

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

**MUNICIPIO DE TOA BAJA**  
**AUDITORIA 2004-2005**  
**30 DE JUNIO DE 2005**

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**INDEPENDENT AUDITORS' REPORT**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL SCHEDULES**  
**YEAR ENDED JUNE 30, 2005**

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**  
**YEAR ENDED JUNE 30, 2005**

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## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor, Members of the  
Municipal Legislature and People of  
the Municipality of Toa Baja  
Toa Baja, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Toa Baja of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2005, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion and the report of other auditors provide a reasonable basis for our opinion.

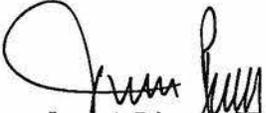
As more fully described in Note 8 to the financial statements, the Municipality has properties and equipments, according with the predecessor auditor that has not been valued. The amount of capital asset investment represents 69% of the assets on the statement of net assets. The effects on the financial statements of the preceding practiced are not reasonably determinable.

In our opinion, except for the effects on the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Toa Baja of the Commonwealth of Puerto Rico, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Audit Standards, we have also issued our report dated December 30, 2005 on our consideration of the Government's internal control over financial reporting and 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 Audit Standards and should be read in conjunction with this reporting in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purpose of additional analysis as required by US Office of Management and Budget Circular A- 133, Audit of States, Local Governments, and Non- Profit Organizations, and is not required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not required parts of the basic financial statements referred to above, but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
Juan A Rivera, CPA  
License # 2214

Toa Baja, Puerto Rico  
December 30, 2005



NOTE: Stamp No. 2105597 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original report.

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**MANAGEMENT DISCUSSION AND ANALYSIS**  
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Within this section of the Municipality of Toa Baja's financial statements, the Municipality provides a narrative discussion and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2005. The Municipality's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Municipality'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 \$30,564,106 (Net assets).
- The capital assets decreased by \$1,965,062 as compared to prior year mainly due to current year depreciation charges.
- The Municipality's governmental funds reported total ending fund balance of \$25,732,938 this year. This amount represents an increase of \$10,681,910 during the current year as compared to the prior year adjusted ending fund balance of \$15,051,028. The undesignated fund balance of the General Fund for fiscal year 2005 amounts to \$1,813,752, which represents an increase of \$20,775 as compared to the prior year balance.
- Of the total unrestricted cash of \$8,195,631 in the General Fund, there was an investment in certificates of deposit amounting to \$7,000,000.

**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 the users of the financial statements 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, and their difference reported as net assets. Fluctuations in net assets may serve as a useful indicator on whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported 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 the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the

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gross and net cost of various activities. This is intended to summarize and simplify the user's analysis of the cost of various governmental services.

The Municipality's activities are principally supported by taxes and intergovernmental revenues (governmental activities). Such governmental activities are classified as general government, administration, public works, permanent improvements, health, sanitation, human services, and welfare, cultural and recreational, and economic development.

**Fund Financial Statements**

A fund is a grouping of related accounts that are 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 are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government wide financial statements, government fund financial statements focus on current sources and uses of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a Municipality'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, users of the basic financial statements may better understand the long-term impact of the Municipality'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 a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**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.

**Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule between final budgeted amounts and actual amounts for the General and the Debt Service funds.

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**ANALYSIS OF GOVERNMENT WIDE FINANCIAL STATEMENTS**

**Net Assets**

The condensed statement of net assets of the Municipality as of June 30, 2005 and 2004 is presented below:

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>% Change</u>
Current and other assets	\$ 40,751,135	\$ 38,987,942	\$ 1,763,193	4.52%
Capital assets, net	<u>92,062,815</u>	<u>94,027,524</u>	<u>(1,964,709)</u>	<u>-2.09%</u>
<b>Total assets</b>	<u>132,813,950</u>	<u>133,015,466</u>	<u>(201,516)</u>	<u>-0.15%</u>
Long term liabilities	87,231,647	65,928,827	21,302,820	32.31%
Other liabilities	<u>15,018,194</u>	<u>20,136,978</u>	<u>(5,118,784)</u>	<u>-25.42%</u>
<b>Total liabilities</b>	102,249,841	86,065,805	16,184,036	18.80%
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	40,601,190	66,745,881	(26,144,691)	-39.17%
Restricted for debt service	8,234,158	7,981,091	253,067	3.17%
Unrestricted	<u>(18,271,242)</u>	<u>(27,777,341)</u>	<u>9,506,099</u>	<u>-34.22%</u>
<b>Total net assets</b>	<u>\$ 30,564,106</u>	<u>\$ 46,949,631</u>	<u>\$ (16,385,525)</u>	<u>-34.90%</u>

As noted above, the total assets of the Municipality remained in line with prior year but the liabilities increased by approximately \$16 millions mainly due to the issuance of general obligation bonds in the amount of \$13,714,000. As a result, the net assets decreased also by approximately \$16 millions.

Net assets may serve over time as a useful indicator of a government's financial position. The Municipality's net assets amounted to \$30,564,106 as of June 30, 2005, as compared to the net assets of \$46,949,631 of the previous fiscal year.

The largest portion of the Municipality's net assets represents the investment in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The amounts restricted for debt service represent another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

An additional portion of the Municipality's net assets is the unrestricted deficit. This is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure care costs, claims and judgments and others.

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Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operation.

**Changes in Net assets**

The condensed statement of activities of the Municipality for the years ended June 30, 2005 and 2004 is presented in the following page. As noted therein, the Municipality's net assets decreased by approximately \$16.4 millions. Grants and contributions, including federal aid, accounted for approximately 31.66% and 46.79% of the Municipality's total revenue for fiscal years 2005 and 2004, respectively. On the other hand, approximately 41.82% (32.63% percent in fiscal year 2004) resulted from taxes. Additionally, rent and landfill services revenue provided 17% (9% in fiscal year 2004) of total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government and administration, human services and welfare, health and sanitation, and public works and permanent improvements.

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>% Change</u>
<b>Program Revenues:</b>				
Operating grants and contributions	\$ 16,002,118	\$ 28,481,494	\$ (12,479,376)	-43.82%
Capital grants and contributions	3,839,365	5,726,160	(1,886,795)	-32.95%
<b>General revenues:</b>				
Property taxes	16,678,811	16,674,874	3,937	0.02%
Volume of business tax	9,526,980	7,383,189	2,143,791	29.04%
Licenses, permits fines and forfeitures	1,041,262	2,016,917	(975,655)	-48.37%
Intergovernmental	1,657,664	2,570,654	(912,990)	-35.52%
Rent and landfill services	10,636,383	6,583,059	4,053,324	61.57%
Miscellaneous	3,285,570	2,517,033	768,537	30.53%
Transfers	-	1,154,525	(1,154,525)	-100.00%
<b>Total Revenues</b>	<u>62,668,153</u>	<u>73,107,905</u>	<u>(10,439,752)</u>	<u>-14.28%</u>
<b>Expenses:</b>				
General government and administration	17,046,515	24,296,227	(7,249,712)	-29.84%
Public works and permanent improvements	9,184,310	5,977,249	3,207,061	53.65%
Health and sanitation	11,000,431	9,549,086	1,451,345	15.20%
Human services and welfare	22,654,992	19,721,693	2,933,299	14.87%
Cultural and recreational	2,355,717	1,921,912	433,805	22.57%
Planning and development	638,487	505,689	132,798	26.26%
Others	273,703	-	273,703	100.00%
Interest on long term debt	4,264,934	2,666,635	1,598,299	59.94%
<b>Total expenses</b>	<u>67,419,089</u>	<u>64,638,491</u>	<u>2,780,598</u>	<u>4.30%</u>
<b>Change in net assets</b>	<u>(4,750,936)</u>	<u>8,469,414</u>	<u>(13,220,350)</u>	<u>-156.10%</u>
<b>Net assets, beginning of year</b>	43,912,953	70,985,939	(27,072,986)	-38.14%
<b>Prior period adjustment</b>	<u>(8,597,911)</u>	<u>(32,505,722)</u>	<u>23,907,811</u>	<u>-73.55%</u>
<b>Net assets, end of year</b>	<u>\$ 30,564,106</u>	<u>\$ 46,949,631</u>	<u>\$ (16,385,525)</u>	<u>-34.90%</u>

Total revenues from governmental activities decreased by approximately \$10.4 millions as compared to prior year. Such a decrease is the result of a decrease of approximately \$14.3 millions in

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program revenues; offset by an increase of approximately \$4 millions in general revenues. The increase in general revenues was due to an increase of approximately \$2 and \$4 millions in volume of business tax and rent and landfill services, respectively; offset by a decrease of approximately \$1.15 millions in transfers. On the other hand, the Municipal expenses amounted to approximately \$67.4 millions and \$63.4 millions for the years ended June 30, 2005 and 2004, respectively.

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

**Governmental funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable 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's governmental funds reported ending fund balances of \$25,732,938 millions, which represents an increase of approximately \$10.7 millions in comparison with prior fiscal year adjusted balance of \$15,051,028. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: a) pay for encumbrances \$2,415,938; and b) pay for debt service \$6,613,953.

The remaining of the Municipality's funds increased by approximately \$8 millions since there were other financing sources that increased its fund balances by \$13,714,000, mainly due to the proceeds of \$13,714,000 received from the issuance of general and special obligation bonds. In addition, the Capital Projects Fund transferred \$1,171,362 to the Debt Service Fund for the repayment of principal on long-term debt.

**CAPITAL ASSETS**

The Municipality's investment in capital assets for its governmental activities as of June 30, 2005 amounted to \$92,062,815 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

The total increase in the Municipality's investment in capital assets was less than 1% as compared to the last fiscal year. Actual expenditures to purchase or construct capital assets for the years ended June 30, 2005 and 2004 were \$234,709 and \$51.1 millions, respectively. Depreciation charges amounted to \$2,199,418 and \$2,090,360 millions for the years ended June 30, 2005 and 2004, respectively.

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**DEBT ADMINISTRATION**

At the end of the current fiscal year, the Municipality had total bonded debt and notes payable of \$51,766,625. This amount represents bonded debt backed by the full faith and credit of the government. The outstanding debt related to bonds and notes payable at year-end were as follows:

	<u>2005</u>	<u>2004</u>
General Obligations	\$39,722,625	\$39,369,157
Special Obligation Loans	10,974,000	6,060,000
Notes Payable	<u>1,070,000</u>	<u>2,130,000</u>
Total	<u>\$51,766,625</u>	<u>\$47,559,157</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 Municipal Legislature, which is composed of 16 members, excises the legislative power.

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, automobile dealers, among others. This industrial base has maintained almost the same level during the most recent years.

The Municipality's Budget for the fiscal year 2004-2005 decreased by \$315,603 as compared to the prior fiscal year.

**REQUEST FOR INFORMATION**

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

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

<u>Assets</u>	<b>Governmental Activities</b>
Cash	\$ 12,435,390
Cash with fiscal agents	21,366,145
Accounts receivables:	
Landfill and rent	1,741,561
Federal funds	2,305,266
Excise tax	350
Volume of business	40,822
Interest	19,367
Other	2,842,231
Capital assets, net	<u>92,062,815</u>
<b>Total assets</b>	<b><u>132,813,947</u></b>
 <u>Liabilities</u>	
Accounts payable	2,006,381
Matured bonds and interest payable	1,643,715
Due to:	
Other governmental units	2,260,019
Deferred revenues:	
Volume of business tax	8,858,456
Federal awards	249,623
Non-current liabilities:	
Due within one year:	
General obligation debt	2,996,805
Special obligation debt	305,000
Federal fund loans	1,070,000
Accrued compensated absences	4,547,150
Due to other governmental units	190,517
Reserve for federal cost disallowances	33,000
Due in more than one year:	
General obligation debt	36,725,820
Special obligation debt	10,669,000
Accrued compensated absences	2,413,014
Due to other governmental units	6,253,710
Reserve for federal cost disallowances	83,100
Landfill closure accrued liabilities	<u>21,944,531</u>
<b>Total liabilities</b>	<b><u>102,249,841</u></b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	40,601,190
Restricted for:	
Debt service	8,234,158
Unrestricted	<u>(18,271,242)</u>
<b>Total net assets</b>	<b><u>\$ 30,564,106</u></b>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
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**STATEMENT OF NET ACTIVITIES**  
**JUNE 30, 2005**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	
General government and administration	\$ 17,046,515	\$ 5,586,137	\$ -	\$ (11,460,378)
Public works and permanent improvements	9,184,310	2,925,857	-	(6,258,453)
Health and sanitation	11,000,431	3,352,633	-	(7,647,798)
Human services and welfare	22,654,992	3,133,154	3,839,365	(15,682,473)
Cultural and recreational	2,355,717	724,743	-	(1,630,974)
Planning and development	638,487	197,011	-	(441,476)
Others	273,703	82,583	-	(191,120)
Interest on long term debt	4,264,934	-	-	(4,264,934)
<b>Total governmental activities</b>	<b>\$ 67,419,089</b>	<b>\$ 16,002,118</b>	<b>\$ 3,839,365</b>	<b>\$ (47,577,606)</b>

General revenues:

Property taxes	16,678,811
Volume of business tax	9,526,980
Licenses, permits, fines and forfeitures	1,041,262
Intergovernmental	1,657,664
Rent and landfill services	10,636,383
Miscellaneous	3,285,570
<b>Total general revenues</b>	<b>42,826,670</b>
<b>Change in net assets</b>	<b>(4,750,936)</b>
Net assets at beginning of year	43,912,953
Prior period adjustment	(8,597,911)
Restated net assets at beginning of year	35,315,042
<b>Net assets at end of year</b>	<b>\$ 30,564,106</b>

See accompanying notes to basic financial statements.

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**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2005**

	General Fund	Head Start Fund	Bond \$10,674 M	Debt Service Fund	Other Funds	Total Governmental Funds
<b>Assets</b>						
Cash	\$ 8,195,631	\$ 766,914			\$ 3,472,845	\$ 12,435,390
Cash with fiscal agents			\$ 5,165,336	\$ 8,257,668	7,943,141	21,366,145
Accounts receivables:						
Landfill	1,741,561					1,741,561
Other funds	5,108,210					5,108,210
Federal funds		1,306,780			998,486	2,305,266
Excise tax	350					350
Sales taxes	40,822					40,822
Interest	19,367					19,367
Due from other governmental agencies	1,657,664				1,184,567	2,842,231
Total assets	<u>\$ 16,763,605</u>	<u>\$ 2,073,694</u>	<u>\$ 5,165,336</u>	<u>\$ 8,257,668</u>	<u>\$ 13,599,039</u>	<u>\$ 45,859,342</u>
<b>Liabilities</b>						
Accounts payable and accrued liabilities	1,415,440	103,936			487,005	2,006,381
Matured bonds and interest payable				1,643,715		1,643,715
Due to:						
Other funds		1,493,806			3,614,404	5,108,210
Other governmental units	2,260,019					2,260,019
Federal agencies						-
Deferred revenues:						
Volume of business tax	8,858,456					8,858,456
Special funds						-
Federal awards					249,623	249,623
Total liabilities	<u>12,533,915</u>	<u>1,597,742</u>	<u>-</u>	<u>1,643,715</u>	<u>4,351,032</u>	<u>20,126,404</u>
<b>Fund Balances</b>						
Fund balances (deficit)						
Reserved for:						
Encumbrances	2,415,938					2,415,938
Capital projects			5,165,336		7,560,913	12,726,249
Debt service				6,613,953		6,613,953
Unreserved	1,813,752	475,952				2,289,704
Unreserved, reported in nonmajor:						
Special revenue funds					1,687,094	1,687,094
Total fund balances	<u>4,229,690</u>	<u>475,952</u>	<u>5,165,336</u>	<u>6,613,953</u>	<u>9,248,007</u>	<u>25,732,938</u>
Total liabilities and fund balances	<u>\$ 16,763,605</u>	<u>\$ 2,073,694</u>	<u>\$ 5,165,336</u>	<u>\$ 8,257,668</u>	<u>\$ 13,599,039</u>	

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

Capital assets of \$119,301,768 net of accumulated depreciation of \$27,238,953 are not financial resources and, therefore, are not reported in the funds	92,062,815
Long term liabilities are not due and in the current period and, therefore, are not reported in the funds	
General obligation debt	\$ 39,722,625
Special obligation debt	10,974,000
Federal fund loans	1,070,000
Accrued compensated absences	6,960,164
Due to other governmental units	6,444,227
Reserve for federal cost disallowances	116,100
Landfill closure accrued liabilities	21,944,531
Total long term liabilities	<u>(87,231,647)</u>
	<u>\$ 30,564,106</u>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2005**

	General Fund	Head Start Fund	Bond \$10,674 M	Debt Service Fund	Other Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 16,678,811			\$ 4,889,837		\$ 21,568,648
Volume of business tax	9,526,980					9,526,980
Federal assistance		\$6,671,057			\$ 5,106,215	11,777,272
Intergovernmental	1,657,664				3,174,305	4,831,969
Licenses, permits	881,280					881,280
Fines and forfeitures	159,982					159,982
Landfill and rent	10,636,383					10,636,383
Other	3,285,570				69	3,285,639
Total Revenues	<u>42,826,670</u>	<u>6,671,057</u>	<u>-</u>	<u>4,889,837</u>	<u>8,280,589</u>	<u>62,668,153</u>
<b>Expenditures</b>						
Mayor and municipal assembly	307,458					307,458
General government	12,544,480				1,107,383	13,651,863
Public works	4,824,234				188,635	5,012,869
Cultural and recreational	1,918,492					1,918,492
Health and sanitation	8,958,731					8,958,731
Human services and welfare	9,077,652	6,877,455			2,608,524	18,563,631
Planning and development	519,983					519,983
Permanent improvements					2,467,847	2,467,847
Others					222,903	222,903
Debt service:						
Principal				9,811,532		9,811,532
Interests				4,264,934		4,264,934
Total expenditures	<u>38,151,030</u>	<u>6,877,455</u>	<u>-</u>	<u>14,076,466</u>	<u>6,595,292</u>	<u>65,700,243</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>4,675,640</u>	<u>(206,398)</u>	<u>-</u>	<u>(9,186,629)</u>	<u>1,685,297</u>	<u>(3,032,090)</u>
<b>Other financing sources (uses)</b>						
Bonds issued			10,674,000		3,040,000	13,714,000
Transfers in (out)	(645,551)		(6,002,578)	7,819,491	(1,171,362)	-
Total other financing sources (uses)	<u>(645,551)</u>	<u>-</u>	<u>4,671,422</u>	<u>7,819,491</u>	<u>1,868,638</u>	<u>13,714,000</u>
Net changes in fund balances (deficit)	4,030,089	(206,398)	4,671,422	(1,367,138)	3,553,935	10,681,910
Fund balances at beginning of year	5,615,580	-	-	7,981,091	5,254,260	18,850,931
Prior period adjustment	(5,415,979)	682,350	493,914	-	439,812	(3,799,903)
Fund balances at beginning of year, adjusted	<u>199,601</u>	<u>682,350</u>	<u>493,914</u>	<u>7,981,091</u>	<u>5,694,072</u>	<u>15,051,028</u>
Fund balances at end of year	<u>\$ 4,229,690</u>	<u>\$ 475,952</u>	<u>\$ 5,165,336</u>	<u>\$ 6,613,953</u>	<u>\$9,248,007</u>	<u>\$ 25,732,938</u>

*04/07/2006*

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ 10,681,910

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the

Expenditures for capital assets	\$ 234,709	
Less current year depreciation	<u>(2,199,418)</u>	(1,964,709)

Some expenses are not reported as expenditures in the governmental funds because they do not require the use of current financial resources:

Increase in compensated absences	(2,045,479)	
Increase in due to other governmental units	(1,762,319)	
Landfill depletion	<u>(5,757,872)</u>	(9,565,670)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds:

Bond issue proceeds	(13,714,000)	
Principal payments	<u>9,811,532</u>	<u>(3,902,468)</u>

Change in net assets of governmental activities \$ (4,750,937)

See accompanying notes to basic financial statements.

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

**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 assembly members 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 titled 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:

**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.

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

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

**Summary of Significant Accounting Policies (continued)**

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on all the Municipality's operations. Taxes and intergovernmental revenues normally support governmental activities. 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 inter-fund activity has been removed from the government-wide financial statements. Net inter-fund 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 equal net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: a) invested in capital assets, net of related debt; b) restricted; and c) 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: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or b) 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.

**Basic Financial Statements (continued)**

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: a) charges to customers or users who

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

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

**Summary of Significant Accounting Policies (continued)**

purchase, use or directly benefit from goods, services or privileges provided by a particular function or program; and b) 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 non-major funds are combined in a single column on the fund financial statements.

The Municipality reports the following major governmental funds:

*General Fund* - This 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 not paid through other funds are paid from the General Fund.

*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.

**Basic Financial Statements (continued)**

*Debt Service Fund* - Accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

*Capital Projects Fund* - Accounts for the funds received and expended for construction, renovation, expansion and mayor improvements of various facilities, acquisition of land and other large nonrecurring projects.

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

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

**Summary of Significant Accounting Policies (continued)**

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, charges 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 another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available expendable resources. This is the traditional basis of accounting for governmental funds and is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: a) demonstrate legal and covenant compliance; b) demonstrate the source and uses of liquid resources; and c) 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 the project is completed or terminated and for encumbered balances that are re-appropriated in the next year. The Municipality's records shows encumbrances amounting to \$2,415,938 as of June 30, 2005, which were reserved against fund balance.

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

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

**Summary of Significant Accounting Policies (continued)**

Budgetary Data

The following procedures, which are in accordance with the municipal law, are performed by the Municipality to establish 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 1. 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 1, 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:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) Prior year encumbrances recorded as current year expenditures for GAAP basis.
- (3) Prior year encumbrances written off according to statutory limitations.

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

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)**

**Summary of Significant Accounting Policies (continued)**

- (4) Transfers out to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.

The budget prepared for each of the components of the Debt Service Fund, Special Revenue 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 Government Development Bank for Puerto Rico (GDB), and federal award programs.

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

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 their fair value.

Inventories

The general and special funds purchase office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as expenditures in the appropriate fund and the inventory is not recorded in the basic financial statements since the 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. Neither long-term capital assets nor depreciation is shown in the governmental funds financial statements.

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

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

**Summary of Significant Accounting Policies (continued)**

Capital Assets (continued)

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 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 (in years)	Capitalization Threshold
Vehicles	5	\$500
Heavy Equipment, Furniture and Fixtures	10	\$300
Computer and Electronic Equipment	3	\$300
Buildings	50	\$ 1
Infrastructure	60	\$ 1
Improvements	40	\$ 1

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

Vested Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of prior year.

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

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

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

**Summary of Significant Accounting Policies (continued)**

Insurance

The Municipality has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. In addition, 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 sent to the Municipality.

Cash with Fiscal Agent

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the GDB 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 appropriate for expenditure. The Municipality has reservations of fund balance:

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

*Debt Service* - Represents net assets available to finance 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

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.

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

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

**Summary of Significant Accounting Policies (continued)**

Claims and Judgments

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

Use of Estimates

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

**NOTE 2 - PROPERTY TAXES**

The CRIM is responsible for the assessment of all real and personal property located within the Municipality of Toa Baja. The Autonomous Municipalities of the Commonwealth of Puerto Rico Act of 1991, Law No. 81 of August 30, 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.

Article 2.01 of the Municipal Property Tax Law No. 83 of August 30, 1991, authorizes the municipalities to impose a basic property tax contribution of up 4% annually over the assessed value of all real and non-exonerated property located within the municipality in addition to other contributions imposed based on laws in force. In addition, Article 2.02 of Law Number 83 authorized the municipalities to impose during fiscal year 92-93, 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 in addition to other contribution imposed based on laws in force.

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

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

**NOTE 2 - PROPERTY TAXES (CONTINUED)**

	<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	<u>1.25</u>	<u>1.25</u>
	6.28	8.28
Discount Granted by Central Government	<u>(.20)</u>	<u>(.20)</u>
Effective Tax Rates Applicable to Taxpayers	<u>6.08%</u>	<u>8.08%</u>

These tax rates, which are imposed over the assessed value of property as of such date, and for each subsequent fiscal year, became effective beginning on January 1, 1994. The CRIM began the collection of such taxes started after July 1, 1994.

The Commonwealth of Puerto Rico grants 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.

The municipality grants an exemption from personal property taxes up to an assessment value of \$20,000 to those retailers with an annual net sales volume of less than \$100,000.

The CRIM makes monthly payments to the Municipality for the estimated contribution assessed at the beginning of the fiscal year over property located within the municipality. No later than 90 days after each fiscal year-end, the CRIM prepares a final analysis of the funds paid to the Municipality, and the actual funds collected.

If funds paid were under the actual amount collected, the remaining balance is sent to the Municipality through the GDB. On the other hand, if funds paid exceed the amounts collected, the CRIM informs the GDB to retain such excess from future monthly payments.

The Municipality recognizes as revenue (in the general fund) the exonerated portion of property tax contribution upon receipt of the monthly notifications sent by the 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. For taxpayers engaged in any type of business, except financial institutions, sales tax to be paid is 0.50% of 1.00% of its business volume during fiscal year 1993-94, and beyond. Financial institutions are required to pay 1.5% of its volume of business. These tax rates were effective for fiscal year 1993-94. This increase in tax rates was permitted

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

**NOTE 3 - VOLUME OF BUSINESS TAX-(CONT)**

through sales tax Law No. 113, of 1974, as amended by Law No. 82 of August 30, 1991.

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

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

**NOTE 4 - INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Electric Power Authority, and federal awards received from federal government. The grants received from the Commonwealth of Puerto Rico and federal agencies include, among others, general subsidies for urban development and capital improvements, and for financing certain operations of the medical services provided by the Municipality's Health Department.

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 - ACCOUNTS RECEIVABLE**

Receivables are determined based upon past collection experience and current economic conditions. The amount due from other governmental agencies in the general fund represents contributions from the Puerto Rico Electric Power Authority ("PREPA"), which contributes a specific percentage of their revenues as payment in lieu of taxes.

**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 sent to the Municipality. General and special obligation bonds and notes as of June 30, 2005 are composed of the following individual issues:

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**General Obligations - Bonds and Notes**

\$9,725,000 series 1994, payable in annual installments raging from \$135,000 to \$850,000 through July 2019; interest at 8%.	\$7,795,000
\$8,150,000 series 1994, payable in annual installments raging from \$300,000 to \$880,000 through July 2009; interest at 12%.	3,800,000
\$1,670,000 series 1994, payable in annual installments raging 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 raging from \$185,000 to \$550,000 through July 1, 2009; interest ranging from 6.106% to 6.58%.	2,380,000
\$2,755,000 series 1994, payable in annual installments raging from \$60,000 to \$265,000 through July 1, 2014; interest ranging from 7.25% to 6.58%.	1,885,000
\$1,540,000 series 1994, payable in annual installments raging from \$170,000 to \$240,000 through July 1, 2020; interest ranging from 5.4% to 6.875%.	1,275,000
\$1,020,000 series 1996, payable in annual installments raging from \$40,000 to \$135,000 through July 1, 2001; interest ranging from 4.87% to 6.75%.	620,000
\$3,530,000 series 1998, payable in annual installments raging from \$145,000 to \$305,000 through July 1, 2020; interest ranging from 6% to 7.08%.	2,995,000
\$1,500,000 series 1998, payable in annual installments raging from \$44,000 to \$108,000 through July 1, 2019; interest at 4.5%.	1,145,106
\$1,310,000 series 1999, payable in annual installments raging from \$45,000 to \$175,000 through July 1, 2005; interest ranging from 6% to 7.45%.	230,000
\$5,075,000 series 1999, payable in annual installments raging from \$195,000 to \$540,000 through July 1, 2015; interest ranging from 6.16% to 11.06%.	3,900,000
\$3,470,000 series 2000, payable in annual installments raging from \$140,000 to \$355,000 through June 2014; interest at approximately 8%.	2,670,000
\$605,000 series 2000, payable in annual installments raging from \$70,000 to \$105,000 through June 2006; interest at approximately 8%.	205,000
\$705,000 series 2000, payable in annual installments raging from \$95,000 to \$145,000 through July 1, 2006; interest ranging from 5.88% to 8%.	275,000
\$655,000 series 2000, payable in annual installments raging from \$25,000 to \$70,000 through July 1, 2015; interest ranging from 5.88% to 8%.	545,000

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**General Obligations - Bonds and Notes (continued)**

\$875,000 series 2000, payable in annual installments raging from \$5,000 to \$75,000 through July 2025; interest ranging from 5.88% to 8%.	825,000
\$2,062,000 series 2001, payable in annual installments of \$62,800 through January 1, 2021; including interest at 2%.	1,712,519
\$3,200,000 series 2002, payable in annual installments raging from \$55,000 to \$245,000 through July 1, 2027; interest ranging from 5% to 6.5%.	3,085,000
\$3,040,000 series 2005, payable in annual installments raging from \$100,000 to \$220,000 through July 1, 2024; interest ranging from 3.28% to 5%.	<u>3,040,000</u>
	39,722,625

**Special Obligation – Notes**

\$400,000 series 1996, payable in annual installments raging from \$10,000 to \$40,000 through July 1, 2016; interest at 8%.	300,000
\$10,674,000 series 2005, payable in annual installments raging from \$290,000 to \$1,392,000 through July 1, 2014; interest ranging from 5% to 5.5%.	<u>10,674,000</u>
	10,974,000

**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 Financial Bank Act of 1973.	<u>1,070,000</u>
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Total Long Term Debt	<u><b>\$51,766,625</b></u>
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The annual aggregate maturities for each bond type for three years subsequent to June 30, 2005 are as follows:

<u>General Obligations - Bonds and Notes</u>			
<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,996,805	\$ 2,267,427	\$ 5,264,232
2007	2,976,650	2,126,010	5,102,660
2008	2,931,532	1,950,123	4,881,655
2009	3,141,453	1,796,917	4,938,370
2010	3,361,411	1,602,524	4,963,935
2011-2015	10,469,846	5,815,319	16,285,165
2016-2020	10,311,173	2,481,369	12,792,542
2021-2025	2,768,755	559,680	3,328,435
2026-2030	<u>765,000</u>	<u>71,327</u>	<u>836,327</u>
	<u>\$ 39,722,625</u>	<u>\$ 18,670,696</u>	<u>\$ 58,393,321</u>
<u>Special Obligation - Notes</u>			
<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	305,000	308,203	613,203
2007	958,000	567,325	1,525,325
2008	1,006,000	512,815	1,518,815
2009	1,053,000	455,693	1,508,693
2010	1,109,000	395,738	1,504,738
2011-2015	5,081,000	962,105	6,043,105
2016-2020	<u>1,462,000</u>	<u>7,200</u>	<u>1,469,200</u>
	<u>\$ 10,974,000</u>	<u>\$ 3,209,079</u>	<u>\$ 14,183,079</u>
<u>Federal Funds</u>			
<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>1,070,000</u>	<u>37,343</u>	<u>1,107,343</u>
Total	<u>\$ 1,070,000</u>	<u>\$ 37,343</u>	<u>\$ 1,107,343</u>

The following is a summary of changes in long-term obligations during the year ended June 30, 2005:

	<u>Balance</u> <u>June 30,</u> <u>2004</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>June 30,</u> <u>2005</u>	<u>Due within</u> <u>one year</u>
General obligations	\$39,369,157	\$ 3,040,000	\$ 2,686,532	\$39,722,625	\$2,996,805
Special obligations	6,060,000	10,674,000	5,760,000	10,974,000	305,000
Federal funds	2,130,000	-	1,060,000	1,070,000	1,070,000
Compensated absences	4,914,685	5,289,182	3,243,703	6,960,164	4,547,150
Due to other government units	4,681,908	1,762,319	-	6,444,227	190,517
Reserve for federal cost disallowance	143,100	-	27,000	116,100	33,000
Landfill closure accrued liabilities	<u>16,186,659</u>	<u>5,757,872</u>	<u>-</u>	<u>21,944,531</u>	<u>-</u>
	<u>\$73,485,509</u>	<u>\$26,523,373</u>	<u>\$12,777,235</u>	<u>\$87,231,647</u>	<u>\$ 9,142,472</u>

In connection with the entitlement grants awarded by the Department of Housing and Urban Development (HUD), the Municipality obtained two promissory notes for loan guarantee assistance to be executed pursuant to a loan guarantee commitment from HUD under section 108 of the Housing and Community

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Development Act of 1974, as amended. Interests are determined by the Federal Financing Bank in accordance to section 6 of the Federal Financing Bank Act of 1973. Principal and interest on these notes will be paid from HUD entitlement grants.

Compensated Absences

Compensated absences represent 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.

**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, 2005, the Municipality has identified most of its capital assets and is in the process to validate records with original documents.

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Capital Assets	Beginning Balance	Additions	Retirements	Reclasses	Ending Balance
<b>Non-depreciable assets</b>					
Land	\$ 3,191,186	\$ -	\$ -	\$ -	\$ 3,191,186
Construction in progress	<u>17,407,486</u>	<u>-</u>	<u>-</u>	<u>(4,841,749)</u>	<u>12,565,737</u>
<b>Total non-depreciable assets</b>	<b>20,598,672</b>	<b>-</b>	<b>-</b>	<b>(4,841,749)</b>	<b>15,756,923</b>
<b>Depreciable assets</b>					
Buldings and other facilities	29,938,989	-	-	4,841,749	34,780,738
Improvements	16,896,123	-	-	-	16,896,123
Furniture, fixtures, and equipmen	1,997,313	179,120	-	-	2,176,433
Computer equipment	604,584	55,589	-	-	660,173
Heavy equipment	1,690,334	-	-	-	1,690,334
Vehicles	7,644,272	-	-	-	7,644,272
Infrastructure	<u>39,696,772</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,696,772</u>
	98,468,387	234,709	-	4,841,749	103,544,845
Less: Accumulated depreciation	<u>(25,039,535)</u>	<u>(2,199,418)</u>	<u>-</u>	<u>-</u>	<u>(27,238,953)</u>
<b>Depreciable assets, net</b>	<b><u>73,428,852</u></b>	<b><u>(2,199,418)</u></b>	<b><u>-</u></b>	<b><u>4,841,749</u></b>	<b><u>76,305,892</u></b>
	<b><u>\$ 94,027,524</u></b>	<b><u>\$ (2,199,418)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 92,062,815</u></b>

Depreciation expense was charged to functions as follows:

Mayor and municipal assembly	\$ 16,734
General government	617,094
Public works	223,723
Culture and recreation	85,864
Health and sanitation	397,050
Human services and welfare	825,833
Planning and development	23,344
Other	<u>9,776</u>
	<b><u>\$2,199,418</u></b>

**NOTE 9 - CONTINGENCIES**

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 its legal counselors, has recorded an adequate provision to cover probable losses on those claims not covered by insurance. It is management's opinion that the ultimate liability, if

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**NOTE 9 – CONTINGENCIES(CONTINUED)**

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.

Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance cost because 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:

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

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

<b>HOME</b>		<b>ESGP</b>	
<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Year Ending June 30,</b>	<b>Principal</b>
2006	\$16,000	2006	\$17,000
2007	22,000	2007	17,000
2008	<u>27,000</u>	2008	<u>17,000</u>
Total	<u>\$65,000</u>	Total	<u>\$51,100</u>

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 NOTES TO BASIC FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2005

**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 Employees' 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 GPO Box 42003, San Juan, Puerto Rico 00940.

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:

	<b>OLD PLAN</b>
<b>Eligibility</b>	<b>Pension Benefits</b>
Age 55 and 30 years of service	75% of average highest compensation during any 3 years of credited service
Under 55 and 30 years of 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.

	<b>NEW PLAN</b>
<b>Eligibility</b>	<b>Pension Benefits</b>
Age 65 with 10 years of service	1.5% of average compensation during the final 15 years of credited service multiplies by the number 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.

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**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 or 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 2005 was approximately \$12,010,127.

The annual employer and employees' contribution for the year ended June 30, 2005 amounted to approximately \$1,512,964 and \$1,315,204, 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 billions. This information is not available by each participant government agencies or municipalities.

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

- 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 or 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 -15% of retiring employees' contributions assumed to pay retroactive contributions at retirement.
- i) Cost-of living adjustment - 3% every third year

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YEAR ENDED JUNE 30, 2005

**NOTE 11 – CASH**

As of June 30, 2005, the balances per bank records exceed the insured limits except for bank accounts and certificates of deposit, which exceed the insured limits by \$13,091,334. 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 \$7,000,000 as of June 30, 2005 earns interest at 3.32% maturing in September 1, 2005, 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, 2005, 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	\$ 90,313
Electric Power Authority	1,506,778
General Service Administration	40,288
Puerto Rico Labor Department	25,253
Puerto Rico Telephone Company	244,837
US Department of Education	168
Police of Puerto Rico	4,025
Retirement System Administration	317,636
Treasury Department	22,739
Puerto Rico Child Support Administration	<u>7,982</u>
	<u>\$2,260,019</u>

**NOTE 13 – INTERFUND BALANCES**

Interfund transfers for the year ended June 30, 2005 were as follows:

<u>Transfer out from:</u>	
General fund	\$ 645,551
Capital Project Fund	6,002,578
Other Fund	<u>1,171,362</u>
Transfer in to:	
Debt Service Fund	<u>\$7,819,491</u>

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 13 – INTERFUND BALANCES(CONTINUED)**

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, 2005, are as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General	\$5,108,210	
Special Revenue:		
Other Funds		3,059,649
Head Start		1,493,806
Child Care		554,755
	<u>\$5,108,210</u>	<u>\$5,108,210</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, 2005, amounted to approximately \$240,912.

**NOTE 15 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS**

State and federal laws and regulations require the Municipality to 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 care costs of landfill closure had a balance of \$43,889,062 as of June 30, 2005, which is based on an 80% usage (filled) of the landfill, last estimate available.

During June 1997, the Municipality reached 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 total estimated costs. The estimated total current cost of the landfill closure and post-closure care of \$21,944,531 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, 2005. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, and/or changes in landfill laws and regulations.

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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005

**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 is collected according to their terms.

Receivable from rent and construction permits are based on contract provisions and on prior experience with this type of contracts, which are 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 the CRIM and deposited in the account "cash with fiscal agency" (see Note 6). In addition, Federal Loans - Promissory note is guarantee by the federal government and it will be repaid from future federal awards granted to the Municipality.

**NOTE 17 - PRIOR PERIOD ADJUSTMENT**

In the Statement of Activities the net assets at the beginning of year have been adjusted by \$8,597,911, mainly due to an adjustment of approximately \$10 millions to decrease the fund balance of the General Fund at the beginning of the year. In the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds the fund balances at the beginning of the year were adjusted by approximately \$5.4 millions as follows:

	General Fund	Head Start Fund	Capital Project Fund	Other Funds	Totals
Fund balances at beginning of year	\$ 5,615,580	\$ -	\$ -	\$ -	\$ 5,615,580
Accounts receivable accrued as of June 20, 2004 did not become both measurable and available (received/collected) within 60 days after year-	(9,842,508)	-	-	-	(9,842,508)
Amount due to other governmental unit erroneously reported in the general fund	4,681,908	-	-	-	4,681,908
Other	(255,379)	-	-	-	(255,379)
Reclassification of fund	-	682,350	493,914	439,812	1,616,076
	<u>(5,415,979)</u>	<u>682,350</u>	<u>493,914</u>	<u>439,812</u>	<u>(3,799,903)</u>
	<u>\$ 199,601</u>	<u>\$ 682,350</u>	<u>\$ 493,914</u>	<u>\$ 439,812</u>	<u>\$ 1,815,677</u>

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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES- BUDGET AND ACTUAL( NON- GAAP BUDGETARY BASIS)  
GENERAL FUND  
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Property taxes	\$ 19,975,976	\$19,975,976	\$ 16,678,811	\$ (3,297,165)
Volume of business tax	10,550,000	10,550,000	9,526,980	(1,023,020)
Licenses and permits	1,685,000	1,685,000	881,280	(803,720)
Rent	11,672,000	11,672,000	10,636,383	(1,035,617)
Intergovernmental	1,678,667	1,678,667	1,657,664	(21,003)
Fines and forfeitures	110,000	110,000	159,982	49,982
Miscellaneous	3,916,601	3,916,601	3,285,570	(631,031)
Prior year fund balance:				
Appropriate for current year budget				-
Total Revenues	<u>49,588,244</u>	<u>49,588,244</u>	<u>42,826,670</u>	<u>(6,761,574)</u>
<b><u>Expenditures and encumbrances</u></b>				
Mayor and municipal assembly	1,971,611	1,971,611	332,043	(1,639,568)
General government	17,627,941	17,627,941	13,547,565	(4,080,376)
Public works	6,580,307	6,580,307	5,209,991	(1,370,316)
Cultural and recreational	1,682,377	1,682,377	2,071,899	389,522
Health and sanitation	10,631,283	10,631,283	9,675,091	(956,192)
Human services and welfare	10,451,321	10,451,321	9,803,521	(647,800)
Planning and development	643,404	643,404	561,562	(81,842)
Debt service		-		-
Total expenditures	<u>49,588,244</u>	<u>49,588,244</u>	<u>41,201,672</u>	<u>(8,386,572)</u>
Excess (Deficiency) of revenues over expenditures and encumbrances			<u>\$ 1,624,998</u>	<u>\$ 1,624,998</u>
<b><u>Explanation of Differences:</u></b>				
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) charged to appropriations				\$ 41,201,672
<b>Differences - budget to GAAP:</b>				
Prior year encumbrances recorded as current year expenditures for GAAP basis				1,916,725
Prior year encumbrances written off according to statutory limitations				(1,905,878)
Current year encumbrances recorded as expenditures for budgetary purposes				(2,415,938)
Transfer out to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes				<u>(645,551)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 38,151,030</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
NOTES TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES- BUDGET AND ACTUAL( NON- GAAP BUDGETARY BASIS)  
GENERAL FUND  
YEAR ENDED JUNE 30, 2005

**NOTE 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Control**

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal -year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. . For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2005**

<b>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>		
Community Development Block Grants/Entitlement Grants	14.218	\$ 2,255,417
Emergency Shelter Grants Program (ESGP)	14.231	29,983
Home Investment Partnerships Program	14.239	342,402
Housing Opportunities to Person with AIDS	14.241	398,903
Community Development Block Grants-Section 108 Loan Guarantees	14.248	171,998
Housing Assistance Payments Programs Program for low-income Families Voucher Housing (Rental Voucher)	14.871	<u>1,171,362</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<u>4,370,065</u>
<b><u>U.S. Department of Health and Human Services/Pass Through the Puerto Rico Governor's Office for Human Development</u></b>		
Child Care and Development Block Grant	93.575	748,118
Head Start	93.600	<u>6,877,455</u>
<b>Total U.S. Department of Health and Human Services/Pass Through the Puerto Rico Governor's Office for Human Development</b>		<u>7,625,573</u>
<b>Total Federal Awards Expended</b>		<u>\$ 11,995,638</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005

**NOTE 1 – GENERAL**

The accompanying schedule of federal awards presents balances expended, including loan guarantee assistance, of all federal award programs of the Municipality. 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 Head Start, Capital Projects Revenues and Other Funds. The reconciliation between the expenditures in the general-purpose financial statements and expenditures in the Schedule of Federal Financial Assistance is as follows:

Expenditures in the basic financial statements:

Head Start Fund	\$ 6,877,455
Capital Projects Fund (including transfers to Debt Service Fund)	<u>8,098,607</u>
	14,976,062
 Less Non-federal Expenditures	 <u>2,980,424</u>
 Expenditures in the Schedule of Federal Financial Assistance	 <u><u>\$11,995,638</u></u>

**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 Budgets Catalogue of Federal Domestic Assistance.

**NOTE 4 - SECTION 8 PROGRAMS**

Both Section 8 programs, existing rental certificate and rental voucher, receive 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. In addition, the Municipality charges an administrative fee for this service. Therefore, expenditures include those paid by the Municipality under this agreement, not included in program award amount.

**JUAN A. RIVERA, CPA**  
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***REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the Municipality of Toa Baja as of and for the year ended June 30, 2005, and have issued our report thereon dated December 30, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Municipality of Toa Baja financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such as an opinion. The results of our 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 Section II.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Municipality of Toa Baja internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

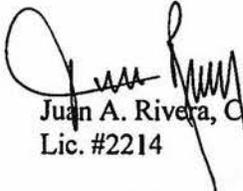
However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Toa Baja ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions in federal award are described in the accompanying schedule of findings and questioned costs Section II and also we have reported to the management of Municipality of Toa Baja those reportable condition that affect the internal control of the Municipality operations in a separate letter.

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

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timely period by employees in the normal course of performing their assigned functions. Our 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, we believe that none of the reportable conditions described above is a 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 and not is intended to be and should not be used by anyone other than these specified parties.

  
Juan A. Rivera, CPA  
Lic. #2214

December 30, 2005  
Toa Baja, Puerto Rico



Stamp NO. 2105598 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

**JUAN A. RIVERA, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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

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

**Compliance**

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those Standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Toa Baja compliance with those requirements and performing such others procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not include a legal determination of the Municipality of Toa Baja compliance with those requirements.

As described in item Section II in the accompanying schedule of findings and questioned costs, the Municipality of Toa Baja did not comply with requirements regarding administrative requirements that are applicable to its Section 8, CDBG, HOME, HOPWA, Child Care and Head Start Programs. Compliance with such requirements is necessary for the Municipality of Toa Baja to comply with the federal regulations.

In our 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, 2005.

**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 our audit, we 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

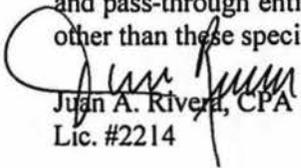
Our noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that,

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in our judgment, could adversely affect the Municipality of Toa Baja ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs in Section II.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, we believe that none of the reportable conditions described above is a material weakness. This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is not intended to be and should not be used by anyone other than these specified parties.

  
Juan A. Rivera, CPA  
Lic. #2214

December 30, 2005  
Toa Baja, Puerto Rico



NOTE: Stamp No. 210599 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original report.



**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**Section II. Federal Awards Findings and Questioned Costs**

**Compliance findings:**

Our examination of compliance with federal requirements for the Municipality of Toa Baja for the year ended June 30, 2005, disclosed that grants funds were generally administered in a satisfactory manner, except for the following situations:

**A. Department of Housing and Urban Development**

**Housing Choice Voucher Program- *CFDA 14.871***

Documents and information required in the Municipality Administrative Plan (voucher program) met all requirements except for the following:

**FINDING NUMBER 05-1**

**Cash Management**

**Condition**

The Section 8 has a large balance in its bank account as of February 28, 2005 and as of the fiscal year ended June 30, 2005.

**Criteria**

The 24 CFR Part 985. 156, 157, 158; Part 5, Subpart H, Part 44 HUD Handbook 7420.6 and 7420.10g Chapter 20 of the Housing Voucher Program Guide Book establish that 90 days before the fiscal year ended the Municipality should submit Form 52663 when the amount of advances are in excess of five percent of the annual contributions required for the current budget. Also the Municipality should invest the five percent of the annual contribution in a HUD interest bearing accounts and report interest in Form 52681.

**Cause**

The Municipality probably is not paying all the vouchers approved in the proposal submitted to Housing and Urban Development Agency.

**Effect**

The Municipality does not comply with the law referred above.

**Recommendation**

Comment this problem with HUD office about the amount in the Section 8 bank account and request a solution for this situation or request fund for less amount until this situation has been resolved.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**HOME Investment Partnerships Program - CFDA 14.239**

The Municipality (tenant- based and homebuyer program) met all requirements except for the following:

**FINDING NUMBER 05-2**

**Cash Management**

**Condition**

The HOME Program bank account has a large balance as of March 31, 2005.

**Criteria**

Code of Federal Regulation (24CFR85.20) establish procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees which must be followed whenever advance payment procedures are used.

**Cause**

The Municipality is not doing the disbursements of the funds as soon as they are received.

**Effect**

The Municipality does not follows the procedures establish in the federal law.

**Recommendation**

Establish the procedures necessary to do the disbursments within a reasonable time after receive the funds from HUDas establish the Federal Regulation.

**FINDING NUMBER 05-3**

**Parameters of Assistance**

**Condition**

The HOME Tenant- based program has people receiving the assistance for more than the time establish by HUD as maximum .

**Criteria**

Code of Federal Regulation (24CFR92.209) establish that the term of the rental assistance contract providing with HOME funds may not exceed 24 months, but may be renewed, subject to the availability of HOME funds.

**Cause**

The Municipality is not following the program as established.

**Effect**

The Municipality do not helping the tenant to acquire self- sufficiency and cannot give vouchers to needed people.

**Recommendation**

Establish the procedures necessary so that the disbursments within a reasonable time after receiving the funds from HUD as establish in the Federal Regulation.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**Community Development Block Grant - CFDA 14.218**

Documents and information required o for the test the Compliance of CDBG Program met all requirements except for the following:

**FINDING NUMBER 05-4**

**Cash Management**

**Condition**

The reconciliation we did for CDBG for March, in order to evaluate how the funds have been utilize, we observed at the end of the month a large balance in CDBG's books.

**Criteria**

Code of Federal Regulation(24CFR85.20) establish procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used.

**Cause**

The Municipality is not doing the disbursements as soon as they receive the funds.

**Effect**

The Municipality does not follows the procedures establish by federal law.

**Recommendation**

Establish the procedures necessary to do the disbursments within a reasonable time after receive the funds from HUDas establish the Federal Regulation.

**Housing Opportunities for Person With AIDS -CFDA 10.854**

From the compliance test of other federal programs we observed the following exception:

**FINDING NUMBER 05-5**

**Cash Management**

**Condition**

There was funds received in January that were deposited on the Section 8 bank account and not in a separate bank account for the specific program as required and maintaining in this account for approximately four months.

**Criteria**

The federal funds should be deposited on a separate bank account, for the purpose established by the program and not for generate interest, loan to another program or cover an overdraft, etc.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**FINDING NUMBER 05-5-(Cont)**

**Cash Management**

**Cause**

The Municipality did not deposit the federal fund mentioned above in the correct bank account.

**Effect**

The Municipality is not in compliance with federal regulations.

**Recommendation**

The Municipality should revise from which program the funds came before deposited in order to comply with federal regulations.

**B. Department of Health and Human Services**

**Head Start and Early Head Start - CFDA 93.600**

Documents and information required o for the test the compliance of the Program met all requirements except for the following:

**FINDING NUMBER 05-6**

**Disbursement**

**Condition**

The Municipality does not followed the procedures they need to documentate the voucher for payment and maintain good internal controls. In a disbursment voucher test with a sample of 20, the following documents were misisng:

- Purchase order-10%
- Reference of the contract of bidding in the disbursement voucher-20%
- Payer's sign-15%

**Criteria**

The Code of Federal Regulation (45CFR1301.13) establish stating that the accounting system or systems established by the Head Start agency, or its delegate, must has appropriate internal controls for safeguarding assets, checking the accuracy and reliability of accounting data, and promoting operating efficiency. Also the Code of Federal Regulation (45CFR1301.12) determined that an independent auditor has to evaluate whether appropriate financial and administrative procedures and controls have been installed and are operating effectively by the program.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**FINDING NUMBER 05-6(Cont.)**

**Disbursement**

**Cause**

The Municipality has disbursement voucher that are incomplete and does not have good internal controls.

**Effect**

The Municipality does not follows the procedures establish in the federal law.

**Recommendation**

Revise that disbursement voucher contain all of the documentation necessary and in this way ensure the complitness of the records and good internal controls as establish the regulation.

**FINDING NUMBER 05-7**

**Cash Management**

**Condition**

The Head Start bank account has a large balance as of March 31, 2005.

**Criteria**

Code of Federal Regulation (45CFR1302.25) established the following controls:  
(a) Funds will be released on a monthly basis regardless of the form of grant payment.  
(b) Funds released each month will be limited to the amount required to cover actual disbursements during that period for activities authorized under the approved Head Start program.

**Cause**

The Municipality is not doing the disbursements as soon as they receive the funds.

**Effect**

The Municipality does not follows the procedures establish in the federal law.

**Recommendation**

Establish the procedures necessary to do the disbursments within a reasonable time after receive the funds from ACUDEN as establish the Federal Regulation.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**Child Care and Development Block Grant - CFDA 93.575**

Documents and information required for the test the Compliance of the Program met all requirements except for the following:

**FINDING NUMBER 05-8**

**Disbursement**

**Condition**

The Municipality does not followed the procedures they need to documentate the voucher for payment. In a disbursement voucher test with a sample of 7, the following documents were missing:

- Purchase order-43%
- Pre-intervention's approval-14%
- Date when Finance Director approved the payment-14%

**Criteria**

As establish OMB-Circular A-133 the auditors have to evaluate the internal control in order to verify the Municipality is complying with the program requirements establish in this Circular.

**Cause**

The Municipality has disbursement voucher that are incomplete leading in problems with the good internal controls that must be implemented by the program.

**Effect**

The Municipality does not follows the procedures establish to maintain good internal controls.

**Recommendation**

Revise that disbursement voucher contain all of the documentation necessary and in this way ensure good internal controls procedures.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Various Federal Assisted Program	Condition 04-2,03-2 Municipal indirect cost allocation to federal programs was not properly done	Corrected
Various Federal Assisted Program	Condition 01-1 to 8, 00-01 Disbursement Voucher without proper documentation:	Partially Corrected
Head Start CFDA 93.575	Conditions from Single Audit Report of years 1994-99 Bank Reconciliation with mistakes in operational and payroll account.	Corrected



**Aníbal Vega Borges**  
Alcalde

Estado Libre Asociado de Puerto Rico  
**Gobierno Municipal de Toa Baja**  
Oficina del Alcalde

December 30, 2005

Juan Rivera, CPA  
Urb. Levittown  
G-23 Boulevard Avenue  
Toa Baja, Puerto Rico 00949

**CORRECTIVE ACTION PLAN**

The Municipality of Toa Baja respectfully submits the following corrective action plan in responses to the single audit for the fiscal year that ended June 30, 2005.

**FINDINGS – FEDERAL AWARD PROGRAM, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**FINDING NUMBER 05-1: Housing Choice Voucher Program - CFDA 14.871**

Reportable Condition: See Condition 05-1

**Recommendation:**

Indicate this situation to the HUD office about the amount of funding in the Section 8 bank account and request a solution for this situation or request less funding amounts until this situation corrects its self.

**Action taken:**

The Municipality will request orientation from the HUD office to deposit this excess balance in the Section 8 Voucher bank account into a savings certificate to used as an reserve account.

**FINDING NUMBER 05-2: HOME Investment Partnerships Program - CFDA 14.239**

Reportable Condition: See Condition 05-2

**Recommendation:**

Establish the necessary procedures so that the disbursments of funds are made within a reasonable time after being received from HUD, as established by the Federal Regulation.

**Action taken:**

A system will be established so that request for funds will only be made once proof of all required docuements are complete.

**FINDING NUMBER 05-3: HOME Investment Partnerships Program - CFDA 14.239**

Reportable Condition: See Condition 05-3

**Recommendation:**

Code of Federal Regulation (24CFR92.209) establish that the term of the rental assistance contract provided with HOME funds may not exceed 24 months, but may be renewed, subject to the availability of HOME funds.

**Action taken:**

Procedures will be established to deal with this situation, in consultations with the HUD office. Additionally a self-sufficiency program will be implemented to help the participants become more independent.

**FINDING NUMBER 05-4: Community Development Block Grant - CFDA 14.218**

Reportable Condition: See Condition 05-4

**Recommendation:**

Establish the necessary procedures so that the disbursements of funds are made within a reasonable time after being received from HUD, as established by the Federal Regulation.

**Action taken:**

A system will be established so that the request for funds will only be made once proof of all required documents are complete. Request for funds will no longer be made based on invoices since release of payments made take more than three days required from disbursement of funds if incomplete.

**Finding Number 05-5: Housing Opportunities for Person with AIDS -CFDA 14.241**

Reportable Condition: See condition 05-5

**Recommendation:**

The Municipality should revise from which program the funds came before making a deposit in order to comply with federal regulations.

**Action taken:**

This situation has been corrected by the Department of Finance and it has been communicated with them to avoid this situation in the future.

**FINDINGS - FEDERAL AWARD PROGRAM, DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**Finding Number 05-6: Head Start and Early Head Start - CFDA 93.600**

Reportable Condition: See condition 05-6

**Recommendation:**

Revise that disbursement voucher contains all of the documentation necessary and in this way ensure the complitness of the records and good internal controls as establish the regulation.

**Action taken:**

The Municipality will enforce that vouchers contains the information, documents and signs necessary to be completed and in order to have good internal control.

**Finding Number 05-7: Head Start and Early Head Start - CFDA 93.600**

Reportable Condition: See condition 05-6

**Recommendation:**

Establish the procedures necessary to do the disbursments within a reasonable time after receive the funds from ACUDEN as establish the Federal Regulation.

**Action taken:**

A system will be established so that request for funds will only be made once proof of all required docuements are complete.

**Finding Number 05-8: Child Care and Development Block Grant - CFDA 93.575**

Reportable Condition: See condition 05-6

**Recommendation:**

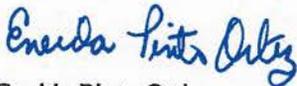
Revise that disbursement vouchers contain all of the documentation necessary and in this way ensure good internal controls procedures.

**Action taken:**

A system will be established so that request for funds will only be made once proof of all required documents are complete.

I hope that this information will clarify the findings made by office.

Cordially,



Eneida Pinto Ortiz  
Director  
Department of Housing and Community Development



Carmen R. Torres Dávila  
Acting Director  
Department of Head Start