total Fund Balances					
	<u>5,615,580</u>	<u>5,254,263</u>	<u>7,981,091</u>	<u>-</u>	<u>18,850,934</u>
Total Liabilities and and Fund Balances	<u><u>\$ 27,559,792</u></u>	<u><u>\$ 8,447,842</u></u>	<u><u>\$ 7,981,091</u></u>	<u><u>\$ 266,411</u></u>	<u><u>\$ 44,255,136</u></u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA, PUERTO RICO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total Fund Balance-Total Governmental Funds	\$ 18,850,934
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital assets of \$119,067,059, net of accumulated depreciation of (\$25,039,535), are not financial resources and, therefore, are not reported in the funds.	94,027,524
Long-term liabilities of (\$65,928,827) are not due and payable in the current period and are not reported in the funds.	<u>(65,928,827)</u>
Net Assets of Governmental Activities	<u>\$ 46,949,631</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, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals Governmental Funds</u>
REVENUES					
Property Taxes	\$ 16,674,874		\$ 12,855,513		\$ 29,530,387
Volume of Business Taxes	7,383,189				7,383,189
Federal Assistance		\$ 10,666,212		\$ 5,726,160	16,392,372
Intergovernmental	2,570,654	4,959,769			7,530,423
Licenses and Permits	1,955,718				1,955,718
Fines and Forfeitures	61,199				61,199
Rent	6,583,059				6,583,059
Others	2,517,033				2,517,033
Total Revenues	37,745,726	15,625,981	12,855,513	5,726,160	71,953,380
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	1,750,593				1,750,593
General Government	19,822,605	1,842,097			21,664,702
Public Works	7,181,455				7,181,455
Culture and Recreation	1,859,201				1,859,201
Health and Sanitation	8,668,460	587,976			9,256,436
Human Services and Welfare	8,079,626	11,035,863			19,115,489
Planning and Development	484,785				484,785
Permanent Improvements				4,083,179	4,083,179
Others		355,686			355,686
Debt Service:					
Principal Retirement-Bonds and Notes			3,523,892		3,523,892
Interests			2,666,635		2,666,635
Total Expenditures	47,846,725	13,821,622	6,190,527	4,083,179	71,942,053
Excess (Deficiency) of Revenues Over Expenditures	\$ (10,100,999)	\$ 1,804,359	\$ 6,664,986	\$ 1,642,981	\$ 11,327

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, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Bonds issued					
Reserve Reduction			\$ (6,186,233)		\$ (6,186,233)
Operating Transfer-In	\$ 8,035,252	\$ 2,008,504	-		10,043,756
Operating Transfer-Out	-			\$ (2,702,998)	(2,702,998)
Total Other Financing Sources (Uses)	8,035,252	2,008,504	(6,186,233)	(2,702,998)	1,154,525
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(2,065,747)	3,812,863	478,753	(1,060,017)	1,165,852
Fund Balances at Beginning of Year	6,345,158	1,441,400	7,502,338	1,060,017	16,348,913
Prior Period Adjustments	1,336,169	-	-		1,336,169
Fund Balances at Beginning of Year, as adjusted	7,681,327	1,441,400	7,502,338	1,060,017	17,685,082
Fund Balances at End of Year	\$ 5,615,580	\$ 5,254,263	\$ 7,981,091	\$ -	\$ 18,850,934

See accompanying notes to basic financial statements.

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
YEAR ENDED JUNE 30, 2004

Net Change in Fund Balances-Total Governmental Funds	\$ 1,165,852
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds reported capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$ 5,870,031 exceeded depreciation of (\$2,090, 360) in the current period.	3,779,671
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This includes the net increase in compensated absences of (\$869,464).	(869,464)
The net effect of various transactions involving capital assets (contributions) is to increase net assets.	<u>4,393,355</u>
Change in net assets of governmental activities	<u>\$ 8,469,414</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, 2004

	GENERAL				DEBT SERVICE			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP Basis	Final Budget Positive (Negative)	Original	Final	GAAP Basis	Final Budget Positive (Negative)
REVENUES								
Property Taxes	\$ 20,327,950	\$ 20,327,950	\$ 16,674,874	\$ (3,653,076)	\$ 4,500,657	\$ 4,500,657	\$ 12,855,513	\$ 8,354,856
Sales Taxes	9,900,000	9,900,000	7,383,189	(2,516,811)				
Licenses & Permits	968,702	968,702	1,955,718	987,016				
Rent	11,220,808	11,220,808	6,583,059	(4,637,749)				
Intergovernmental	1,669,387	2,725,303	2,570,654	(154,649)				
Fines & Forfeitures	70,000	70,000	61,199	(8,801)				
Miscellaneous	937,725	937,725	2,517,033	1,579,308				
Prior year fund balance:								
Appropriated for current year budget	-	3,753,359	-	(3,753,359)				
Total Revenues	45,094,572	49,903,847	37,745,726	(12,158,121)	4,500,657	4,500,657	12,855,513	8,354,856
EXPENDITURES AND ENCUMBRANCES								
Mayor and Municipal Assembly	1,962,352	1,904,456	1,750,593	153,863				
General Government	18,739,781	19,030,649	19,822,605	(791,956)				
Public Works	5,495,985	6,988,427	7,181,455	(193,028)				
Culture and Recreation	1,525,306	2,120,432	1,859,201	261,231				
Health and Sanitation	7,392,769	9,276,850	8,668,460	608,390				
Human Services and Welfare	9,249,410	10,053,604	8,079,626	1,973,978				
Planning and Development	728,969	529,429	484,785	44,644				
Debt Service					4,500,657	4,500,657	6,190,527	1,689,870
Total Expenditures and Encumbrances	45,094,572	49,903,847	47,846,725	2,057,122	4,500,657	4,500,657	6,190,527	1,689,870
Excess (Deficiency) of Revenue Over (Under) Expenditures and Encumbrances		-	(10,100,999)	(10,100,999)	-	-	6,664,986	6,664,986
Other financing sources (uses)								
Bonds reserve reduction			4,177,729	4,177,729			(6,186,233)	(6,186,233)
Operating transfers from capital projects fund			2,702,998	2,702,998				
Reimbursement from Medicare			272,195	272,195				
Reimbursement from Department of Transportation and Public Works			217,608	217,608				
Reimbursement from "Consortio" Guaynabo-Toa Baja			99,897	99,897				
Reimbursement from CISNE Project			800,220	800,220				
Operating transfer to "Coliseo"			(235,395)	(235,395)				
Total other financing sources			8,035,252	8,035,252			(6,186,233)	(6,186,233)
Net change in fund balances			(2,065,747)	(2,065,747)			478,753	478,753
Fund balances, at beginning of year			6,345,158	6,345,158			7,502,338	7,502,338
Prior period adjustment			1,336,169	1,336,169				
Fund Balances at End of Year			\$ 5,615,580	\$ 5,615,580			\$ 7,981,091	\$ 7,981,091

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

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, 2004**

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

Summary of Significant Accounting Policies

‡ **The Financial Reporting Entity**

As defined by accounting principles generally accepted in the United States of America (GAAP) that are established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. 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 Financial Statements**

In accordance with GASB Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, the basic financial statements include both government-wide and fund financial statements.

The government - wide financial statements (Statement of Net Assets and Statement of Activities) report on all the municipality's operations. Governmental activities, normally are supported by taxes and intergovernmental revenues. All governmental activities, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Municipality as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity is shown in the government-wide financial statements. The "doubling up" effect of internal service fund activity has been eliminated from the government-wide financial statements with the expenses shown in the various functions and programs on the Statements of Activities.

The government-wide Statement of Net Assets reports all financial and capital resources of the Municipality. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital

assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Municipality would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Municipality are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead should be allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprises funds combined), it also gives governments the option of displaying other funds as major funds. Other nonmajor funds are combined in a single column on the fund financial statements.

The Municipality reports the following major governmental funds:

↳ **General Fund:**

General Fund is the main operating fund of the Municipality. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are nor paid through other funds are paid from the General Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

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

- ✦ **Special Revenue Fund** - Accounts for the proceeds of Federal Grants and loans and Local Special assignments to develop specific purpose on the Economy of the Municipality.
- ✦ **Debt Service Fund** - Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- ✦ **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 and Basis of Accounting**

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year -end). Revenue considered susceptible to accrual includes: property taxes, licenses, fees and permits, intergovernmental revenues, charge for services, fines forfeitures and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as an other financing source.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

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

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the source and uses of liquid resources, and 3) demonstrate how the Municipality's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements, are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

↓ **Encumbrances**

The Municipality utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this procedure, encumbrances of the General, Special Revenue and Capital Projects Funds, representing purchase orders, contracts and other commitments, are reported as reservations of fund balances at year end. All appropriations lapse at the end of the fiscal year, except for Capital Projects, which are carried forward until such time as the project is completed or terminated and for encumbered balances that are reappropriated in the next year. The Municipality's records shows encumbrances amounting to \$ 3,822,603 as of June 30, 2004, which were reserved against fund balance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

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, 2004**

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, 2004**

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.

↳ **Capital Assets**

Under GASB Statement No. 34, all capital assets, owned by governmental activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets, including public domain infrastructure (e.g., roads bridges, sidewalks and other assets that are immovable and of value only to the Municipality) are defined as assets and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

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

↳ **Capital Assets (Continued)**

improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

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

↳ **Vested Vacation and Sick Leave and Other Compensated Absences (Continued)**

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.

↳ **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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

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

↳ **Reservations of Fund Balance (Continued)**

↳ **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.

↳ **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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

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

↳ **Reservations of Fund Balance (Continued)**

↳ **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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 2 - PROPERTY TAXES (CONTINUED)

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 2 - PROPERTY TAXES (CONTINUED)

from future monthly payments, the amounts sent 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO GENERAL PURPOSES FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

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.

NOTE 5 - ACCOUNT RECEIVABLES

The Municipality maintains several accounts receivables included in the Basic Financial Statement as of **June 30, 2004**. From the total accounts receivables of \$ 13,582,559, the Municipality collected the amount of \$ 4,741,000 from July to the middle of December 2004.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 6 - LONG - TERM DEBT (CONTINUED)

General and special obligation bonds and notes as of June 30, 2004, 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%.	\$ 7,795,000
✚ \$ 8,150,000, series 1994, payable in annual installments ranging from \$ 300,000 to \$ 880,000, through July 2009; interest at 12%.	3,800,000
✚ \$ 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%.	1,340,000
✚ \$ 5,100,000, series 1994, payable in annual installments ranging from \$ 185,000 to \$ 550,000 through July 1, 2009; interest ranging from 6.106% to 6.580%.	2,380,000
✚ \$ 2,755,000, series 1994, payable in annual installments ranging from \$ 60,000 to \$ 265,000 through July 1, 2014; interest ranging from 7.250% to 6.580%.	1,885,000
✚ \$ 1,540,000, series 1994, payable in annual installments ranging from \$ 170,000 to \$ 240,000 through July 1, 2020; interest ranging from 5.400% to 6.875%.	1,275,000
✚ \$ 1,020,000, series 1996, payable in annual installments ranging from \$ 40,000 to \$ 135,000 through ranging from 4.700% to 8.00%.	620,000
✚ \$ 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%.	2,995,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 6 - LONG - TERM DEBT (CONTINUED)

<ul style="list-style-type: none"> ✦ \$ 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%. 	230,000
<ul style="list-style-type: none"> ✦ \$ 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%. 	3,900,000
<ul style="list-style-type: none"> ✦ \$ 1,500,000, series 1999, payable in annual installments ranging from \$ 44,000 to \$ 108,000 through June 2019; interest at 4.5%. 	1,201,643
<ul style="list-style-type: none"> ✦ \$ 3,470,000, series 2000, payable in annual installments ranging from \$ 140,000 to \$ 355,000 through June 2014, interest at approximately 8%. 	2,670,000
<ul style="list-style-type: none"> ✦ \$ 2,062,000, series 1996, payable in annual installments ranging from \$ 62,799.66 through January 1, 2021; interest at 2%. 	1,757,740
<ul style="list-style-type: none"> ✦ \$ 605,000, series 2000, payable in annual installments ranging from \$ 70,000 to \$ 105,000 through June 2006, interest at approximately 8%. 	205,000
<ul style="list-style-type: none"> ✦ \$ 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%. 	545,000
<ul style="list-style-type: none"> ✦ \$ 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%. 	825,000
<ul style="list-style-type: none"> ✦ \$ 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%. 	3,085,000
<p>Total General Obligations - Bonds and Notes</p>	<p>36,509,383</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 6 - LONG - TERM DEBT (CONTINUED)

↳ **Special Obligation - Notes**

↳ \$ 10,500,000 series 1986, payable in annual installments of \$ 585,000, through July 1, 2006; interest at 6.00% 5,470,000

↳ \$ 400,000, series 1996, payable in annual installments ranging from \$ 10,000 to \$ 40,000, through July 1, 2016; interest at 8.00% 300,000

↳ \$ 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%. 275,000

Total Special Obligations - Notes 6,045,000

↳ **Promissory Notes - Loan Guarantee Assistance (Continued)**

↳ **Total General and Special Obligations - Bond and Notes 42,554,383**

↳ **Federal Funds**

↳ \$ 9,550,000 promissory note, issued under section 108 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. 2,130,000

Annual requirements to retire debt obligations \$ 44,684,383

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 6 - LONG - TERM DEBT (CONTINUED)

The annual aggregate maturities for each bond type for the years subsequent to June 30, 2004, are as follows:

↳ **General Obligation Bonds and Notes**

	Governmental Activities		
Year Ending June 30,	Principal	Interest	Total
↳ 2005	\$ 2,763,895	\$ 2,230,247	\$ 4,994,142
↳ 2006	2,722,722	2,094,423	4,817,145
↳ 2007	2,817,586	1,924,635	4,742,221
↳ 2008	3,022,487	1,758,037	4,780,524
↳ 2009	3,237,427	1,566,264	4,803,691
↳ 2010 - 2015	12,697,576	6,359,774	19,057,350
↳ 2016 - 2020	7,377,003	1,970,577	9,347,580
↳ 2021 - 2025	1,347,199	406,945	1,754,144
↳ 2026 - 2027	523,488	46,800	570,288
Total	<u>\$ 36,509,383</u>	<u>\$ 18,357,702</u>	<u>\$ 54,867,085</u>

↳ **Special Obligation and Notes**

	Governmental Activities		
Year Ending June 30,	Principal	Interest	Total
↳ 2005	\$ 435,000	\$ 356,112	\$ 791,112
↳ 2006	470,000	338,255	808,255
↳ 2007	345,000	313,700	658,700
↳ 2008	365,000	292,600	657,600
↳ 2009	385,000	270,300	655,300
↳ 2010 - 2014	2,320,000	966,400	3,286,400
↳ 2015 - 2019	1,725,000	212,500	1,937,500
Total	<u>\$ 6,045,000</u>	<u>\$ 2,749,867</u>	<u>\$ 8,794,867</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 6 - LONG TERM - LIABILITIES (CONTINUED)

✦ **Federal Funds**

	Governmental Activities		
Year Ending June 30,	Principal	Interest	Total
✦ 2005	\$ 1,060,000	\$ 111,362	\$ 1,171,362
✦ 2006	1,070,000	37,343	1,107,343
Total	\$ 2,130,000	\$ 148,705	\$ 2,278,705

The following is a summary of changes in long - term obligations for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Payments, or Expenditures	Balance June 30, 2004	Due within one year
General Obligations Loans	\$ 39,074,951	\$ -0-	\$ (2,565,568)	\$ 36,509,383	\$ 2,763,895
Special Obligation Loans	6,455,000	-0-	(410,000)	6,045,000	435,000
Federal Funds	3,190,000	-0-	(1,060,000)	2,130,000	1,060,000
Compensated Absences	4,045,221	869,464	-0-	4,914,685	3,243,703
Total	\$ 52,765,172	\$ 869,464	\$ (4,035,568)	\$ 49,599,068	\$ 7,502,598

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 6 - LONG TERM - LIABILITIES (CONTINUED)

✦ 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.

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 consists of those employees, which at the close of the fiscal year have not attained 58 years of age or 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 represent a general obligation of the Municipality, they are recorded as a liability in the Government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

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 is 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, 2004, the Municipality has identified most of its capital assets and is in the process to validate records with original documents.

Capital Assets	Balance 6-30-03	Additions/ Completions	Retirements / Adjustments	Balance 6-30-04
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 3,191,186	\$ -0-	\$-0-	\$ 3,191,186
Construction in progress	14,046,374	4,550,112	(1,189,000)	17,407,486
Total Non-depreciable assets	\$ 17,237,560	\$ 4,550,112	\$ (1,189,000)	\$ 20,598,672
Depreciable assets:				
Buildings and other facilities	29,938,989	-0-	-0-	29,938,989
Improvements	15,485,823	1,410,300	-0-	16,896,123
Furniture & Fixture and Equipment	2,436,922	162,968	-0-	1,997,313
Computer Equipment	602,577	2,007	-0-	604,584
Heavy Equipment	691,262	999,072	-0-	1,690,334
Vehicles	7,107,123	537,149	-0-	7,664,272
Infrastructure	39,696,772	-0-	-0-	39,696,772
Sub-totals	95,959,468	3,111,496	-0-	98,468,387
Less Accumulated Dep.	23,821,872	2,090,007	(872,697)	25,039,182
Depreciable assets, net	72,137,596	1,021,489	-0-	73,429,205
Governmental activities capital assets, net	<u>\$ 89,375,156</u>	<u>\$ 5,571,601</u>	<u>\$ (1,189,000)</u>	<u>\$ 94,027,877</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 8 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

✚ Major and municipal assembly	\$ 62,711
✚ General Government	689,819
✚ Public works	229,940
✚ Culture & Recreation	62,711
✚ Health and sanitation	292,650
✚ Human services & welfare	606,204
✚ Planning & Development	20,904
✚ Permanent Improvement	125,421

Total \$ 2,090,360

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, 2004

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, 2004, 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
	<hr/>
	<u>\$ 161,100</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 9 - CONTIGENCIES (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 (\$ 161,100) 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, 2004**

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 of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

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 2004 was approximately \$12,688,142 of which \$ 12,153,923 were subject to the System. The annual employer and employees contribution for the year ended **June 30, 2004** amounted approximately \$1,124,356 and \$1,049,128 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, 2004

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.
h) 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, 2004**

NOTE 11 - CASH

As of **June 30, 2004** 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 \$ 14,870,957. 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 \$ 11,180,034 as of **June 30, 2004** 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, 2004**, 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	\$ 1,550
✚ Electric Power Authority	1,100,485
✚ General Service Administration	3,566
✚ Unemployment	10,005
✚ Collection Center of Municipal Revenues (CRIM)	4,681,908
✚ CFSE	18,977
✚ US Post Office	1,100
✚ Public Service Commission	10,000
✚ Police of Puerto Rico	1,375
✚ Retirement System Administration	272,410
✚ Treasury Department	100
✚ Internal Revenue Service	66,040

\$ 6,167,516

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, 2004**, are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 13 - INTERFUND RECEIVABLE AND PAYABLE BALANCES (CONTINUED)

↳ Fund	<u>Inter-fund Receivable</u>	<u>Inter-fund Payables</u>
↳ General	\$ 1,151,159	\$ 4,116,035
↳ Special Revenue:		
↳ Special Funds	4,116,035	-0-
↳ Head Start		864,335
↳ Child Care		204,522
↳ Early Head Start		82,302
	<u>\$ 5,267,194</u>	<u>\$ 5,267,194</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, 2004, amounted to approximately \$ 369,804.

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, last estimate available. 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, 2004**

**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, 2004. 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, 2004**

NOTE 17 - PRIOR PERIOD ADJUSTMENT

✚ **Statement of Activities**

The net assets of beginning of year have been adjusted because landfill closure accrued liabilities as of 06/30/03 were not included in prior year financial statements by error. This represent \$ 16,186,659 which effect is duplicated for \$ 32,373,318 and federal loans due by the Municipality for \$ 132,404 excluded by error during 2003.

✚ **General Fund**

The beginning balance of the general fund deficit has been adjusted by \$ 1,336,169 because of prior year overstated expenses. In our analysis for the current year we determined that services and purchases from prior year were accrued in that year and included as expenditure this year, because register were not properly maintained.



Ramón L. Marrero Rosado

Certified Public Accountants & Consultants

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

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

I have audited the financial statements of the governmental activities, each mayor fund and the aggregate remaining fund information of the **Municipality of Toa Baja** as of and for the year ended **June 30, 2004**, which collectively comprise the **Municipality of Toa Baja's** basic financial statements and have issued my report thereon dated **December 29, 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's** 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 04-01 and 04-02 and in the schedule of prior audit findings and questioned costs, identified as item #00-01,01-01 to 01-08, 02-01 and 03-01 to 03-02.

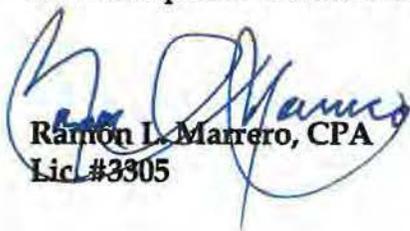
Internal Control Over Financial Reporting

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 opinions 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's 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 04-01 and 04-02 and in the schedule of prior audit findings and questioned costs identified item 00-01, 01-01 to 01-08, 02-01, 03-01 to 03-02.

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 04-01 and 04-02, 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, since this report is issue in connection with a local government it is a matter of public record and its distribution is not limited.


Ramon L. Marrero, CPA
Lic #3305

December 29, 2004
Bayamón, Puerto Rico



NOTE: Stamp No. 2021359 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.



Ramón L. Marrero Rosado

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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, 2004**. 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, 2004**.

✦ **Internal Control Over Compliance**

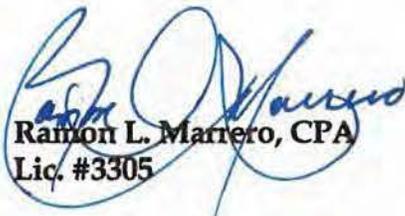
The management of the **Municipality of Toa Baja** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the **Municipality 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 items 02-01 and 03-01. 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, since this report is issue in connection with a local government is a matter of public record and its distribution is not limited.


Ramon L. Marrero, CPA
Lic. #3305



December 29, 2004
Bayamón, Puerto Rico

NOTE: Stamp No. 2021360 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, 2004**

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, 2004**

SECTION I - SUMMARY OF AUDITOR'S RESULTS - CONTINUED

<u>CFDA #</u>	<u>Name of Federal Programs or Cluster</u>
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:

\$ 500,000

Auditee qualified as low-risk auditee?

_____yes

___x___no

SECTION II - FINANCIAL STATEMENT FINDINGS

↓ **REPORTABLE CONDITIONS**

04-01 - 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, 2004**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

✚ REPORTABLE CONDITIONS (CONTINUED)

04-01 - 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, 2004**, 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:

Since this condition was noted in prior years audits, we recommend that procedures be developed immediately 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, 2004**

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.

04-02 - 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, 2004**

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	\$ 2,229,968
Housing Assistance Payments Programs Program for low-income Families Voucher Housing (Rental Voucher)	14.857	N/A	1,347,598
Section 108 - loan Guarantee Assistance of the Housing and Community Development Act of 1974 Programs	14.248	N/A	1,316,105
Emergency Shelter Grants Program (ESG)	14.231	N/A	6,458
Home Investment Partnerships Program (Home Program)	14.239		530,648
(HOPWA)	14.241		157,698
Total U.S. Department of Housing and Urban Development Direct Programs			5,588,475

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

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	\$ 8,827,962
Contribution Child Care:			
Child Care	93.575		657,995
			<hr/>
Total U.S. Department of Health and Human Services Pass-through programs			9,485,957
			<hr/>
Total Federal Awards Expended			<u>\$ 15,074,432</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

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	\$ 13,821,622
✚ Capital Projects Fund	4,083,179
	<hr/>
	17,904,801
✚ Less Non-federal Expenditures	2,830,369
	<hr/>
✚ Expenditures in the Schedule of Federal Financial Assistance	<u>\$ 15,074,432</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

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, 2004**

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, 2003, 2002, 2001, 2000

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

MUNICIAPL OPERATIONS	03-01 - ACCOUNTING SYSTEM	
-----------------------------	----------------------------------	--

Statement of Condition:

The Municipality's current accounting System does not comply with prescribed Requirements.

Situation
Still Prevails
Similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures to comply with the requirements of an adequate accounting system

03-02 - INDIRECT COSTS

Statement of Condition:

The Municipality's is not recording the Indirect Costs as per stated in the Indirect Cost allocation plan.

Situation
Still Prevails
Similar condition
was noted during this year.

Management's Corrective Action:

Will establish policies and procedures to comply with this to reimburse these costs to the Municipality General Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Federal Awards

PROGRAM

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, 2004**

Federal Awards

<u>PROGRAM</u>	<u>FINDINGS/NONCOMPLIANCE</u>	<u>COMMENTS</u>
SECTION 8 VOUCHER	<p>01-01 - RECORDS RETENTION</p> <p>Statement of Condition:</p> <p>Incomplete Accounting Records. In 32 disbursement vouchers the Municipality could not provide the proper documentation. A \$39,251 Questioned Cost was reported.</p> <p>Management's Corrective Action:</p> <p>Will establish policies and procedures to comply with all general and specific requirements of the grant.</p>	<p style="text-align: right;">Situation Still Prevails No similar condition was noted during this year.</p>
SECTION 8 EXISTING	<p>01-02 - RECORDS RETENTION</p> <p>Statement of Condition:</p> <p>Incomplete Accounting Records. In 11 disbursement vouchers the Municipality could not provide the proper documentation. A \$11,686 Questioned Cost was reported.</p> <p>Management's Corrective Action:</p> <p>Will establish policies and procedures to comply with all general and specific requirements of the grant.</p>	<p style="text-align: right;">Situation Still Prevails No similar condition was noted during this year.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2004**

Federal Awards

<u>PROGRAM</u>	<u>FINDINGS/NONCOMPLIANCE</u>	<u>COMMENTS</u>
HOME	<p>01-03 - RECORDS RETENTION</p> <p>Statement of Condition:</p> <p>Incomplete Accounting Records. In 25 disbursement vouchers the Municipality could not provide the proper documentation. A \$172,638 Questioned Cost was reported.</p> <p>Management's Corrective Action:</p> <p>Will establish policies and procedures to comply with all general and specific requirements of the grant.</p>	<p style="text-align: right;">Situation Still Prevails No similar condition was noted during this year.</p>
FOOD PROGRAM	<p>01-04 - RECORDS RETENTION</p> <p>Statement of Condition:</p> <p>Incomplete Accounting Records. In 8 disbursement vouchers the Municipality could not provide the proper documentation. A \$99,162 Questioned Cost was reported.</p> <p>Management's Corrective Action:</p> <p>Will establish policies and procedures to comply with all general and specific requirements of the grant.</p>	<p style="text-align: right;">Situation Still Prevails No similar condition was noted during this year.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2004**

Federal Awards

<u>PROGRAM</u>	<u>FINDINGS/NONCOMPLIANCE</u>	<u>COMMENTS</u>
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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, 2004**

Federal Awards

<u>PROGRAM</u>	<u>FINDINGS/NONCOMPLIANCE</u>	<u>COMMENTS</u>
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EARLY HEAD START

01-07 - RECORDS RETENTION

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.

CHILD CARE

01-08 - RECORDS RETENTION

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, 2004**

Federal Awards

PROGRAM

FINDINGS/NONCOMPLIANCE

COMMENTS

HEAD START

00-01 - RECORDS RETENTION

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 implement requiring the reconciliation be prepared on time for all program Bank Accounts. Management concurred with the recommendation and indicate that the procedures would be implemented.

Current Status:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2004**

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, 2004.