

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE TOA BAJA
AUDITORIA 2006-2007

30 DE JUNIO DE 2007

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA**

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

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

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

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2007 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Municipality. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico
November 14, 2007

Ortiz. Auer, Auer & Co.

The stamp 2286477 was affixed
to the original of this report.



Commonwealth of Puerto Rico
Municipality of Toa Baja
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

Management of Municipality of Toa Baja (the "Municipality") provides this Management's Discussion and Analysis to (a) assist the reader in focusing on significant financial issues, (b) provide and overview of the Municipality's financial activities, (c) identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Because the Management's Discussion and Analysis is designed to focus on the current years activities, resulting changes and currently known facts, we encourage readers to consider the information presented here in conjunction with the Municipality's financial statements (beginning on page 13).

HIGHLIGHTS

Financial Highlights

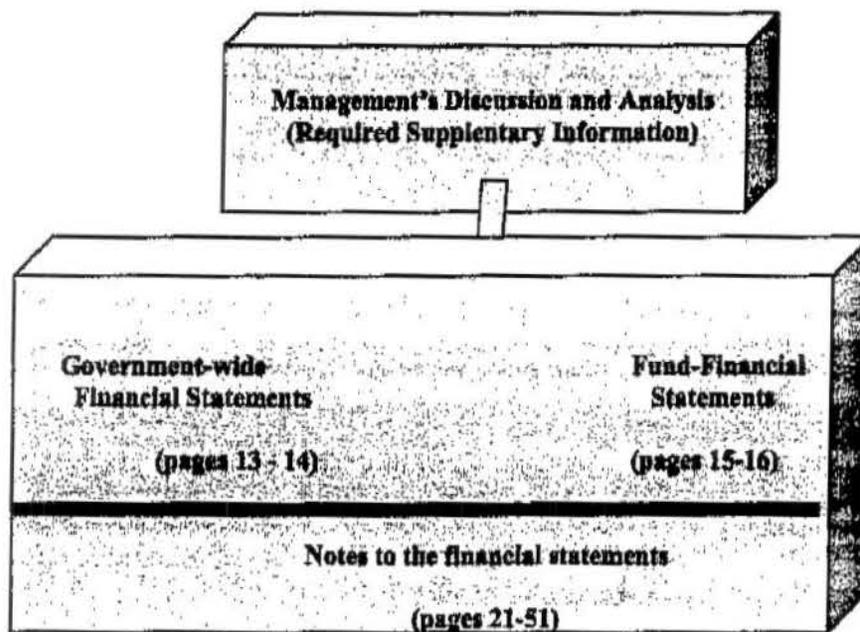
- The Municipality's net assets amounted to \$58.5 million at the close of the current fiscal year. This amount represents an increase of \$40.5 million from the previous year's net assets.
- During the current year, the Municipality implemented the final stage of the provisions of GASB Statement 34 recording the infrastructure assets acquired prior to fiscal year 2003, which amounted to \$94.7 million net of accumulated depreciation.
- As of June 30, 2007, the Municipality's General Fund (the primary operating fund) reported a fund balance of \$1.1 million, an increase of \$1.0 million in comparison with the prior year.
- Capital expenditures amounted to \$8.7 million during the year.
- Loans principal payments were \$5.1 million during fiscal year 2006-2007. Loan proceeds from new debt issued amounted to \$26.4 million during the same fiscal year. Other long-term liabilities amounted to

\$33.5 million at June 30, 2007, for a total long-term debt of \$123.1 million as of same date, as compared to \$100.4 million in prior year.

USING THIS ANNUAL REPORT

In light of the fact that this annual report has a very different presentation from the pre-GASB Statement No. 34 model, the following graphic is provided for your review.

Figure 1
Required components of the Municipality's Annual Financial Report



The new financial statement's focus (implemented in 2002/2003) is on both the Municipality as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Figure 2 below summarizes the major features of the Municipality's financial statements.

Figure 2

**Major features of the Municipality's Governmental-wide
and Fund Financial Statements**

	<i>Government-wide Statements</i>	<i>Fund Statements</i>
Scope	The entire Municipality's Government	The activities of the Municipality
Required financial statements	Statement of net assets Statement of activities	Balance Sheet Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurements focus	Accrual accounting and economic resources focus	Modifies accrual accounting and current financial resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, and short- term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.
Type of inflow/outflow information	All revenues and expenses during the year regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year. Expenditures when goods or services have been received and payment is due during the year or soon thereafter.

Government-wide Financial Statements

Our analysis of the Municipality as a whole begins on page 13. One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worst off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (see page 13), for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. You can think of the Municipality's net assets as one way to measure the Municipality's financial

health, or financial position. In future years, increases or decreases in the Municipality's net asset are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax and municipal license tax bases and the condition of the roads and buildings, among others, to assess the overall health of the Municipality.

The Statement of Activities (see page 14) is focused on both the gross and net cost of various activities which are supported by the Municipality's property tax, municipal license tax, sales and use tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

The Governmental Activities reflects the Municipality's basic services, including the municipal police, public works, garbage disposal, community services and general administration. Property tax, municipal license tax, sales and use tax, state and federal contributions finance most of these services.

Fund Financial Statements

Our analysis of the Municipality's mayor funds begins on page 15. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The Governmental Major Fund (see pages 15 - 16) presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation beside the fund financial statements.

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. These notes to the financial statements can be found starting on page 21.

Infrastructure Assets

Historically a government's largest group of assets (infrastructure-roads, bridges, drainage systems, underground pipes, etc.) have not been reported nor depreciated in governmental financial statements. The new statement requires that these assets be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the governmental must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the alternative method) which periodically (at least every third year), by category, measures and demonstrate its maintenance in lieu of depreciation. While the Municipality is planning to acquire an asset management system which a) would allow the election to use the alternative method, and b) will provide valuable management information, it elected to initially implement the depreciation method, and will monitor and consider, over time, a possible conversion to the alternative method.

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$58.5 million at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Assets compared to prior year.

Table 1
Summary of Net Assets
(in million)

<i>Governmental Activities</i>	2007	2006
Current and other assets	\$59.3	\$51.9
Capital assets	<u>146.6</u>	<u>94.6</u>
Total assets	<u>205.9</u>	<u>146.5</u>
Current and other liabilities	30.3	40.1
Long-term debt outstanding	<u>117.1</u>	<u>88.4</u>
Total liabilities	147.4	128.5
Net assets:		
Invested in capital assets, net of debt	71.6	60.8
Restricted	19.6	24.6
Unrestricted	<u>(32.7)</u>	<u>(67.4)</u>
Total net assets	<u>\$58.5</u>	<u>\$18.0</u>

For more detailed information see the Statement of Net Assets (page 13).

By far largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt used to acquire those assets that are still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets represents resources that are subject to external restrictions on how they may be used. As a result, the unrestricted balance of net assets resulted in a deficit of \$32.7 million.

The Municipality's net assets increase by \$40.5 million during the current fiscal year. Such increase was mainly due to the net resulted a restatement of net assets at the recycling of the year and to the infrastructure acquired prior to fiscal year 2003 (\$94.7 million) which was recorded to comply with the requirements of GASB Statement 34.

THE MUNICIPALITY FUNDS

Governmental Funds

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on pages 15 and 16) reported a combined fund balance of \$35.5 million which is 4.4% higher than the beginning of the year (\$24.6 million) This increase was the net result of a decrease of \$3.0 million in the fund balance of the Capital Project Fund and an increase of \$13.9 million in the General Fund (\$1.1 million) and the HUD Programs Fund (\$12.9 million).

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$6.5 million (see page 20 for budget to actual comparisons). The current year operations resulted in \$1.2 million of excess expenditures over revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the Municipality had \$146.7 million (net of depreciation) invested in a variety of capital assets, as reflected in the following table, which represents a net increase (additions less retirements and depreciation) of \$1.8 million from the end of last year, as restated.

Table 2
Capital Assets at Year-end
(Net of Depreciation, in millions)

<i>Governmental Activities</i>	2007	2006 *
	\$ 3.3	\$ 3.3
Land		
Construction in progress	3.5	.4
Buildings and improvements	39.7	40.8
Furniture and fixture	1.6	1.6
Vehicles and equipment	5.8	5.5
Infrastructure	<u>92.8</u>	<u>93.1</u>
Total	<u>\$146.7</u>	<u>\$144.7</u>

Table 3
Change in Capital Assets
(in millions)

	Governmental Activities
Beginning balance	\$144.7
Additions	4.7
Depreciation	(2.7)
Ending balance	<u>\$146.7</u> <u>\$527.5</u>

Debt Outstanding

As of year-end, the Municipality had \$123.1 million in debt (bonds, notes and other long-term debts) outstanding compared to \$102.4 million last year, an increase of 20% (considering new borrowing and debt retirement).

Table 4
Outstanding Debt at Year-end
(in million)

	2007	2006
General obligation bonds and notes	\$74.2	\$64.9
Due to CRIM – Law 42	2.4	5.5
Due to CRIM-LIMS	.9	
Note payable-Section 108	12.2	
Landfill obligation	26.8	24.8
Compensated absences	6.1	7.1
Others	.5	.1
Totals	\$123.1	\$102.4

New bonds and notes in the amount of \$14.2 million issued during the year. A note payable with a balance due of \$2.4 million represents a repayment agreement with the Government Development Bank and CRIM to repay the excess of property takes advances from fiscal years up to 2001. The \$.9 million due to CRIM represents the balances dues of a note payable for the Municipality's share of the cost of a management information system (LIMS) acquired by CRIM. A note payable of \$12.2 million is due to the U.S. Department of Housing and Urban

Development. The landfill obligation represents an estimated liability for future closure and post-closure care costs. Principal payments of \$6.2 million made by the Municipality the current year.

The Municipality levies an annual special tax of 1.48% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality. The outstanding general obligation debt of the Municipality of \$74.2 million is below legal limitation. A note payable of \$12.2 million due to the U.S. Department of Housing and Urban Development is due in august 2026. More detailed information about the Municipality's long-term debts is presented in note 15 to the financial statement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The Mayor and the Municipal Legislature are elected every four years in general elections.

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 Municipality's principal sources of revenue are property taxes, municipal license taxes, sales and use tax, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered may factor when setting the fiscal year 2008 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality. These factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2007-2008. Amounts available for appropriations (revenues) in the General Fund Budget are \$61.7 million, which is slightly higher than the budget for fiscal year 2006-2007. Municipal license taxes and other local charges for services, licenses and permits are expected to provide

the revenues necessary to finance programs we currently offer. Budgeted expenditures are expected to be exceeded by budgeted revenues.

If those estimates are realized, the Municipality's budgetary General Fund balance is expected to be the same or to increase modestly by the close of fiscal year 2007-2008.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance on the 4th Floor of the City Hall, Sabana Seca Avenue, PO Box 2359, Toa Baja, Puerto Rico, 00951.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
STATEMENT OF NET ASSETS
JUNE 30, 2007**

<u>Assets</u>	<u>Governmental Activities</u>
Cash in bank (Notes 2 and 5)	\$ 26,117,951
Cash with fiscal agent (Notes 2 and 5)	17,731,711
Certificates of deposits (Notes 2 and 5)	6,570,000
Accounts receivable:	
Municipal license taxes	2,062,533
Landfill	616,324
Interest	134,208
Other	59,218
Due from other agencies (Note 9)	5,969,544
Capital assets, net (Note 11)	<u>146,644,707</u>
 Total assets	 <u>\$ 205,906,196</u>
 <u>Liabilities and Net Assets</u>	
Liabilities	
Account payable and accrued liabilities	\$ 2,199,928
Due to other agencies (Note 12)	4,427,482
Matured bonds	5,153,528
Matured interest payable	1,902,172
Deferred revenues (Note 13):	
Municipal license tax	10,061,091
Noncurrent liabilities (Note 15):	
Due within one year	6,546,023
Due in more than one year	117,118,377
Total liabilities	<u>147,408,601</u>
Net Assets	
Investment in capital assets, net of related debt	71,598,989
Restricted for:	
Debt service	3,371,616
Capital project	16,174,542
Unrestricted	<u>(32,647,552)</u>
Total net assets	<u>58,497,595</u>
 Total liabilities and net assets	 <u>\$ 205,906,196</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government:				
General government	\$ 49,997,251	\$ 13,800,381	\$ -	\$ (36,196,870)
Public safety	7,525,544			(7,525,544)
Public works	12,783,099			(12,783,099)
Culture and recreation	12,151,377			(12,151,377)
Public housing and welfare	13,099,390		16,130,571	3,031,181
Economic development	845,344			(845,344)
Interest on long-term debt	2,729,617			(2,729,617)
Total primary government	<u>\$ 99,131,622</u>	<u>\$ 13,800,381</u>	<u>\$ 16,130,571</u>	<u>(69,200,670)</u>
General revenues:				
Property taxes				22,115,292
Municipal license tax				13,285,662
Sales and use tax				4,512,940
Grants and contributions not restricted to specific programs				6,270,978
Interest, fines and penalties				2,588,895
Miscellaneous				8,758,923
Total general revenues				<u>57,532,690</u>
Change in net assets				(11,667,980)
Net assets at beginning of year, as restated (Note 23)				70,165,575
Net assets at end of year				<u>\$ 58,497,595</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOABAJA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Services</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 7,029,011	\$ 6,116,483	\$ 314,081	\$ 10,290,861	\$ -	\$ 2,367,515	\$ 26,117,951
Cash with fiscal agent (Notes 2 and 5)	1,112,583				16,174,542	444,586	17,731,711
Certificates of deposits (Notes 2 and 5)		6,570,000					6,570,000
Accounts receivable:							
Municipal license taxes	2,062,533						2,062,533
Landfill	616,324						616,324
Interest	42,984	100,846			33,362		177,192
Other		16,234					16,234
Due from other agencies (Note 9)	2,360,861		1,851,834	103,093		1,653,756	5,969,544
Due from other funds (Note 10)	3,989,017						3,989,017
Total assets	\$ 17,213,313	\$ 12,803,563	\$ 2,165,915	\$ 10,427,316	\$ 16,174,542	\$ 4,465,857	\$ 63,250,506

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Services</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities							
Account payable and accrued liabilities	\$ 1,645,051	\$ 31,362	\$ 377,643	\$ -	\$ -	\$ 145,872	\$ 2,199,928
Due to other funds (Note 10)			1,581,191			2,407,826	3,989,017
Due to other agencies (Note 12)	4,427,482						4,427,482
General obligations:							
Bonds				5,153,528			5,153,528
Interest				1,902,172			1,902,172
Deferred revenues: (Note 13)							
Municipal licence tax	10,061,091						10,061,091
Total liabilities	<u>16,133,624</u>	<u>31,362</u>	<u>1,958,834</u>	<u>7,055,700</u>	<u>-</u>	<u>2,553,698</u>	<u>27,733,218</u>
Fund Balances							
Reserved for:							
Encumbrances	832,066						832,066
Debt service				3,371,616			3,371,616
Capital projects					16,174,542		16,174,542
Unreserved fund balance	247,623	12,772,201	207,081			1,912,159	15,139,064
Total fund balance	<u>1,079,689</u>	<u>12,772,201</u>	<u>207,081</u>	<u>3,371,616</u>	<u>16,174,542</u>	<u>1,912,159</u>	<u>35,517,288</u>
Total liabilities and fund balance	<u>\$ 17,213,313</u>	<u>\$ 12,803,563</u>	<u>\$ 2,165,915</u>	<u>\$ 10,427,316</u>	<u>\$ 16,174,542</u>	<u>\$ 4,465,857</u>	<u>\$ 63,250,506</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total fund balances - governmental funds	\$ 35,517,288
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	146,644,707
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	<u>(123,664,400)</u>
Net assets of governmental activities	<u>\$ 58,497,595</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Services	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 6)	\$ 14,846,419	\$ -	\$ -	\$ 7,268,873	\$ -	\$ -	\$ 22,115,292
Municipal license taxes (Note 7)	13,285,662						13,285,662
Licenses, permits, and other local taxes	5,926,703						5,926,703
Sales and use taxes (Note 8)	4,512,940						4,512,940
Charges for services	7,664,794					188,884	7,873,678
Intergovernmental revenues (Note 14):							
Federal grants and contributions		3,372,850	9,162,428			3,595,293	16,130,571
State contributions	6,270,978						6,270,978
Interest, fines, and penalties	1,753,376	443,437		391,723		359	2,588,895
Other revenues	8,734,779					24,144	8,758,923
Total revenues	63,015,651	3,816,287	9,162,428	7,660,596	-	3,808,680	87,483,642
EXPENDITURES							
Current:							
General government	43,244,257	58,559				1,057,647	44,360,463
Public safety	6,968,703	42,006				307,585	7,318,294
Economic development						845,344	845,344
Public housing and welfare		3,028,314	483,808			548,173	4,060,095
Culture and recreation	2,056,260		9,277,727			55,100	11,389,177
Public works	7,851,599						7,851,599
Health and welfare	8,615,142					136,171	8,751,313
Capital outlays					8,674,477		8,674,477
Debt service:							
Principal				5,119,876			5,119,876
Interest and other		252,286		4,246,521			4,498,807
Total expenditures	68,735,961	3,381,165	9,761,335	9,366,397	8,674,477	2,950,110	102,889,445
Excess (deficiency) of revenues over (under) expenditures	(5,720,310)	435,122	(598,907)	(1,705,801)	(8,674,477)	858,570	(16,405,803)
OTHER FINANCING SOURCES (USES)							
Loan proceeds	8,513,000	12,157,000			5,730,000		26,400,000
Transfers in	252,778			2,071,491			2,324,269
Transfers out	(2,071,491)			(252,778)			(2,324,269)
Total other financing sources	6,694,287	12,157,000	-	1,818,713	5,730,000	-	26,400,000
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	973,977	12,592,122	(598,907)	112,912	(2,944,477)	858,570	10,994,197
FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 23)	105,712	180,079	805,985	3,258,704	19,119,019	1,053,589	24,523,091
FUND BALANCE AT END OF YEAR	\$ 1,079,689	\$ 12,772,201	\$ 207,081	\$ 3,371,616	\$ 16,174,542	\$ 1,912,159	\$ 35,517,288

The accompanying notes are an integral part of these 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds	\$ 10,994,197
Amounts reported for governmental activities in the statement of activities are different because:	
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 	4,607,031
<ul style="list-style-type: none"> • Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. 	(2,690,723)
<ul style="list-style-type: none"> • Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. 	(26,400,000)
<ul style="list-style-type: none"> • Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 	5,119,876
<ul style="list-style-type: none"> • Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 	<u>(3,298,361)</u>
Changes in net assets of governmental activities	<u><u>\$ (11,667,980)</u></u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 14,001,105	\$ 14,912,341	\$ 14,912,341	\$ -	\$ 5,920,115	\$ 5,920,115	\$ 5,920,115	\$ -
Municipal license taxes	12,395,000	12,395,000	13,147,048	752,048				
Licenses and permits	4,433,675	4,433,675	4,490,907	57,232				
Sales taxes	-	4,965,504	4,071,787	(893,717)				
Charges for services	11,125,000	11,125,000	8,033,014	(3,091,986)				
Intergovernmental revenues:								
State contributions	6,096,527	6,390,736	6,379,932	(10,804)				
Interest, fines, and penalties	795,000	795,000	1,964,039	1,169,039				
Other revenues	1,914,000	2,261,962	1,331,036	(930,926)				
Total revenues	<u>50,760,307</u>	<u>57,279,218</u>	<u>54,330,104</u>	<u>(2,949,114)</u>	<u>5,920,115</u>	<u>5,920,115</u>	<u>5,920,115</u>	<u>-</u>
EXPENDITURES								
Current:								
General government	25,579,261	30,841,176	30,096,605	744,571				
Public safety	6,311,513	6,510,449	6,376,909	133,540				
Public works	8,017,671	7,699,533	7,084,151	615,382				
Culture and Recreation	3,135,277	3,967,354	3,777,916	189,438				
Health and welfare	7,716,585	6,260,706	6,166,609	94,097				
Debt service:								
Principal and interest					5,920,115	5,920,115	5,920,115	-
Total expenditures	<u>50,760,307</u>	<u>57,279,218</u>	<u>55,502,190</u>	<u>1,777,028</u>	<u>5,920,115</u>	<u>5,920,115</u>	<u>5,920,115</u>	<u>-</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,172,086)</u>	<u>\$ (1,172,086)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. ORGANIZATION

The Municipality of Toa Baja, Puerto Rico (Municipality) was founded in 1745. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial information of the Municipality is presented in this report as follows:

- **Management's Discussion and Analysis** - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- **Government - Wide Financial Statements** - This reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies:

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoint a voting majority of the entity's governing body, and if either one of the following conditions exists: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. Based on the aforementioned criteria, the Municipality has no component units.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Municipality reports the following major governmental funds:

- General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

- Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

- Health and Human Services Programs (HHS Programs)

This fund account for revenue sources to provide essential human services such as health insurance for elderly and low-income people, improving

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

maternal and infant health, pre-school education and services, prevent child abuse and domestic violence and medical and social science research including the prevention of the outbreak of infections disease and immunization services.

- Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

- Capital Project Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

d. Cash and Cash Equivalents, Cash with Fiscal Agent, and Certificates of Deposits

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

f. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

g. Reservation of Fund Balance

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

- Encumbrances

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

- Debt Service

Represents net assets available to finance future debt service payments.

- Capital Projects Fund

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2007 amounted to approximately \$616,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.4 million for workers' compensation insurance covering all municipal employees.

i. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

j. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2007-08
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2007-08
50	Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27.	2007-08
51	Accounting and Financial Reporting for Intangible Assets	2009-10

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

k. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

3. 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 and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds. The amounts budgeted under the Other Governmental Funds were excluded since they are received and expended over a period of time which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2007 is presented below for the general fund:

	<u>General Fund</u>
Excess of expenditures over revenues - budgetary basis	(\$ 1,172,086)
Entity differences:	
Non-budgeted revenues, net	7,403,743
Non-budgeted expenditures, net	(8,299,092)
Non-budgeted transfer in	252,778
Non-budgeted transfer out	(2,071,491)
Non-budgeted bond issuance	8,513,000
Prior year encumbrances recorded as Current year expenditures for GAAP basis	(105,712)
Current year encumbrances treated as current year expenditures for budgetary purposes	832,066

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

General Fund

Basis of accounting differences:	
Net change in receivables	\$1,281,804
Net change in payables	(5,661,033)
	<u>\$ 973,977</u>

c. Legal Compliance

The legal level of budgetary control is at the individual department level for general fund expenditures.

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$123.7 million difference are as follows:

Bonds payable	\$ 74,188,173
Notes payable	15,442,624
Compensated absences	6,144,478
Landfill obligation	26,800,801
Federal cost disallowances	80,404
Claims and judgements	582,592
Due to PR Retirement System Administration	<u>425,328</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$123,664,400</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

5. DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The deposits at GDB of approximately \$17.7 million that are restricted principally for capital projects, and the \$1.1 million in the debt service fund are uninsured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in one (1) bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The rates are 8.83% for real property and 6.83% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.00%	2.00%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>8.83%</u>	<u>6.83%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2006-07, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2007, the amount collected by CRIM from taxpayers and charges exceeded the amount advanced by CRIM for the same period by approximately \$137,000. Such amount is presented as due from CRIM in the accompanying financial statements. (See Note 9).

7. MUNICIPAL LICENSE TAX

Municipal license tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2007. The annual municipal license tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Toa Baja, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Toa Baja, are as follows:

Financial institutions	=	1.5%
Other organizations	=	.5%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$10.1 million, corresponding to the next fiscal year municipal license.

8. SALES AND USE TAXES

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

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

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

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9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$2,223,785
Municipal Revenues Collection Center (General Fund)	137,076
U.S. Department of Health and Human Services	1,851,834
Municipal Revenues Collection Center (Debt Service Fund)	103,093
Other governmental funds	<u>1,653,756</u>
Total	<u>\$5,969,544</u>

10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2007, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	HHS	\$1,581,191
General	Other governmental funds	<u>2,407,826</u>
Total		<u>\$3,989,017</u>

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2007 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$2,071,491
General	Debt Service	<u>252,778</u>
Total		<u>\$2,324,269</u>

The transfer from the general fund to the debt service fund of \$2,071,491 represents monies transferred to cover debt service payments as become due.

11. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2006 (As Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,254,515	\$ -	\$ -	\$ 3,254,515
Construction in progress	423,100	3,106,324	-	3,529,424
Total capital assets, not being depreciated	<u>3,677,615</u>	<u>3,106,324</u>	<u>-</u>	<u>6,783,939</u>
Capital assets, being depreciated:				
Buildings and building improvements	47,232,992	63,500	-	47,296,492
Equipment and vehicles	9,980,879	1,227,083	-	11,207,962
Furniture and fixtures	3,563,145	210,124	-	3,773,269
Infrastructure	96,687,750	-	-	96,687,750
Total capital assets, being depreciated	<u>157,464,566</u>	<u>1,500,707</u>	<u>-</u>	<u>158,965,273</u>
Less accumulated depreciation for:				
Buildings and building improvements	6,413,050	1,154,648	-	7,567,698
Equipment and vehicles	4,473,799	908,956	-	5,382,755
Furniture and fixtures	1,960,437	243,784	-	2,204,221
Infrastructure	3,566,496	383,335	-	3,949,831
Total accumulated depreciation	<u>16,413,782</u>	<u>2,690,723</u>	<u>-</u>	<u>19,104,505</u>
Total capital assets, being depreciated, net	<u>141,050,784</u>	<u>(1,190,016)</u>	<u>-</u>	<u>139,860,768</u>
Governmental activities capital assets, net	<u>\$ 144,728,399</u>	<u>\$ 1,916,308</u>	<u>\$ -</u>	<u>\$146,644,707</u>

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The balance of capital assets as of July 1, 2006 has been restated to correct beginning balances and to include infrastructure assets as required by provisions of GASB 34.

Depreciation expense was charged to functions/programs of the Municipality as follows:

General government	\$ 569,237
Public safety	207,250
Public works	864,054
Culture	86,607
Recreation	675,593
Health and welfare	<u>287,982</u>
 Total	 <u>\$2,690,723</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2007 are as follows:

Puerto Rico Electric Power Authority	\$2,223,785
Retirement System Administration	696,262
Puerto Rico General Services Administration	655,395
Puerto Rico Department of Treasury	387,605
Puerto Rico Water and Sewer Authority	236,420
U. S. Internal Revenue Services	207,054
Puerto Rico Labor Department	<u>20,961</u>
 Total	 <u>\$4,427,482</u>

13. DEFERRED REVENUES MUNICIPAL LICENSE TAX

The deferred revenues of approximately \$10.1 million in the general fund related to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

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14. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and other governmental funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, payments in lieu of taxes from the Puerto Rico Electric Power Authority and federal financial assistance received from the federal government.

15. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2007 are as follows:

a. Legal Debt Margin

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus the balance of the special ad valorem taxes in the debt service fund. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Total property assessed value at June 30, 2007 amounted to approximately \$564 million. Long-term, except for the bonds payable, is paid with unrestricted funds.

b. Bonds

\$9,725,000 series of 1994, payable in annual installments of \$135,000 to \$850,000 until July 2019, interest at 8%.	\$ 7,200,000
\$8,150,000 series of 1994, payable in annual installments of \$300,000 to \$880,000 until July 2009, interest at 12%.	2,450,000
\$1,670,000 series of 1994, payable in annual installments of \$25,000 to \$145,000 until July 2019, interest ranging from 6.15% to 8.206%.	1,235,000
\$5,100,000 series of 1994, payable in annual installments of \$185,000 to \$550,000 until July 1, 2009, interest ranging from 6.106% to 6.58%.	1,535,000

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\$2,755,000 series of 1994, payable in annual installments of \$60,000 to \$265,000 until July 1, 2014, interest ranging from 7.25% to 6.58%.	\$ 1,615,000
\$1,540,000 series of 1994, payable in annual installments of \$170,000 to \$240,000 until July 1, 2020, interest ranging from 5.4% to 6.875%.	1,190,000
\$1,020,000 series of 1996, payable in annual installments of \$40,000 to \$135,000 until July 1, 2012, interest ranging from 4.87% to 6.75%.	475,000
\$3,530,000 series of 1998, payable in annual installments of \$145,000 to \$305,000 until July 1, 2012, interest ranging from 6% to 7.08%.	2,780,000
\$1,500,000 series of 1998, payable in annual installments from \$44,000 to \$108,000 until July 1, 2019, interest at 4.5%.	1,022,106
\$5,075,000 series of 1999, payable in annual installments of \$195,000 to \$540,000 until July 1, 2015, interest ranging from 6.16% to 11.06%.	3,390,000
\$3,470,000 series of 2000, payable in annual installments of \$140,000 to \$355,000 until June 2014, interest at approximately 8%.	2,270,000
\$655,000 series of 2000, payable in annual installments of \$25,000 to \$70,000 until July 1, 2015, interest ranging from 5.88% to 8%.	475,000
\$875,000 series of 2000, payable in annual installments of \$5,000 to \$75,000 until July 2025, interest ranging from 5.88% to 8%.	790,000
\$2,062,000 series of 2001, payable in annual installments of \$62,800 until January 1, 2021, interest at 2%.	1,527,067

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\$3,200,000 series of 2002, payable in annual installments of \$55,000 to \$245,000 until July 1, 2027, interest ranging from 5% to 6.5%.	\$ 2,960,000
\$3,040,000 series of 2005, payable in annual installments of \$100,000 to \$220,000 until July 1, 2024, interest ranging from 3.28% to 5%.	2,835,000
\$2,515,000 series of 2005, payable in annual installments of \$305,000 to \$420,000 until July 2012, interest ranging from 4.2% to 4.7%.	2,210,000
\$12,065,000 series of 2005, payable in annual installments of \$345,000 to \$960,000 until July 2025, interest ranging from 4.4% to 5.3%.	11,720,000
\$1,555,000 series of 2006, payable in annual installments of \$180,000 to \$270,000 until July 1, 2012, interest ranging from 6.2% to 6.5%.	1,375,000
\$1,335,000 series of 2006, payable in annual installments of \$155,000 to \$230,000 until July 2012, interest ranging from 6.2% to 6.5%.	1,180,000
\$1,510,000 series of 2006, payable in annual installments of \$25,000 to \$120,000 until July 2031, interest ranging from 6.6% to 7.25%.	1,510,000
\$1,010,000 series of 2006, payable in annual installments of \$110,000 to \$175,000 until July 2013, interest ranging from 6.60% to 7.25%.	1,010,000
\$120,000,000 series of 2007, payable in annual installments of \$20,000 to \$30,000 until July 2011, interest ranging from 6.60% to 7.25%.	120,000

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\$1,335,000,000 series of 2007, payable in annual installments of \$20,000 to \$110,000 until July 2031, interest ranging from 6.60% to 7.25%.	\$ 1,335,000
\$415,000,000 series of 2007, payable in annual installments of \$60,000 to \$85,000 until July 2012, interest ranging from 6.60% to 7.25%.	415,000
\$1,340,000,000 series of 2007, payable in annual installments of \$50,000 to \$140,000 until July 2021, interest ranging from 6.60% to 7.25%.	1,340,000
\$8,513,000 series of 2007, payable in annual installments of \$600,000 to \$1,153,000 until July 2017, interest ranging from 7.25% to 7.50%.	<u>8,513,000</u>
Total bonds payable	<u>\$64,477,173</u>
c. Special Obligation - Notes	
\$400,000,000 series of 1996, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016, interest at 8%.	\$ 265,000
\$10,674,000 series of 2005, payable in annual installments of \$290,000 to \$1,392,000 until July 1, 2014, interest ranging from 5% to 5.5%.	<u>9,446,000</u>
Total bonds and notes	<u>\$74,188,173</u>

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The annual debt service requirements for the bonds and notes payable at June 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 5,267,532	\$ 4,020,666
2009	6,214,452	4,012,591
2010	6,627,411	3,533,829
2011	5,527,409	3,171,124
2012	5,899,447	2,839,104
2013-2017	24,587,278	9,306,466
2018-2022	12,664,644	3,559,606
2023-2027	6,165,000	1,149,338
2028-2032	<u>1,235,000</u>	<u>184,100</u>
	<u>\$74,188,173</u>	<u>\$31,776,824</u>

d. Note Payable - CRIM - Law 42

Note payable of \$2,428,079 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in semi-annual aggregate principal installments of \$95,258 plus interest rate of 6.18%.

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Debt service requirements in future years are as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 40,903	\$ 149,615
2009	43,472	147,044
2010	46,204	144,313
2011	49,108	141,410
2012	52,193	138,325
2013-2017	314,473	638,112
2018-2022	426,491	526,095
2023-2027	578,404	374,179
2028-2032	<u>876,831</u>	<u>171,011</u>
	<u>\$2,428,079</u>	<u>\$2,430,104</u>

e. Note Payable - CRIM (LIMS)

In 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$1,640,453 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$110,009, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal equalization fund send to the Municipality by the CRIM. Debt service requirements in future years are as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 171,509	\$ 48,510
2009	181,865	38,154
2010	192,847	27,172
2011	204,493	15,527
2012	<u>106,831</u>	<u>3,178</u>
	<u>\$ 857,545</u>	<u>\$ 132,541</u>

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f. Note Payable - Section 108

Note payable of \$12.1 million due to the U. S. Department of Housing and Urban Development, payable in annual aggregate principal installments ranging from \$464,000 to \$1,148,000 plus interest which fluctuates from 1.16% to 2.88%. The notes is payable in August 2026.

The annual debt service requirements for the note at June 30, 2007 are as follows:

	<u>Section 108 Loan Guarantee</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 662,942
2010		662,942
2011		662,942
2012	464,000	662,942
2013-2017	2,793,000	2,862,318
2018-2022	3,783,000	2,004,422
2023-2027	5,117,000	768,254
	<u>\$12,157,000</u>	<u>\$8,286,762</u>

As described in Note 6, the Municipality levies an annual special tax of 1.48% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

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Primary Government	Beginning Balance (as Restated)	Additions	Payments	Ending Balance	Due within One Year
Governmental Activities:					
Bonds payable	\$ 64,864,823	\$ 14,243,000	\$ 4,919,650	\$ 74,188,173	\$ 5,267,532
Note payable - CRIM Law 42	2,466,563		38,484	2,428,079	40,903
Note payable - CRIM (LIMS)	1,019,287	-	161,742	857,545	171,509
Note payable - Section 108		12,157,000		12,157,000	
Total long-term debt	<u>68,350,673</u>	<u>26,400,000</u>	<u>5,119,876</u>	<u>89,630,797</u>	<u>5,479,944</u>
Other long-term liabilities:					
Landfill obligation	24,823,467	1,977,334		26,800,801	
Federal cost disallowances	83,000	48,539	51,135	80,404	51,135
Due to PR Retirement System Administration		425,328		425,328	170,131
Claims and Judgements	582,592			582,592	
Compensated absences	7,123,962		979,484	6,144,478	844,813
Total other long-term liabilities	<u>32,613,021</u>	<u>2,451,201</u>	<u>1,030,619</u>	<u>34,033,603</u>	<u>1,066,079</u>
Total noncurrent liabilities, governmental activities	<u>\$ 100,963,694</u>	<u>\$ 28,851,201</u>	<u>\$ 6,150,495</u>	<u>\$ 123,664,400</u>	<u>\$ 6,546,023</u>

16. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

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ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2007 was approximately \$1.5 million. The Municipality's payroll for employees covered by ERS was approximately \$16.3 million. The Municipality total payroll for all employees was approximately \$34.2 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2007, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

17. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico

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who is responsible for purchasing all property and casualty insurance policies of all municipalities.

18. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2007 was approximately \$118,000.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

19. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

Commonwealth and Federal laws and regulations require the Municipality to place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations. As a result of this study, the Municipality has recognized an estimated liability for future closure and post-closure care costs.

The recognition of this liability is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care/costs has an

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outstanding balance of \$26,800,801 as of June 30, 2007, which is based on an 87% usage of the/landfill. It is estimated that an additional \$661,875 will be recognized as closure and post-closure care expenditures between the balance sheet date and the date the landfill is expected to be filled to capacity (June 2009). The estimated total current costs of the landfill closure and post-closure care (\$9,000,000) is based on the amount that would be paid if all the facilities and services required/to close, monitor and maintain the landfill were acquired as of June 30, 2007. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

20. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

21. COMMITMENTS

The Municipality of Toa Baja had several outstanding or planned construction projects as of June 30, 2007. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$16.2 million.

22. SUBSEQUENT EVENT

On July 29, 2007, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 80 (the "Act"), in order to make mandatory in all the municipalities of Puerto Rico the imposition of a uniform municipal tax of 1.5%, from which the municipalities shall collect 1% of the sales and use tax pursuant to what is established in Sections 2410 and 6189 of Act No. 117 of July 4, 2006, known as the "Taxpayer's Justice Act of 2006", which may be levied discretionary through municipal legislation, on food and

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

food ingredients and to provide for the collection by the Secretary of the Treasury of the remaining .5% without including food and food ingredients to be used in accordance with the purposes established in the Act; to provide for the establishment of the Municipal Development Fund, the Municipal Redemption Fund, and the Municipal Improvement Fund, as well as for matters relative to the purposes, implementation and administration of said funds and to provide for the establishment of the necessary mechanisms for the collection of the municipal tax.

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

23. RESTATEMENTS

a. Net Assets

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

Net assets at beginning of year as previously reported	\$18,006,781
To correct beginning balances of capital assets and inclusion of infrastructure assets as required by GASB 34	50,136,079
Overstatement of notes payable, net	1,972,227
Overstatement of accounts payable	<u>50,488</u>
Net assets at beginning of year as restated	<u>\$70,165,575</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

b. Fund Balances

The beginning fund balances of other governmental funds has been restated to correct an overstatement of accounts payable of \$50,488.

In addition, the management of the Municipality reclassifies the structure of the major funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOABAJA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)			
Direct Programs:			
Community Development Block Grant Program, Entitlement Grants	14.218		\$ 1,447,234
Community Development Block Grant Program, Section 108, Loan Guarantee (Note 3)	14.248	B-05-MC-72-0008	58,559
Emergency Shelter Grant Program	14.231		42,006
Home Investment Partnership Program	14.239		410,236
Section 8 - Housing Choice Vouchers	14.871		1,263,929
Pass-through Municipality of San Juan:			
Hopwa	14.241		<u>159,200</u>
Subtotal U.S. Department of HUD			<u>3,381,164</u>
U.S. Department of Agriculture			
Rural Development	10.446		103,623
Pass-through Education Department:			
Child and Adult Care Food Program	10.558	N/A	<u>573,942</u>
Subtotal U.S. Department of Agriculture			<u>677,565</u>
U.S. Department of Health and Human Services (HHS)			
Pass-through the Office of Administration for Children and Families:			
Head Start	93.600		9,277,727
Child and Care and Development Block Grant	93.575		483,608
Special Program for the Aging Title III Part B Grant for Supportive Services and Senior Center	93.044		<u>23,666</u>
Subtotal U.S. Department of HHS			<u>9,785,001</u>
U.S. Department of Homeland Security			
Direct Program:			
Homeland Security Grant Program	97.067		<u>41,682</u>
Subtotal U.S. Department of Homeland Security			<u>41,682</u>
TOTAL			<u>\$ 13,885,412</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Toa Baja's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Total federal expenditures per schedule	<u>\$13,885,412</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	3,381,164
Health and Human Services Programs	10,306,172
Federal expenditures included in other governmental funds	<u>198,076</u>
Total	<u>\$13,885,412</u>

3. LOAN OUTSTANDING

At June 30, 2007, the Municipality had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the Loan Guarantee Assistance was \$12,157,000.

likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Toa Baja's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance which we have reported to management of the Municipality of Toa Baja in a separate letter dated November 14, 2007.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
November 14, 2007

Ortiz, Luis, Luisa & Co.

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to the original of this report.



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

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

Compliance

We have audited the compliance of Municipality of Toa Baja with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Municipality of Toa Baja's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Toa Baja's management. Our responsibility is to express an opinion on Municipality of Toa Baja's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Toa Baja's compliance with those requirements and

performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Toa Baja's compliance with those requirements.

As described in the table below and discussed in detail in the accompanying Schedule of Findings and Questioned Costs listed in the table of contents, the Municipality did not comply with the requirements regarding cash management, activities allowed, period of availability of funds and special tests and provisions that are applicable to the following federal programs: Head Start and Early Head Start.

Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with requirements applicable to these programs.

<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Head Start and Early Head Start	Cash Management	07-1
Head Start and Early Head Start	Activities Allowed	07-2
Head Start and Early Head Start	Availability of Funds	07-3
Head Start and Early Head Start	Special Test and Provisions	07-4

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, 2007.

Internal Control over Compliance

The management of 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 Municipality of Toa Baja's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal

control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-2 and 07-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Municipality's internal control. We noted no matters involving the internal control over compliance that we consider to be material weaknesses.

Municipality's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ortiz, Luisa, Puerto Rico

San Juan, Puerto Rico
November 14, 2007

The stamp 2286479 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

a. Head Start and Early Head Start Programs - CFDA No. 93.600

● **Condition 07-1 - Cash Management**

The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

Criteria

The 45CFR 92.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

Effect

The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt, or within three (3) business days.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Questioned Costs

None

● **Condition 07-2 – Activities Allowed**

The purchase order was not included with the disbursement vouchers on the following:

<u>Date</u>	<u>Check Number</u>	<u>Program</u>	<u>Amount</u>
07/10/2006	15907	Head Start	\$ 5,900.00
10/11/2006	16216	Head Start	2,248.74
01/10/2007	16479	Head Start	2,612.00
11/18/2006	2231	Early Head Start	<u>166.00</u>
Total			<u>\$10,926.74</u>

Criteria

45 CFR 92.20(b)(2) establishes accounting records grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Cause

The program do not realized the purchase order physically, only for accounting system record.

Effect

The program is in noncompliance with federal regulation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Recommendation

The program should realize the purchase orders for the required disbursement vouchers in order to maintain the corresponding records.

Questioned Costs

\$10,926.74

● **Condition 07-3 – Availability of Funds**

We observed the trial balance for the year ended June 30, 2007 includes account payable of various prior program years. The program has ninety days after program year end to liquidate all account payable. In addition, includes various accounts receivable from the Agency for various prior years, which will not be received.

Criteria

45 CFR 74.21(b)(4) establish that a comparison of outlays with budget amount for each award. Whenever appropriate, financial information should be related to performance and unit cost data.

Cause

The program does not liquidate the account payable into the period time required.

Effect

The program is in noncompliance with federal regulations and the accounts may be payable by the general fund.

Recommendation

The program should improve their accounting procedures in order to liquidate all account payable in the required period time.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Questioned Costs

Non determinable

● **Condition 07-4 – Special Test and Provisions**

We observed that some centers have one of the licenses due as of the date of our audit. Those are the following:

<u>Center</u>	<u>License or Certification</u>	<u>Date Due</u>
Campanilla I ABC	"Certificacion de Bomberos"	2/27/2007
HS Levittown V	"Certificacion de Bomberos"	8/11/2007
Altagracia	"Certificacion de Bomberos"	2/27/2007

Criteria

45 CFR 1304.22(e)(5) establish the grantee must adopt sanitation and hygiene procedures for diapering that adequately protect the health and safety of children served by the program and staff. Grantee must ensure that staff properly conducts these procedures.

Cause

The program do not monitoring daily the expiration date of the licenses required.

Effect

The centers are not protected and do not ensure the health and safety of children served by the program.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Recommendation

The program should improve their monitoring system of the licenses due date in order to avoid the centers operates without the required licenses.

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 - Housing Choice Vouchers - CFDA No. 14.871	Condition 06-1 The program maintains a high balance of cash in bank.	Condition was not observed.
Community Development Block Grant Program - CFDA No. 14.218	Condition 06-2 The program maintains a high balance of cash in bank.	Condition was not observed.
Housing Opportunities for Person with AIDS - CFDA No. 10.854	Condition 06-3 An erroneous deposit of Hopwa on other account.	Condition was corrected.
Head Start and Early Start Programs - CFDA No. 93.600	Condition 06-4 Disbursement vouchers without the purchase order.	Condition was corrected on March 2007.
Head Start and Early Start Programs - CFDA No. 93.600	Condition 06-5 The program maintains a high balance of cash in bank.	Condition still prevails.
Child Care and Development Block Grant - CFDA No. 93.575	Condition 06-6 Disbursement vouchers without the purchase order.	Condition was corrected.
Child Care and Development Block Grant - CFDA No. 93.575	Condition 06-7 The program maintains a high balance of cash in bank.	Condition was not observed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Community Development Block Grant Program - CFDA No. 14.218	Condition 05-4 The program maintains a high balance of cash in bank.	Condition was not observed.
Housing Opportunities for Person with AIDS - CFDA No. 14.241	Condition 05-5 The program maintains a high balance of cash in bank.	Condition was not observed.
Head Start and Early Start Programs - CFDA No. 93.600	Condition 05-6 Disbursement vouchers without the purchase order.	Condition was corrected.
Head Start and Early Start Programs - CFDA No. 93.600	Condition 05-7 The program maintains a high balance of cash in bank.	Condition still prevails.

PART III - CORRECTIVE ACTION PLAN



Anibal Vega Borges
Alcalde

Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Toa Baja
Departamento de Servicio y Desarrollo del Niño



Carmen R. Torres
Directora

CORRECTIVE ACTION PLAN

November 14, 2007

Cognizant or Oversight Agency for Audit:

Municipality of Toa Baja respectfully submits the following corrective action plan for the year ended June 30, 2007.

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2007.

The findings from the June 30, 2007 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS

Finding 07-1: Head Start - CFDA No. 93.600

Reportable Condition: See Condition 07-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt, or within three (3) business days.

Action Taken

Cash Management

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

The head Start Program request funds to monthly request funds no for electronically transactions.

Finding 07-2: Head Start - CFDA No. 93.600

Reportable Condition: See Condition 07-2

Recommendation

The program should realize the purchase orders for the required disbursement vouchers in order to maintain the corresponding records.

Action Taken

Upon December 29, 2005, we implemented the procedure of making a purchase order for every service contracted; this includes professional and non-professional services, and have a office clerk that will be oriented in order to guarantee this procedure.

Finding 07-3: Head Start - CFDA No. 93.600

Reportable Condition: See Condition 07-3

Recommendation

The program should improve their accounting procedures in order to liquidate all account payable in the required period time.

Action Taken

In order to liquidate all accounts payable in the required period time, the Program to implement procedures to cancel the account payable to the end o the program year.

Finding 07-4: Head Start - CFDA No. 93.600

Reportable Condition: See Condition 07-4

Recommendation

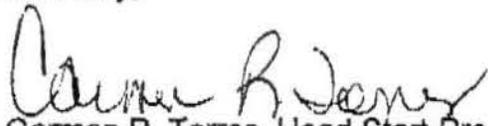
The program should improve their monitoring system of the licenses due date in order to avoid the centers operates without the required licenses.

Action Taken

About license of the centers was reoriented to the licensing coordinator on the importance of maintaining all them effective. In addition the health department change the system of licensing of the centers.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Carmen R. Torres, Head Start Program Director, at (787) 261-0202 ext 2390.

Cordially,



Carmen R. Torres, Head Start Program Director
Municipality of Toa Baja

