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

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2009**

**ORTIZ, RIVERA, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

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MUNICIPALITY OF TOA BAJA  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis Rivera Zúñiga  
CPA Zoraida Cruz Claudio

**Members:**  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Toa Baja, as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Toa Baja as of June 30, 2009, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2009 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 17, 2009

*Ortiz, Rivera Rivera & Co*

The stamp 2479442 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, 2009*

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**

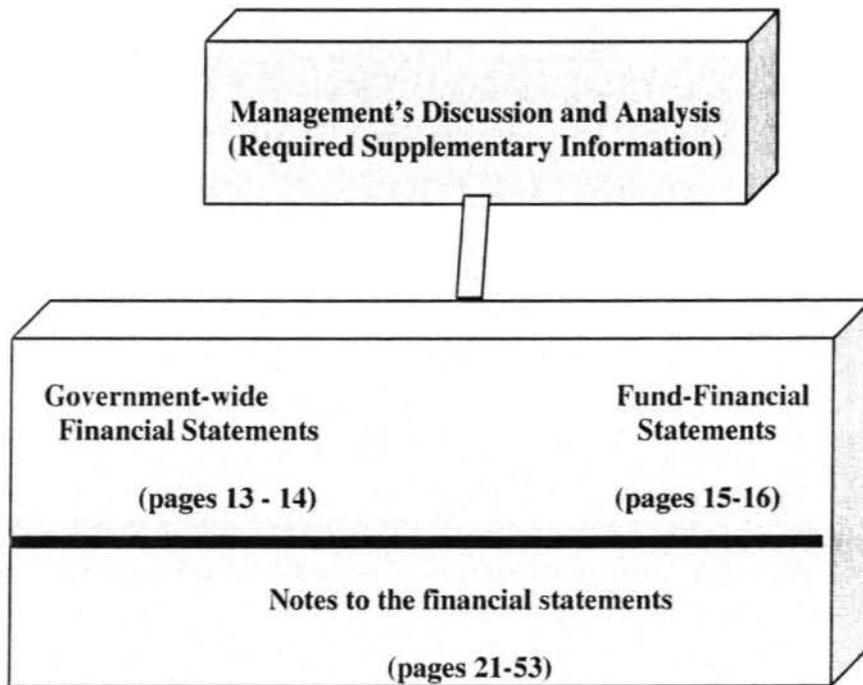
### **Financial Highlights**

- The Municipality's net assets amounted to \$40.8 million at the close of the current fiscal year. This amount represents a decrease of \$12 million from the previous year's net assets.
- As of June 30, 2009, the Municipality's General Fund (the primary operating fund) reported a deficiency of \$13.5 million, an increase of \$6.7 million in comparison with the prior year.
- Capital expenditures amounted to \$7.8 million during the year.
- Loans principal payments were \$6.6 million during fiscal year 2008-2009. Other long-term liabilities payments were \$4.2 million. At June 30, 2009, the total long-term debt balance was \$129.3 million as of same date, as compared to \$131.9 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>
<b>Scope</b>	<b>The entire Municipality's Government</b>	<b>The activities of the Municipality</b>
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 major 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 is 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 \$40.8 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>	<b>2009</b>	<b>2008</b>
<b>Current and other assets</b>	\$ 38.5	\$ 54.3
<b>Capital assets</b>	<u>158.9</u>	<u>154.5</u>
<b>Total assets</b>	<u>197.4</u>	<u>208.8</u>
<b>Current and other liabilities</b>	27.3	24.2
<b>Long-term debt outstanding</b>	<u>129.3</u>	<u>131.8</u>
<b>Total liabilities</b>	<u>156.6</u>	<u>156.0</u>
<b>Net assets:</b>		
<b>Invested in capital assets, net of debt</b>	73.0	75.8
<b>Restricted</b>	11.1	22.3
<b>Unrestricted</b>	<u>(43.3)</u>	<u>(45.3)</u>
<b>Total net assets</b>	<u><b>\$ 40.8</b></u>	<u><b>\$ 52.8</b></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 \$43.3 million.

The Municipality's net assets decrease by \$12 million during the current fiscal year. Such decrease was mainly due to budgeted revenues not collected and the increase of expenditures related to administrative costs.

## **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 \$11.5 million which is 60% lower than the beginning of the year (\$30.2 million). This decrease was the net result of a decrease of \$6.7 million in the fund balance of the General Fund, \$0.1 in the HHS Programs Fund, \$3.4 in the Debt Services Fund, and \$7.8 in the Loans and Bonds Fund, and an increase of \$0.2 in the HUD Programs Fund, and \$2.2 in Other Governmental Fund.

The decrease observed in the general fund corresponds to the general factors affecting the economy in which the Municipality must to absorb expenditures that were not budgeted and considered. The decrease on other funds such as Loans and Bonds corresponds to the construction in progress that was observed in the increase in capital assets.

### **Budgetary Highlights**

The Municipal Legislature revised the Municipality's budget several times the original budget by the Municipality's internal control of the expenditures over the administrative offices for General Government. The current year operations resulted in \$1.0 million of excess expenditures over revenues.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2009, the Municipality had \$158.9 million (net of depreciation) invested in capital assets, as reflected in the following table, which represents a net increase (additions less retirements and depreciation) of \$4.4 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>		
	<b>2009</b>	<b>2008</b>
<b>Land</b>	\$ 3.3	\$ 3.3
<b>Construction in progress</b>	13.2	8.3
<b>Buildings and improvements</b>	40.6	40.4
<b>Furniture and fixture</b>	1.6	1.6
<b>Vehicles and equipment</b>	4.2	5.0
<b>Infrastructure</b>	<u>96.0</u>	<u>95.9</u>
<b>Total</b>	<b><u>\$ 158.9</u></b>	<b><u>\$ 154.5</u></b>

**Table 3**  
**Change in Capital Assets**  
**(in millions)**

Governmental Activities	
Beginning Balance	\$ 154.5
Additions	10.4
Retirements	(2.1)
Depreciation	<u>(3.9)</u>
Ending balance	<u>\$ 158.9</u>

### **Debt Outstanding**

As of year-end, the Municipality had \$129.3 million in debt (bonds, notes and other long-term debts) outstanding compared to \$131.9 million last year; a decrease of \$2.6 million.

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

	<b>2009</b>	<b>2008</b>
General obligation bonds and notes	\$ 73.3	\$ 78.0
Due to CRIM – Law 42	2.3	2.4
Due to CRIM-LIMS	0.5	0.7
Due to CRIM – Liquidation 2008-09	1.2	0.0
Note payable-Section 108	12.2	12.2
Landfill obligation	30.7	28.8
Compensated absences	7.4	7.9
Others	<u>1.7</u>	<u>1.9</u>
Totals	<u>\$129.3</u>	<u>\$131.9</u>

New other long term liability was added related to Crim Liquidation 2008-2009 amounted to \$1.2 million. 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 taxes advances from fiscal years up to 2001. The \$0.5 million due to CRIM represents the balances due 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 \$6.6 million were 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 \$73.3 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 2009 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 2009-2010. 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 2009-2010.

## **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 4<sup>th</sup> 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, 2009**

<u>Assets</u>	<u>Governmental Activities</u>
Cash in bank (Notes 2 and 5)	\$ 3,009,152
Cash with fiscal agent (Notes 2 and 5)	18,145,382
Certificates of deposits (Notes 2 and 5)	9,340,000
Accounts receivable:	
Municipal license taxes	62,544
Sales and use taxes	28,311
Licenses and permits	35,630
Landfill	430,565
Interest	43,863
Other	119,543
Due from other agencies (Note 9)	7,535,881
Capital assets, net (Note 11)	<u>158,681,060</u>
 Total assets	 <u><u>\$ 197,431,931</u></u>
 <u>Liabilities and Net Assets</u>	
<b>Liabilities</b>	
Bank overdraft	\$ 232,393
Account payable and accrued liabilities	2,968,417
Due to other agencies (Note 12)	8,676,521
Claims and judgements	287,639
Matured bonds	5,429,458
Matured interest payable	1,321,900
Deferred revenues (Note 13):	
Municipal license tax	8,360,533
Noncurrent liabilities (Note 15):	
Due within one year	8,186,700
Due in more than one year	121,155,092
Total liabilities	<u>156,618,653</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	73,044,406
Restricted for:	
Capital project	11,878,297
Unrestricted	(44,109,425)
Total net assets	<u>40,813,278</u>
 Total liabilities and net assets	 <u><u>\$ 197,431,931</u></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, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Revenue and Changes</u> <u>in Net Assets</u> <u>Governmental</u> <u>Activities</u>
<b>Primary Government:</b>				
General government	\$ 38,322,240	\$ 6,905,936	\$ -	\$ (31,416,304)
Public safety	6,730,054			(6,730,054)
Public works	9,374,046			(9,374,046)
Culture and recreation	3,129,639			(3,129,639)
Health, public housing and welfare	22,974,795		16,797,689	(6,177,106)
Economic development	1,929,102			(1,929,102)
Interest on long-term debt	4,805,310			(4,805,310)
Total primary government	<u>\$ 87,265,186</u>	<u>\$ 6,905,936</u>	<u>\$ 16,797,689</u>	<u>(63,561,561)</u>
General revenues:				
Property taxes (Note 6)				19,528,748
Municipal license tax (Note 7)				11,840,862
Sales and use tax (Note 8)				5,428,198
Grants and contributions not restricted to specific programs				11,487,422
Interest, fines and penalties				1,294,453
Miscellaneous				6,628,776
Total general revenues				<u>56,208,459</u>
Change in net assets				(7,353,102)
Net assets at beginning of year, as restated (Note 22)				<u>48,166,380</u>
Net assets at end of year				<u>\$ 40,813,278</u>

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, 2009

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Loans and Bonds Issued</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 292,688	\$ 575,690	\$ 523,893	\$ -	\$ -	\$ 1,616,881	\$ 3,009,152
Cash with fiscal agent (Notes 2 and 5)	51,798			5,892,285	11,878,297	323,002	18,145,382
Certificates of deposits (Notes 2 and 5)		9,340,000					9,340,000
Accounts receivable:							
Licenses and permits	35,630						35,630
Municipal license taxes	62,544						62,544
Sales and use taxes	28,311						28,311
Landfill	430,565						430,565
Interest		43,863					43,863
Other	41,303	78,240					119,543
Due from other agencies (Note 9)	5,212,148		913,724	84,591		1,325,418	7,535,881
Due from other funds (Note 10)	2,019,539					2,093,757	4,113,296
<b>Total assets</b>	<b>\$ 8,174,526</b>	<b>\$ 10,037,793</b>	<b>\$ 1,437,617</b>	<b>\$ 5,976,876</b>	<b>\$ 11,878,297</b>	<b>\$ 5,359,058</b>	<b>\$ 42,864,167</b>

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, 2009**

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Loans and Bonds Issued</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>							
Bank overdraft	\$ 232,393	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 232,393
Account payable and accrued liabilities	2,018,002	78,336	606,449			265,630	2,968,417
Due to other funds (Note 10)	2,093,757		528,406			1,491,133	4,113,296
Due to other agencies (Note 12)	8,676,521						8,676,521
General obligations:							
Bonds				5,429,458			5,429,458
Interest				1,321,900			1,321,900
Deferred revenues: (Note 13)							
Municipal licence tax	8,360,533						8,360,533
Claims and judgements	287,639						287,639
Total liabilities	<u>21,668,845</u>	<u>78,336</u>	<u>1,134,855</u>	<u>6,751,358</u>	<u>-</u>	<u>1,756,763</u>	<u>31,390,157</u>
<b>Fund Balances (Deficit)</b>							
Reserved for:							
Encumbrances	938,197						938,197
Debt service				(774,482)			(774,482)
Capital projects					11,878,297		11,878,297
Unreserved fund balance	(14,432,516)	9,959,457	302,762			3,602,295	(568,002)
Total fund balance (deficit)	<u>(13,494,319)</u>	<u>9,959,457</u>	<u>302,762</u>	<u>(774,482)</u>	<u>11,878,297</u>	<u>3,602,295</u>	<u>11,474,010</u>
Total liabilities and fund balance (deficit)	<u>\$ 8,174,526</u>	<u>\$ 10,037,793</u>	<u>\$ 1,437,617</u>	<u>\$ 5,976,876</u>	<u>\$ 11,878,297</u>	<u>\$ 5,359,058</u>	<u>\$ 42,864,167</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, 2009**

Total fund balances - governmental funds \$ 11,474,010

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 158,681,060
  
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (129,341,792)

Net assets of governmental activities \$ 40,813,278

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

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ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

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, 2009

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Loans and Bonds Issued	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property taxes (Note 6)	\$ 15,359,678	\$ -	\$ -	\$ 4,169,070	\$ -	\$ -	\$ 19,528,748
Municipal license taxes (Note 7)	11,840,862						11,840,862
Licenses, permits, and other local taxes	1,658,046						1,658,046
Sales and use taxes (Note 8)	4,531,478			896,720			5,428,198
Charges for services	4,775,156					472,734	5,247,890
Intergovernmental revenues (Note 14):							
Federal grants and contributions		5,516,297	9,510,057			1,771,335	16,797,689
State contributions	6,529,474					4,957,948	11,487,422
Interest, fines, and penalties	678,311	581,741		34,401			1,294,453
Other revenues	6,558,173					70,603	6,628,776
Total revenues	<u>51,931,178</u>	<u>6,098,038</u>	<u>9,510,057</u>	<u>5,100,191</u>	<u>-</u>	<u>7,272,620</u>	<u>79,912,084</u>
<b>EXPENDITURES</b>							
Current:							
General government	32,030,072	34,091				1,593,797	33,657,960
Public safety	6,043,466	93,407				492,086	6,628,959
Economic development						1,830,573	1,830,573
Health, public housing and welfare	7,513,009	5,142,836	9,156,150			1,017,386	22,829,381
Culture and recreation	1,754,331		492,140			177,022	2,423,493
Public works	7,935,122						7,935,122
Capital outlays					7,813,343		7,813,343
Debt service:							
Principal				7,692,279			7,692,279
Interest and other				4,805,310			4,805,310
Total expenditures	<u>55,276,000</u>	<u>5,270,334</u>	<u>9,648,290</u>	<u>12,497,589</u>	<u>7,813,343</u>	<u>5,110,864</u>	<u>95,616,420</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,344,822)</u>	<u>827,704</u>	<u>(138,233)</u>	<u>(7,397,398)</u>	<u>(7,813,343)</u>	<u>2,161,756</u>	<u>(15,704,336)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	34,401			4,018,653			4,053,054
Transfers out	(3,355,711)	(662,942)		(34,401)			(4,053,054)
Total other financing sources	<u>(3,321,310)</u>	<u>(662,942)</u>	<u>-</u>	<u>3,984,252</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	<u>(6,666,132)</u>	<u>164,762</u>	<u>(138,233)</u>	<u>(3,413,146)</u>	<u>(7,813,343)</u>	<u>2,161,756</u>	<u>(15,704,336)</u>
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR,</b>							
	<u>(6,828,187)</u>	<u>9,794,695</u>	<u>440,995</u>	<u>2,638,664</u>	<u>19,691,640</u>	<u>1,440,539</u>	<u>27,178,346</u>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>							
	<u>\$ (13,494,319)</u>	<u>\$ 9,959,457</u>	<u>\$ 302,762</u>	<u>\$ (774,482)</u>	<u>\$ 11,878,297</u>	<u>\$ 3,602,295</u>	<u>\$ 11,474,010</u>

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

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 07/07/09

**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, 2009**

Net change in fund balances - total governmental funds \$(15,704,336)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 8,093,623
- 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. (3,911,988)
- 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. 7,327,206
- 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.
  - Advances from CRIM (1,180,273)
  - Landfill obligation (1,977,334)

Changes in net assets of governmental activities \$ (7,353,102)

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, 2009

	General Fund				Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	
	Original	Final			Original	Final		
<b>REVENUES</b>								
Property taxes	\$ 15,359,678	\$ 15,359,678	\$ 15,359,678	\$ -	\$ 6,642,773	\$ 6,642,773	\$ 4,218,445	\$ (2,424,328)
Municipal license taxes	14,250,000	14,250,000	11,941,442	(2,308,558)				
Licenses and permits	4,000,000	4,000,000	4,714,139	714,139				
Sales taxes	3,642,000	3,642,000	2,654,643	(987,357)				
Charges for services	10,125,000	10,125,000	4,785,259	(5,339,741)				
Intergovernmental revenues:								
State contributions	6,555,207	6,555,207	6,293,964	(261,243)				
Interest, fines, and penalties	975,000	975,000	672,609	(302,391)				
Other revenues	1,124,360	2,680,338	2,311,022	(369,316)				
Total revenues	<u>56,031,245</u>	<u>57,587,223</u>	<u>48,732,756</u>	<u>(8,854,467)</u>	<u>6,642,773</u>	<u>6,642,773</u>	<u>4,218,445</u>	<u>(2,424,328)</u>
<b>EXPENDITURES</b>								
Current:								
General government	29,950,725	33,738,702	33,692,832	45,870				
Public safety	6,636,749	5,783,376	5,774,650	8,726				
Public works	8,708,611	6,535,371	6,531,897	3,474				
Culture and Recreation	3,184,952	3,765,167	3,756,513	8,654				
Health and welfare	7,550,208	7,764,607	7,758,846	5,761				
Debt service:								
Principal and interest					6,642,773	6,642,773	7,650,952	(1,008,179)
Total expenditures	<u>56,031,245</u>	<u>57,587,223</u>	<u>57,514,738</u>	<u>72,485</u>	<u>6,642,773</u>	<u>6,642,773</u>	<u>7,650,952</u>	<u>(1,008,179)</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,781,982)</u>	<u>\$ (8,781,982)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,432,507)</u>	<u>\$ (3,432,507)</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, 2009**

**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, 2009**

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, as amended by Statement No. 39, "Determining whether Certain Organizations are Component Units" - an amendment of GASB 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.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

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.

**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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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. 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 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.

- Loans and Bond 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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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.

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

- Debt Service

Represents net assets available to finance future debt service payments.

- Capital Projects

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 property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2009 amounted to approximately \$647,972. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.2 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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>
51	Accounting and Financial Reporting for Intangible Assets	2009-10
53	Accounting and Financial Reporting for Derivative Instruments	2009-10
54	Fund Balance Reporting and Governmental Fund Type Definition	2009-10

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, 2009 is presented below for the general fund:

	<u>General Fund</u>
Excess of revenues over expenditures - budgetary basis	(\$8,781,982)
Entity differences:	
Non-budgeted revenues, net	5,827,562
Non-budgeted transfer in	34,401
Non-budgeted transfer out	(3,355,711)
Prior year encumbrances recorded as Current year expenditures for GAAP basis	(939,131)
Current year encumbrances treated as current year expenditures for budgetary purposes	938,197
Basis of accounting differences:	
Net change in receivables	(5,157,445)
Net change in payables	<u>4,767,977</u>
Deficiency of revenues under expenditures - GAAP basis	<u>(\$6,666,132)</u>

**c. Legal Compliance**

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

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**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 \$129.3 million differences are as follows:

Bonds payable	\$ 73,254,186
Notes payable	16,131,231
Compensated absences	7,393,905
Landfill obligation	30,755,469
Advances from CRIM	1,180,273
Federal cost disallowances	12,134
Claims and judgements	486,995
Due to PR Retirement System Administration	<u>127,599</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$129,341,792</u>

**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 \$12 million that are restricted principally for capital projects, and the \$5.9 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 two (2) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC).

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The standard insurance amount limit is \$250,000 as of June 30, 2009 and is temporary through December 31, 2013.

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.

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.

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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 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 2008-09, 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.

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Based on the preliminary settlement already received, during the year ended June 30, 2009, the amount advanced by CRIM from taxpayers and charges exceeded the amount collected by CRIM for the same period by approximately \$1,180,273. Such amount is presented as due to CRIM in the accompanying governmental wide financial statements. (See Note 15).

**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, 2009. 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%

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 \$8.4 million, corresponding to the next fiscal year municipal license.

**8. SALES AND USE TAXES**

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and

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recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$ 3,101,037
Treasury Department (State Economic Incentive)	2,111,111
Education Department (Cisne)	896,424
Family Department (Head Start)	571,055
OCAM (COP)	238,349
U. S. Department of Health and Human Services (Child Care)	184,669
U. S. Department of Health and Human Services (Food Program)	169,762
U. S. Department of Health and Human Services (Early Head Start)	158,000
CRIM	84,591
Puerto Rico Labor Department	11,686
Educational Department (Food Program)	<u>9,197</u>
 Total	 <u><u>\$ 7,535,881</u></u>

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**10. INTERFUND TRANSACTIONS**

**a. Due from/to Other Funds:**

The due from and due to other fund balances as of June 30, 2009, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	HHS	\$ 528,406
General	Other governmental funds	1,491,133
Other governmental funds	General	<u>2,093,757</u>
Total		<u>\$4,113,296</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.

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2009 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$3,355,711
Debt Service	HUD	622,942
General	Debt Service	<u>34,401</u>
Total		<u>\$4,053,054</u>

The transfer from the general fund and HUD programs to the debt service fund of \$4,018,653 represents monies transferred to cover debt service payments as become due.

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**11. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,254,515	\$ -	\$ -	\$ 3,254,515
Construction in progress	8,299,045	7,045,320	2,141,744	13,202,621
Total capital assets, not being depreciated	<u>11,553,560</u>	<u>7,045,320</u>	<u>2,141,744</u>	<u>16,457,136</u>
Capital assets, being depreciated:				
Buildings and building improvements	49,437,147	2,214,074		51,651,221
Equipment and vehicles	11,024,523	84,244		11,108,767
Furniture and fixtures	4,038,644	63,268	5,588	4,096,324
Infrastructure	100,184,412	828,461		101,012,873
Total capital assets, being depreciated	<u>164,684,726</u>	<u>3,190,047</u>	<u>5,588</u>	<u>167,869,185</u>
Less accumulated depreciation for:				
Buildings and building improvements	8,951,161	1,264,306		10,215,467
Equipment and vehicles	5,992,874	672,868		6,665,742
Furniture and fixtures	2,461,660	291,266	5,588	2,747,338
Infrastructure	4,333,166	1,683,548		6,016,714
Total accumulated depreciation	<u>21,738,861</u>	<u>3,911,988</u>	<u>5,588</u>	<u>25,645,261</u>
Total capital assets, being depreciated, net	<u>142,945,865</u>	<u>(721,941)</u>	<u>-</u>	<u>142,223,924</u>
Governmental activities capital assets, net	<u>\$ 154,499,425</u>	<u>\$ 6,323,379</u>	<u>\$ 2,141,744</u>	<u>\$ 158,681,060</u>

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

General government	\$1,141,600
Public safety	101,095
Public works	1,719,204
Culture	706,146
Education	98,529
Health and welfare	<u>145,414</u>
<b>Total</b>	<b><u>\$3,911,988</u></b>

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**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2009 are as follows:

Puerto Rico Electric Power Authority	\$3,101,037
Retirement System Administration	3,924,307
Puerto Rico General Services Administration	865,112
Puerto Rico Water and Sewer Authority	303,861
Municipal Revenues Collection Center 2007-2008	457,943
Puerto Rico Labor Department	<u>24,261</u>
Total	<u>\$8,676,521</u>

**13. DEFERRED REVENUES MUNICIPAL LICENSE TAX**

The deferred revenues of approximately \$8.4 million in the general fund related to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

**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, 2009 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

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be sufficient to cover the projected debt service requirement. 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%.	\$ 6,505,000
\$8,150,000 series of 1994, payable in annual installments of \$300,000 to \$880,000 until July 2009, interest at 12%.	880,000
\$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%.	1,115,000
\$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%.	550,000
\$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%.	1,300,000
\$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%.	1,085,000
\$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%.	305,000
\$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%.	2,530,000

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\$1,500,000 series of 1998, payable in annual installments from \$44,000 to \$108,000 until July 1, 2019, interest at 4.5%.	\$ 887,106
\$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%.	2,800,000
\$3,470,000 series of 2000, payable in annual installments of \$140,000 to \$355,000 until June 2014, interest at approximately 8%.	1,815,000
\$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%.	395,000
\$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%.	750,000
\$2,062,000 series of 2001, payable in annual installments of \$62,800 until January 1, 2021, interest at 2%.	1,334,080
\$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%.	2,815,000
\$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%.	2,610,000
\$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%.	1,550,000
\$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%.	10,970,000

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\$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%.	\$ 975,000
\$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%.	835,000
\$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%.	1,460,000
\$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%.	775,000
\$120,000 series of 2007, payable in annual installments of \$20,000 to \$30,000 until July 2011, interest ranging from 6.60% to 7.25%.	80,000
\$1,335,000 series of 2007, payable in annual installments of \$20,000 to \$110,000 until July 2031, interest ranging from 6.60% to 7.25%.	1,290,000
\$415,000 series of 2007, payable in annual installments of \$60,000 to \$85,000 until July 2012, interest ranging from 6.60% to 7.25%.	295,000
\$1,340,000 series of 2007, payable in annual installments of \$50,000 to \$140,000 until July 2021, interest ranging from 6.60% to 7.25%.	1,235,000
\$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%.	7,913,000

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\$1,510,000 series of 2008, payable in annual installments of \$25,000 to \$120,000 until July 2032, interest ranging from 3.93% to 7.25%.

\$1,485,000

\$4,200,000 series of 2008, payable in annual installments of \$60,000 to \$345,000 until July 1, 2032, interest ranging from 3.93% to 7.25%.

4,140,000

Subtotal bonds payable

60,679,186

**c. Special Obligation - Notes**

\$400,000 series of 1996, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016, interest at 8%.

225,000

\$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%.

7,427,000

\$460,000 series of 2008, payable in annual installments of \$55,000 to \$80,000 until July 1, 2014, interest ranging from 3.93% to 7.15%.

405,000

\$4,518,000 series of 2008, payable in annual installments of \$530,000 to \$775,000 until July 1, 2015, interest ranging from 3.93% to 7.5%.

\$ 4,518,000

Subtotal special obligation notes

12,575,000

Total bonds and notes

\$73,254,186

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The annual debt service requirements for the bonds and notes payable at June 30, 2009 are as follows:

	<i><u>Bonds and Notes</u></i>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 7,307,411	\$ 4,284,158
2011	6,252,409	3,869,212
2012	6,674,447	3,482,472
2013	6,950,527	3,071,966
2014	6,342,651	2,669,041
2015-2019	21,821,681	8,423,206
2020-2024	10,110,060	3,737,432
2025-2029	5,465,000	2,440,585
2030-2034	2,330,000	360,572
	<u>\$73,254,186</u>	<u>\$32,338,644</u>

**d. Note Payable - CRIM - Law 42**

Note payable of \$2,343,704 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:

	<i>CRIM - Law 42</i>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 46,204	\$ 144,313
2011	49,108	141,410
2012	52,193	138,325
2013	55,471	135,045
2014	58,958	131,560
2015-2019	355,334	597,351
2020-2024	481,768	470,817
2025-2029	653,272	299,211
2030-2034	591,396	75,413
	<u>\$ 2,343,704</u>	<u>\$ 2,133,445</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.

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Debt service requirements in future years are as follows:

	<i>CRIM - Lims</i>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 192,847	\$ 27,172
2011	204,493	15,527
2012	106,831	3,178
	<u>\$ 504,171</u>	<u>\$ 45,877</u>

**f. Note Payable - CRIM (Law 146)**

On July 1, 2007, the Municipality entered into a financing agreement with the CRIM in the amount of \$1,224,300, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a nonrevolving line of credit bearing interest of 6.22% and is due on March 31, 2032. As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal.

Debt service requirements in future years are as follows:

	<i>CRIM - Law 146</i>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 48,972	\$ 70,060
2011	48,972	67,014
2012	48,972	63,968
2013	48,972	60,922
2014	48,972	57,876
2015-2019	244,860	243,682
2020-2024	244,860	167,530
2025-2029	244,860	91,380
2030-2034	146,916	18,476
	<u>\$ 1,126,356</u>	<u>\$ 840,908</u>

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**g. 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, 2009 are as follows:

	<u>Section 108 Loan Guarantee</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ -	\$ 662,942
2011	-	662,942
2012	464,000	651,295
2013	493,000	627,249
2014	524,000	801,619
2015-2019	3,153,000	2,557,222
2020-2024	4,270,000	1,560,871
2025-2029	3,253,000	288,031
	<u>\$12,157,000</u>	<u>\$ 7,812,171</u>

As described in Note 6, the Municipality levies an annual special tax of 2.0% 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
<b>Governmental Activities:</b>					
Bonds payable	\$ 79,608,638	\$ -	\$ 6,354,452	\$ 73,254,186	\$ 7,307,411
Note payable - CRIM Law 42	2,387,176		43,472	2,343,704	46,204
Note payable - CRIM Law 146	1,175,328		48,972	1,126,356	48,972
Note payable - CRIM (LIMS)	686,036		181,865	504,171	192,847
Note payable - Section 108	12,157,000			12,157,000	
Total long-term debt	<u>96,014,178</u>	<u>-</u>	<u>6,628,761</u>	<u>89,385,417</u>	<u>7,595,434</u>
<b>Other Long-term Liabilities:</b>					
Landfill obligation	28,778,135	1,977,334		30,755,469	
Advances from CRIM		1,180,273		1,180,273	
Federal cost disallowances	102,080		89,946	12,134	12,134
Due to PR Retirement System Administration	255,197		127,598	127,599	127,599
Claims and judgements	486,095			486,995	
Compensated absences	7,874,806		480,901	7,393,905	451,533
Total other long-term liabilities	<u>37,497,213</u>	<u>3,157,607</u>	<u>698,445</u>	<u>39,956,375</u>	<u>591,266</u>
Total noncurrent liabilities, governmental activities	<u>\$ 133,511,391</u>	<u>\$ 3,157,607</u>	<u>\$ 7,327,206</u>	<u>\$ 129,341,792</u>	<u>\$ 8,186,700</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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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.

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

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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.

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, 2009 was approximately \$2.2 million. The Municipality's payroll for employees covered by ERS was approximately \$23.7 million. The Municipality total payroll for all employees was approximately \$39.2 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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 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, 2009 was approximately \$157,479.
- 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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 outstanding balance of \$30,755,469 as of June 30, 2009, which is based on an 83% usage of the/landfill. It is estimated that an additional \$600,000 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, 2009. 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, 2009. These projects are evidenced by contractual commitments with

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$11.9 million.

**22. 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	\$52,793,941
Understatement of note payable	( 1,633,000)
Overstatement of accounts receivable	( <u>2,994,561</u> )
Net assets at beginning of year as restated	<u>\$48,166,380</u>

**b. Fund Balances (Deficit)**

Unreserved fund balance at beginning of the year has been adjusted to reflect the following adjustments:

Net unreserved fund balance at beginning of the year as previously reported	(\$3,833,626)
Overstatement of account receivable	( <u>2,994,561</u> )
Net unreserved fund balance at beginning of year as restated	<u>(\$6,828,187)</u>

**PART II - SINGLE AUDIT SECTION**

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**ORTIZ, RIVERA, RIVERA & CO.**

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Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>			
Direct Programs:			
Community Development Block Grant Program, Entitlement Grants	14.218		\$ 2,692,690
Community Development Block Grant Program, Section 108, Loan Guarantee (Note 3)	14.248	B-05-MC-72-0008	310,887
Emergency Shelter Grant Program	14.231		93,407
Home Investment Partnership Program	14.239		507,326
Section 8 - Housing Choice Vouchers	14.871		1,466,725
Pass-through Municipality of San Juan:			
Hopwa	14.241		199,299
Subtotal U.S. Department of HUD			<u>5,270,334</u>
<b>U.S. Department of Agriculture</b>			
Pass-through Education Department:			
Child and Adult Care Food Program	10.558		26,552
Early Head Start Food Program	10.558		24,079
Pass-through the Office of Administration for Children and Families:			
Head Start Food Program	10.558		911,217
Subtotal U.S. Department of Agriculture			<u>961,848</u>
<b>U.S. Department of Health and Human Services (HHS)</b>			
Direct Program:			
Early Head Start	93.600		
Pass-through the Office of Administration for Children and Families:			
Head Start	93.600		9,156,150
Child and Care and Development Block Grant	93.575		492,140
Special Program for the Aging Title III Part B Grant for Supportive Services and Senior Center	93.044		22,871
Subtotal U.S. Department of HHS			<u>9,671,161</u>
<b>U.S. Department of Homeland Security</b>			
Direct Program:			
Homeland Security Grant Program	97.067		243,811
Subtotal U.S. Department of Homeland Security			<u>243,811</u>
<b>U.S. Federal Emergency Management Agency Public Assistance Grants (FEMA)</b>			
Disaster Assistance	83.545		179,796
Subtotal FEMA			<u>179,796</u>
<b>U.S. Department of Transportation</b>			
Direct Program:			
Federal Transit Administration	20.500		318,265
Subtotal U.S. Department of Transportation			<u>318,265</u>
<b>TOTAL</b>			<u>\$ 16,645,215</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, 2009**

**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><b>Expenditures</b></u>
Total federal expenditures per schedule	\$ <u>16,645,215</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$ 5,270,334
Health and Human Services Programs	9,648,290
Special Program for the Aging Title III Part B Grant for Supportive Services and Senior Center (included in other governmental funds)	22,871
Federal expenditures included in other governmental funds	<u>1,703,720</u>
Total	\$ <u>16,645,215</u>

**3. LOAN OUTSTANDING**

At June 30, 2009, 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.



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CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis Rivera Zúñiga  
CPA Zoraida Cruz Claudio

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Toa Baja, as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality's internal control over financial reporting a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A deficiency in internal control 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 misstatements on a timely basis. A material weakness is a control deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatements of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 17, 2009.

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 17, 2009



The stamp 2479443 was affixed  
to the original of this report.





ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis Rivera Zúñiga  
CPA Zoraida Cruz Claudio

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants

**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, 2009. 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 and 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, period of availability of funds and special tests and provisions that are applicable to the following federal programs: Head Start and Section 8 Housing Choice Vouchers.

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	Cash Management	09-1
Head Start	Availability of Funds	09-2
Section 8 Housing Choice Vouchers	Special Tests and Provisions	09-3
Section 8 Housing Choice Vouchers	Special Tests and Provisions	09-4

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, 2009.

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 item 09-2 to be significant deficiency.

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.

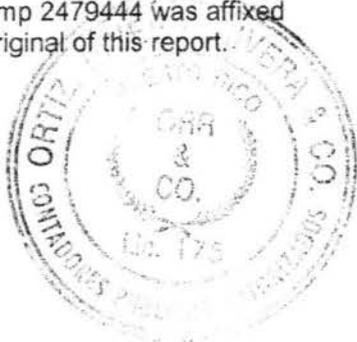
Municipality's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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.



San Juan, Puerto Rico  
November 17, 2009

The stamp 2479444 was affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expressed an unqualified opinion on the basic financial statements of the Municipality of Toa Baja.
- b. There were no significant deficiencies on internal controls over financial reporting.
- c. No instances of noncompliance material to the financial statements of Municipality of Toa Baja were disclosed during the audit.
- d. There were significant deficiencies on internal controls over major programs.
- e. The auditors' report on compliance with requirements applicable to federal award programs for the Municipality of Toa Baja expressed an qualified opinion.
- f. Audit findings relative to the major federal award programs for Municipality of Toa Baja are reported in number 3 of this schedule.
- g. The programs tested as major programs include:
  - Head Start and Early Head Start Programs - CFDA No. 93.600
  - Section 8 Housing Choice Vouchers Program - CFDA No. 14.871
  - Home Investment Partnership Program - CFDA No. 14.239
- h. The threshold for distinguishing types A and B programs was \$490,030.
- i. Municipality of Toa Baja was determined to be a high-risk auditee.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

**a. Head Start Program - CFDA No. 93.600**

**• Condition 09-1 - 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 minimize the time between the receipt of funds and the disbursements for expenditures.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Questioned Costs

None

● **Condition 09-2 - Availability of Funds**

We observed liquidations amounting to \$13,779 of account payables for the program year after the 90 days required. Those liquidations were not included into the waiver list submitted to the Agency at the end of the 90 days.

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 accounts 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 accounts 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, 2009**

Questioned Costs

\$13,779

**b. Section 8 Housing Choice Vouchers Program - CFDA No. 14.871**

• **Condition 09-3 – Special tests and Provisions**

The Section 8 Housing Choice Vouchers Program of the Municipality of Toa Baja has not reviewed its schedule of utility allowances for more than one year.

Criteria

24 CFR Section 982.517 (c)(1) requires a review of its schedule of utility allowances each year, and must revise its allowances if there been a change of 10 percent or more in the utility rate since the last time was reviewed.

Cause

The Federal HUD Programs Office does not update the schedule of utility allowances as required.

Effect

The program does not comply with federal regulations.

Recommendation

The Federal HUD Programs Office should improve the monitoring procedures of the utilities allowance rates in order to avoid this situation.

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

• **Condition 09-4 – Special Tests and Provisions**

The Section 8 Housing Choice Vouchers Program of the Municipality of Toa Baja should enforce the owner obligation to take prompt action relation to the deficiencies observed.

Criteria

24 CFR Section 982.404 establish that the Section 8 Housing Choice Vouchers Program must take prompt and vigorous action to enforce the owner obligations.

Cause

The Federal HUD Programs Office does not perform the re-inspections in a reasonable time period to observe the corrections into the required time.

Effect

The Federal HUD Programs Offices has not the assurance that the housing units are secure and safety.

Recommendation

The Federal HUD Programs Offices should establish procedures in order to make the re-inspection before the required period end in order to comply with regulation.

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, 2009**

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.

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**ORTIZ, RIVERA, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**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, 2009**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Head Start and Early Start Programs - CFDA No. 93.600	<b>Condition 08-1</b>  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.	The condition was corrected on the Early Head Start account but still on the Head Start account.
Head Start and Early Start Programs - CFDA No. 93.600	<b>Condition 08-2</b>  We observed the trial balance for the year ended June 30, 2008 includes accounts payable from various prior program years. The program has ninety days after program year end to liquidate all accounts payable. In Addition, includes various accounts receivable from the Agency from various prior years, which will not be received.	The condition still prevails.
Head Start and Early Start Programs - CFDA No. 93.600	<b>Condition 08-3</b>  We observed that some centers have at least one of the licenses due as of the date of our audit.	The condition was corrected.
Community Development Block Grant Program- CFDA No. 14.218	<b>Condition 08-4</b>  The contract signed on May 13, 2008 related to the "Mejoras a las Facilidades Recreativas y Centro Comunal del Sector Pájaros" mention on section 19.02 the minumun wages as per General Wage Decision PR-07-0002 superseded the PR-03-0002. The payrolls of May 2008 submitted by the contractor include employees paid below this wages. In addition, the interviews to the contractor employees were not made by the Municipality as required.	The condition was corrected.

**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, 2009**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Community Development Block Grant Program - CFDA No. 14.218	<b>Condition 08-5</b> The required employees' interviews on the project "Improvement Street and Pluvial" were not made by the Municipality.	The condition was corrected.
Head Start and Early Start Programs - CFDA No. 93.600	<b>Condition 07-1</b> The program maintains a high balance of cash in bank.	The condition was corrected on the Early Head Start account but still on the Head Start account.
Head Start and Early Start Programs - CFDA No. 93.600	<b>Condition 07-3</b> The trial balance includes account payable of various prior program years.	The condition still prevails.
Head Start and Early Start Programs - CFDA No. 93.600	<b>Condition 07-4</b> Some centers have licenses due as of the date of the audit.	The condition was corrected.

## **PART III - CORRECTIVE ACTION PLAN**

**ORTIZ, RIVERA, RIVERA & CO.**

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**Estado Libre Asociado de Puerto Rico**  
**Municipio de Toa Baja**  
APARTADO 2359  
TOA BAJA, PR 00951-2359

Anibal Vega Borges  
Alcalde

December 18, 2009

**CORRECTIVE ACTION PLAN**

Cognizant or Oversight Agency for Audit:

Municipality of Toa Baja respectfully submits the following corrective action plan for the year ended June 30, 2009.

Independent Public Accounting Firm Information:

Name	Ortiz, Rivera, Rivera & Co
Address	Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250
Audit period:	Fiscal year ended June 30, 2009

The findings from the June 30, 2009 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 09-1: Head Start Program - CFDA No. 93.600**

Reportable Condition: See Condition 09-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to minimize the time between the receipt of funds and the disbursements for expenditures.

Action Taken

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

**Finding 09-2: Head Start - CFDA No. 93.600**

Reportable Condition: See Condition 09-2

Recommendation

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

Action Taken

The Head Start program establishes an account payable list per year in order to liquidate all obligations into 90 days after year end.

**Finding 09-3: Section 8 Housing Choice Vouchers Program - CFDA No. 14.871**

Reportable Condition: See Condition 09-3

Recommendation

The Federal HUD Programs Office should improve the monitoring procedures of the utilities allowance rates in order to avoid this situation.

Action Taken

The HUD Federal Program Office reviewed the utilities allowances and updated the schedule.

**Finding 09-4: Section 8 Housing Choice Vouchers Program - CFDA No. 14.871**

Reportable Condition: See Condition 09-4

Recommendation

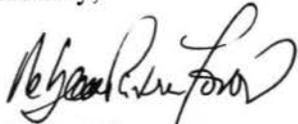
The Federal HUD Programs Offices should establish procedures in order to make the re-inspection before the required period end in order to comply with regulation.

Action Taken

The HUD Federal Program Office establishes a process in which the re-inspections will be realized before the completing the 30 days in order to has time for additional necessities reviews.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Inés Mercado, Interim Head Start Program Director, at (787) 261-0202, ext. 2390, or Rebecca Rivera, HUD Programs Director, at (787) 261-0202, ext. 2422.

Cordially,



Rebecca Rivera Torres  
HUD Programs Director



Inés Mercado  
Interim Head Start Program Director