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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

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, 2010**

TABLE OF CONTENTS

	<u>Pages</u>
PART I – FINANCIAL SECTION	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements-Governmental Funds	
Balance Sheet	15-16
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	19
Statement of Revenues and Expenditures - Budget and Actual - General and Debt Service Funds.....	20
Notes to Basic Financial Statements.....	21-53

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TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART II - SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	55
Notes to Schedule of Expenditures of Federal Awards	56-57
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.....	58-59
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	60-62
Schedule of Findings and Questioned Costs	63-69
Schedule of Status of Prior Year Audit Findings and Questioned Costs	70-72
PART III - CORRECTIVE ACTION PLAN	

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PART I - FINANCIAL SECTION

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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, 2010, 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 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, based on our audit and the report of other auditors, 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, 2010, and the respective changes in financial position, and the respective budgetary comparison for the general and debt service funds, thereof 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 December 10, 2010 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

San Juan, Puerto Rico
December 10, 2010

The stamp 2571483 was affixed
to the original of this report.



- 2 -

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*Commonwealth of Puerto Rico
Municipality of Toa Baja
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010*

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

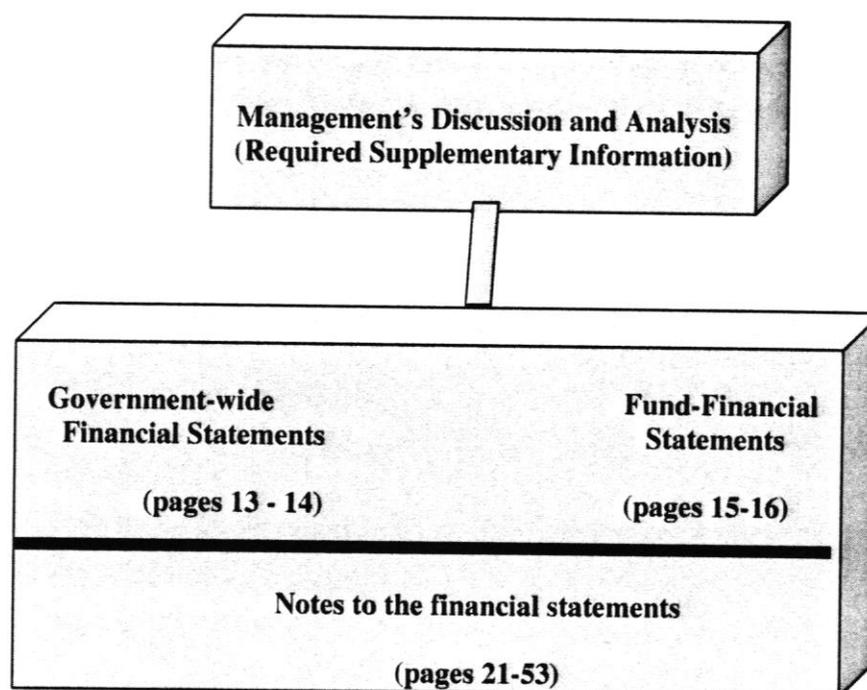
Financial Highlights

- The Municipality's net assets amounted to \$16.7 million at the close of the current fiscal year. This amount represents a decrease of \$24.1 million from the previous year's net assets.
- As of June 30, 2010, the Municipality's General Fund (the primary operating fund) reported a deficiency of \$22.7 million, an increase of \$9.2 million in comparison with the prior year.
- Capital expenditures amounted to \$7.6 million during the year.
- Loans principal payments were \$7.6 million during fiscal year 2009-2010. Other long-term liabilities payments were \$0.4 million. At June 30, 2010, the total long-term debt balance was \$142.5 million as of same date, as compared to \$129.3 million in prior year.

USING THIS ANNUAL REPORT

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

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



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

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

Figure 2

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

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

Government-wide Financial Statements

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

The Statement of Net Assets (see page 13), for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable

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

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

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

Fund Financial Statements

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

activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation beside the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the financial statements can be found starting on page 21.

Infrastructure Assets

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

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$16.4 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>		
	2010	2009
Current and other assets	\$ 33.9	\$ 38.5
Capital assets	<u>159.8</u>	<u>158.9</u>
Total assets	<u>193.7</u>	<u>197.4</u>
Current and other liabilities	34.4	27.3
Long-term debt outstanding	<u>142.5</u>	<u>129.3</u>
Total liabilities	<u>176.9</u>	<u>156.6</u>
Net assets:		
Invested in capital assets, net of debt	71.7	73.0
Restricted	8.0	11.1
Unrestricted	<u>(63.0)</u>	<u>(43.3)</u>
Total net assets	<u>\$ 16.7</u>	<u>\$ 40.8</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 \$63.0 million.

The Municipality's net assets decrease by \$22.1 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 and accounts payables due.

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 deficit of \$521 thousands which is 22% lower than the beginning fund balance of the year (\$11.5 million). This decrease was the net result of a decrease of \$9.2 million of the General Fund, \$.1 million in the HHS Programs Fund, \$0.6 in the HUD Programs Fund, and \$5.6 in the Loans and Bonds Fund, and an increase of \$2.5 in the Debt Services Fund, and \$1.0 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, and general debt cannot be liquidated with general fund.

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 \$8.6 million of excess expenditures over revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the Municipality had \$159.8 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 \$0.9 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>		
	2010	2009
Land		
Construction in progress	\$ 3.3	\$ 3.3
Buildings and improvements	17.4	13.2
Furniture and fixture	39.5	40.6
Vehicles and equipment	0.6	1.6
Infrastructure	4.6	4.2
	<u>94.4</u>	<u>96.0</u>
Total	<u>\$ 159.8</u>	<u>\$ 158.9</u>

Table 3
Change in Capital Assets
(in millions)

<i>Governmental Activities</i>		
Beginning Balance	\$158.9	154.5
Additions	4.7	10.4
Retirements	(0.2)	(2.1)
Depreciation	<u>(3.6)</u>	<u>(3.9)</u>
Ending balance	<u>\$159.8</u>	<u>\$158.9</u>

Debt Outstanding

As of year-end, the Municipality had \$139.9 million in debt (bonds, notes and other long-term debts) outstanding compared to \$129.3 million last year, an increase of \$10.6 million.

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

	2010	2009
General obligation bonds and notes	\$ 81.5	\$ 73.3
Due to CRIM – Law 42	2.3	2.3
Due to CRIM-LIMS	0.3	0.5
Due to CRIM- Liquidation 2008-2009	1.2	1.2
Due to CRIM- Liquidation 2009-2010	0.5	0.0
Note payable-Section 108	12.2	12.2
Landfill obligation	31.6	30.7
Compensated absences	7.2	7.4
Others	6.2	1.7
Totals	<u>\$142.5</u>	<u>\$ 129.3</u>

Long term liabilities was added related to CRIM Liquidation 2009-2010 amounted to 0.5 million. The balance of prior year due to CRIM for Liquidation 2008-09 will be paid through general fund during 2010-2011. A note payable with a balance due of \$2.3 million represents a repayment agreement with the Government Development Bank and CRIM to repay the excess of property takes advances from fiscal years up to 2001. The \$0.3 million due to CRIM represents the balances dues of a note payable for the Municipality's share of the cost of a management information system (LIMS) acquired by CRIM. A note payable of \$12.2 million is due to the U.S. Department of Housing and Urban Development. The landfill obligation represents an estimated liability for future closure and post-closure care costs.

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 \$81.5 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 2010 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 2010-2011. 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 2010-2011.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
STATEMENT OF NET ASSETS
JUNE 30, 2010**

<u>Assets</u>	<u>Governmental Activities</u>
Cash in bank (Notes 2 and 5)	\$ 2,077,128
Cash with fiscal agent (Notes 2 and 5)	14,810,816
Certificates of deposits (Notes 2 and 5)	9,040,000
Accounts receivable:	
Property taxes	146,327
Municipal license taxes	72,295
Sales and use taxes	546,507
Licenses and permits	408,930
Landfill	384,451
Interest	89,545
Other	514,887
Due from other agencies (Note 9)	5,827,488
Capital assets, net (Note 11)	159,771,595
Total assets	\$ 193,689,969
<u>Liabilities and Net Assets</u>	
Liabilities	
Bank overdraft	\$ 1,026,736
Account payable and accrued liabilities	5,891,506
Due to other agencies (Note 12)	13,317,196
Claims and judgements	138,800
Matured bonds	5,200,000
Matured interest payable	1,461,597
Deferred revenues (Note 13):	
Municipal license tax	7,403,822
Noncurrent liabilities (Note 15):	
Due within one year	10,954,072
Due in more than one year	131,601,448
Total liabilities	176,995,177
Net Assets	
Investment in capital assets, net of related debt	71,655,236
Restricted for:	
Debt service	1,731,419
Capital project	6,313,260
Unrestricted	(63,005,123)
Total net assets	16,694,792
Total liabilities and net assets	\$ 193,689,969

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, 2010**

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government:			
General government	\$ 59,022,630	\$ -	\$ (52,091,593)
Public safety	6,069,040		(6,069,040)
Public works	14,792,829		(14,792,829)
Culture and recreation	2,875,978		(2,875,978)
Health, public housing, and welfare	20,861,943	19,585,803	(1,276,140)
Economic development	2,649,002		(2,649,002)
Interest on long-term debt	4,274,168		(4,274,168)
Total primary government	<u>\$ 110,545,590</u>	<u>\$ 19,585,803</u>	<u>(84,028,750)</u>
	<u>\$ 6,931,037</u>	<u>\$ 19,585,803</u>	
	\$ 6,931,037		\$
			24,402,879
			11,112,059
			5,050,141
			6,335,357
			487,555
			<u>12,537,662</u>
			<u>59,925,653</u>
			(15,389)
			(24,118,486)
			<u>40,813,278</u>
			\$ <u>16,694,792</u>
			General revenues:
			Property taxes (Note 6)
			Municipal license tax (Note 7)
			Sales and use tax (Note 8)
			Grants and contributions not restricted to specific programs
			Interest, fines, and penalties
			Miscellaneous
			Total general revenues
			Loss on disposition of assets
			Change in net assets
			Net assets at beginning of year
			Net assets at end of year

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, 2010**

<u>Assets</u>	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Loans and Bonds Issued	Other Governmental Funds	Total Governmental Funds
Cash (Notes 2 and 5)	\$ 59,901	\$ 216,513	\$ 479,456	\$ -	\$ -	\$ 1,321,258	\$ 2,077,128
Cash with fiscal agent (Notes 2 and 5)	112,555			8,246,689	6,313,260	138,312	14,810,816
Certificates of deposits (Notes 2 and 5)		9,040,000					9,040,000
Accounts receivable:							
Licenses and permits	408,930						408,930
Municipal license taxes	72,295						72,295
Sales and use taxes	546,507						546,507
Landfill	384,451						384,451
Property taxes				146,327			146,327
Interest							89,545
Other	514,887	89,545					514,887
Due from other agencies (Note 9)	3,906,805		554,867			1,365,816	5,827,488
Due from other funds (Note 10)	1,928,067					3,617,728	5,545,795
Total assets	<u>\$ 7,934,398</u>	<u>\$ 9,346,058</u>	<u>\$ 1,034,323</u>	<u>\$ 8,393,016</u>	<u>\$ 6,313,260</u>	<u>\$ 6,443,114</u>	<u>\$ 39,464,169</u>

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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, 2010

<u>Liabilities and Fund Balance (Deficit)</u>	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Loans and Bonds Issued	Other Governmental Funds	Total Governmental Funds
Liabilities							
Bank overdraft	\$ 1,026,736	-	-	-	-	-	\$ 1,026,736
Account payable and accrued liabilities	5,125,421	18,847	454,973			292,265	5,891,506
Due to other funds (Note 10)	3,617,728		362,224			1,565,843	5,545,795
Due to other agencies (Note 12)	13,317,196						13,317,196
General obligations:							
Bonds				5,200,000			5,200,000
Interest				1,461,597			1,461,597
Deferred revenues: (Note 13)							
Municipal licence tax	7,403,822						7,403,822
Claims and judgements	138,800						138,800
Total liabilities	<u>30,629,703</u>	<u>18,847</u>	<u>817,197</u>	<u>6,661,597</u>	<u>-</u>	<u>1,858,108</u>	<u>39,985,452</u>
Fund Balances (Deficit)							
Reserved for:							
Encumbrances	1,705,975						1,705,975
Debt service				1,731,419			1,731,419
Capital projects					6,313,260		6,313,260
Unreserved fund balance	(24,401,280)	9,327,211	217,126			4,585,006	(10,271,937)
Total fund balance (deficit)	<u>(22,695,305)</u>	<u>9,327,211</u>	<u>217,126</u>	<u>1,731,419</u>	<u>6,313,260</u>	<u>4,585,006</u>	<u>(521,283)</u>
Total liabilities and fund balance (deficit)	<u>\$ 7,934,398</u>	<u>\$ 9,346,058</u>	<u>\$ 1,034,323</u>	<u>\$ 8,393,016</u>	<u>\$ 6,313,260</u>	<u>\$ 6,443,114</u>	<u>\$ 39,464,169</u>

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

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total fund balances - governmental funds	\$ (521,283)
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	159,771,595
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	<u>(142,555,520)</u>
Net assets of governmental activities	<u><u>\$ 16,694,792</u></u>

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

ORTIZ, RIVERA ~~17~~ RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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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, 2010

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Loans and Bonds Issued	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 6)	\$ 14,643,444	\$ -	\$ -	\$ 9,759,435	\$ -	\$ -	\$ 24,402,879
Municipal license taxes (Note 7)	11,112,059	-	-	-	-	-	11,112,059
Licenses, permits, and other local taxes	1,698,598	-	-	-	-	-	1,698,598
Sales and use taxes (Note 8)	4,201,918	-	-	848,223	-	-	5,050,141
Charges for services	4,760,399	-	-	-	-	472,040	5,232,439
Intergovernmental revenues (Note 14):							
Federal grants and contributions	6,335,357	5,160,473	9,907,781	-	-	4,517,549	19,585,803
State contributions	345,627	138,601	-	3,307	-	20	6,335,357
Interest, fines, and penalties	12,536,942	-	-	-	-	720	487,555
Other revenues	55,634,344	5,299,074	9,907,781	10,610,965	-	4,990,329	12,537,662
Total revenues	119,987,787	10,558,147	19,815,562	20,371,711	(7,580,037)	9,509,619	182,632,786
EXPENDITURES							
Current:							
General government	50,923,908	-	-	-	-	1,592,429	52,516,337
Public safety	5,649,629	246,432	-	-	-	59,405	5,955,466
Economic development	-	-	-	-	-	1,204,702	1,204,702
Health, public housing and welfare	5,988,381	4,690,475	9,250,312	-	-	882,297	20,811,465
Culture and recreation	1,775,752	-	743,105	-	-	268,785	2,787,642
Public works	11,284,461	-	-	-	7,580,037	-	11,284,461
Capital outlays	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest and other	-	-	-	-	-	-	-
Total expenditures	75,622,131	4,936,907	9,993,417	11,842,676	7,580,037	4,007,618	113,982,786
Excess (deficiency) of revenues over (under) expenditures	(19,987,787)	362,167	(85,636)	(1,231,711)	(7,580,037)	982,711	(27,540,293)
OTHER FINANCING SOURCES (USES)							
Loan proceeds	13,530,000	-	-	-	-	-	13,530,000
Transfers in	3,307	-	-	-	2,015,000	-	2,018,307
Transfers out	(2,746,506)	(994,413)	-	3,740,919	-	-	(994,413)
Total other financing sources (uses)	10,786,801	(994,413)	-	3,740,919	2,015,000	-	15,545,000
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	(9,200,986)	(632,246)	(85,636)	2,505,901	(5,565,037)	982,711	(11,995,293)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(13,494,319)	9,959,457	302,762	(774,482)	11,878,297	3,602,295	11,474,010
FUND BALANCE (DEFICIT) AT END OF YEAR	\$(22,695,305)	\$ 9,327,211	\$ 217,126	\$ 1,731,419	\$ 6,313,260	\$ 4,585,006	\$ (521,283)

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds	\$(11,995,293)
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.	4,690,903
• 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.	(3,584,979)
• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.	(15,545,000)
• Governmental funds only report proceeds received in the disposal of assets. In the statement of activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed	(15,389)
• 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.	7,966,503
• 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	(487,028)
Landfill obligation	(866,667)
Legal claims	(1,517,724)
Due to Puerto Rico Health Insurance Administration	(2,763,812)
Changes in net assets of governmental activities	\$(24,118,486)

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

ORTIZ, RIVERA¹⁹ RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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, 2010

	General Fund			Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Budgeted Amounts		Actual	
	Original	Final		Original	Final		
REVENUES							
Property taxes	\$ 14,639,443	\$ 14,639,443	\$ 14,643,444	\$ 9,577,776	\$ 9,577,776	\$ 9,701,006	\$ 123,230
Municipal license taxes	16,075,000	16,075,000	11,102,308				
Licenses and permits	6,000,000	6,000,000	3,683,722				
Sales taxes	4,300,000	4,300,000	1,325,298				
Charges for services	9,125,000	9,125,000	4,806,513				
Intergovernmental revenues							
State contributions	5,732,975	5,732,975	5,529,589				
Interest, fines, and penalties	900,000	900,000	325,350				
Other revenues	1,459,000	2,850,710	874,101				
Total revenues	58,231,418	59,623,128	42,290,325	9,577,776	9,577,776	9,701,006	123,230
EXPENDITURES							
Current:							
General government	31,374,955	33,420,721	32,030,026				
Public safety	6,484,379	5,868,958	5,104,400				
Public works	9,826,194	10,289,153	4,901,815				
Culture and Recreation	3,357,677	3,626,397	2,970,269				
Health and welfare	7,188,213	6,417,899	5,870,291				
Debt service:							
Principal and interest				9,577,776	9,577,776	7,570,414	2,007,362
Total expenditures	58,231,418	59,623,128	50,876,801	9,577,776	9,577,776	7,570,414	2,007,362
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (8,586,476)	\$ -	\$ -	\$ 2,130,592	\$ 2,130,592

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, 2010**

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).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially 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 segments 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, 2010

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, 2010**

The Municipality reports the following major governmental funds:

1) 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.

2) 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.

3) 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.

4) 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.

5) 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

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

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

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, 2010**

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:

1) 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, 2010

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects

The capital projects represent 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, 2010 amounted to approximately \$759,708. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.6 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 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, 2010**

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>
54	Fund Balance Reporting Governmental Fund Type Definitions	2010-11
57	OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans	2011-12
59	Financial Instrument Omnibus	2010-11
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and 34	2012-13

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, 2010**

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, include 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2010 is presented below for the general fund:

	<u>General Fund</u>
Deficiency of revenues over expenditures - budgetary basis	(\$8,586,476)
Entity differences:	
Non-budgeted revenues, net	(11,212,841)
Non-budgeted expenditures, net	13,469,243
Non-budgeted transfer in	3,307
Non-budgeted transfer out	(2,746,506)
Bonds issuance	(13,530,000)
Prior year encumbrances recorded as Current year expenditures for GAAP basis	(938,197)
Current year encumbrances treated as current year expenditures for budgetary purposes	1,705,975
Basis of accounting differences:	
Net change in receivables	(68,098)
Net change in payables	<u>9,699,961</u>
Deficiency of revenues under expenditures - GAAP basis	(<u>\$12,203,632</u>)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

c. Legal Compliance

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

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes 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 \$139.9 million differences are as follows:

Bonds payable	\$ 81,491,775
Landfill obligation	31,622,136
Notes payable	15,843,208
Compensated absences	7,162,569
ASES	2,763,812
Claims and judgments	2,004,719
Advances from CRIM	<u>1,667,301</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$142,555,520</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 \$6.3 million that are restricted principally for capital projects and the \$8.2 million in the debt service fund are uninsured and uncollateralized, as no collateral is required to be carried by governmental banks.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The deposits at GDB of approximately \$6.3 million that are restricted principally for capital projects and the \$8.2 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). The standard insurance amount limit is \$250,000 as of June 30, 2010 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 10.33% for real property and 8.33% 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	3.50%	3.50%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>10.33%</u>	<u>8.33%</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

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

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

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts 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 2009-10, 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2010, the amount advanced by CRIM from taxpayers and charges exceeded the amount collected by CRIM for the same period by approximately \$487,000. 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, 2010. The annual municipal license tax is determined based on the gross income of all commerce and industrial organizations that 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 \$7.4 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 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	\$ 3,906,805
Family Department (Head Start)	533,867
U. S. Department of Health and Human Services (Child Care)	21,000
Other governmental funds	<u>1,365,816</u>
 Total	 <u><u>\$ 5,827,488</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2010, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other governmental funds	General	\$ 3,617,728
General	Other governmental funds	1,565,843
General	HHS	<u>362,224</u>
Total		<u>\$ 5,545,795</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, 2010 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$2,746,506
Debt Service	HUD	994,413
General	Debt Service	<u>3,307</u>
Total		<u>\$3,744,226</u>

The transfer from the general fund and HUD programs to the debt service fund of \$2,746,506 represents monies transferred to cover debt service payments as become due.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

11. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,254,515	\$ -	\$ -	\$ 3,254,515
Construction in progress	13,202,621	4,201,763		17,404,384
Total capital assets, not being depreciated	<u>16,457,136</u>	<u>4,201,763</u>	<u>-</u>	<u>20,658,899</u>
Capital assets, being depreciated:				
Buildings and building improvements	51,651,221	118,768		51,769,989
Equipment and vehicles	11,108,767	281,272	102,717	11,287,322
Furniture and fixtures	4,096,324			4,096,324
Infrastructure	101,012,873	89,100		101,101,973
Total capital assets, being depreciated	<u>167,869,185</u>	<u>489,140</u>	<u>102,717</u>	<u>168,255,608</u>
Less accumulated depreciation for:				
Buildings and building improvements	10,215,467	2,110,617		12,326,084
Equipment and vehicles	6,665,742	96,397	87,328	6,674,811
Furniture and fixtures	2,747,338	744,896		3,492,234
Infrastructure	6,016,714	633,069		6,649,783
Total accumulated depreciation	<u>25,645,261</u>	<u>3,584,979</u>	<u>87,328</u>	<u>29,142,912</u>
Total capital assets, being depreciated, net	<u>142,223,924</u>	<u>(3,095,839)</u>	<u>15,389</u>	<u>139,112,696</u>
Governmental activities capital assets, net	<u>\$ 158,681,060</u>	<u>\$ 1,105,924</u>	<u>\$ 15,389</u>	<u>\$ 159,771,595</u>

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

General government	\$ 1,269,057
Public safety	113,574
Public works	619,234
Culture and recreation	88,336
Economic development	1,444,300
Health, public housing, and welfare	<u>50,478</u>
Total	<u>\$ 3,584,979</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2010 are as follows:

Puerto Rico Electric Power of Authority	\$ 3,906,805
U.S. Internal Revenue Services	4,898,721
Retirement System Administration	1,343,200
P.R. Treasury Department	1,279,422
Puerto Rico General Services Administration	1,219,443
Puerto Rico Water and Sewer Authority	453,116
Puerto Rico Labor Department	<u>216,489</u>
 Total	 <u><u>\$13,317,196</u></u>

13. DEFERRED REVENUES MUNICIPAL LICENSE TAX

The deferred revenues of approximately \$7.4 million in the general fund related to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

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, 2010 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. 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%.	\$ 6,115,000
\$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%.	1,050,000
\$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%.	1,125,000
\$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%.	1,030,000
\$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%.	210,000
\$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%.	2,395,000
\$1,500,000 series of 1998, payable in annual installments from \$44,000 to \$108,000 until July 1, 2019, interest at 4.5%.	815,106
\$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%.	2,475,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

\$3,470,000 series of 2000, payable in annual installments of \$140,000 to \$355,000 until June 2014, interest at approximately 8%.	\$ 1,560,000
\$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%.	350,000
\$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%.	730,000
\$2,062,000 series of 2001, payable in annual installments of \$62,800 until January 1, 2021, interest at 2%.	1,234,669
\$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%.	2,735,000
\$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%.	2,490,000
\$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%.	1,195,000
\$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%.	10,565,000
\$1,555,000 series of 2006, payable in annual installments of \$180,000 to \$270,000 until July 1, 2012, interest ranging from 6.2% to 6.5%.	755,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

\$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%.	\$ 645,000
\$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%.	1,430,000
\$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%.	640,000
\$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%.	55,000
\$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%.	1,265,000
\$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%.	230,000
\$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%.	1,175,000
\$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%.	7,266,000
\$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%.	1,460,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

\$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%.	\$ 4,070,000
\$9,660,000 series of 2009, payable in annual installments of \$680,000 to \$1,310,000 until July 2019, interest ranging from 5.00% to 7.50%.	9,660,000
\$3,870,000 series of 2009, payable in annual installments of \$270,000 to \$525,000 until July 2019, interest ranging from 5.00% to 7.50%.	3,870,000
\$2,015,000 series of 2009, payable in annual installments of \$40,000 to \$185,000 until July 2029, interest ranging from 5.00% to 7.50%.	<u>2,015,000</u>
Subtotal bonds payable	<u>70,610,775</u>

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%.	205,000
\$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%.	6,338,000
\$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%.	350,000
\$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%.	3,988,000
Subtotal special obligation notes	<u>10,881,000</u>
Total bonds and notes	<u>\$81,491,775</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The annual debt service requirements for the bonds and notes payable at June 30, 2010 are as follows:

	<u><i>Bonds and Notes</i></u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 7,242,409	\$ 3,415,994
2012	7,749,447	6,419,846
2013	8,110,527	5,924,593
2014	7,592,651	3,531,166
2015	8,406,812	3,040,351
2016-2020	26,709,869	8,818,790
2021-2025	9,580,060	3,963,884
2026-2030	4,345,000	1,329,244
2031-2035	1,755,000	213,848
	<u>\$ 81,491,775</u>	<u>\$ 36,657,716</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%.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Debt service requirements in future years are as follows:

	<i>CRIM - Law 42</i>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 49,108	\$ 141,410
2012	52,193	138,325
2013	55,473	135,045
2014	58,958	131,560
2015	62,662	127,855
2016-2020	377,554	575,031
2021-2025	512,038	400,333
2026-2030	694,425	258,158
2031-2035	435,089	41,202
	<u>\$ 2,297,500</u>	<u>\$ 1,948,919</u>

e. Note Payable - CRIM (LIMS)

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

Debt service requirements in future years are as follows:

	<i>CRIM - Lims</i>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 204,493	\$ 15,527
2012	106,831	3,179
	<u>\$ 311,324</u>	<u>\$ 18,706</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 no revolving 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>
2011	\$ 48,972	\$ 63,968
2012	48,972	60,922
2013	48,972	57,876
2014	48,972	51,782
2015	48,972	51,782
2016-2020	244,860	213,220
2021-2025	244,860	137,070
2026-2030	244,860	60,920
2031-2035	97,944	3,046
	<u>\$ 1,077,384</u>	<u>\$ 700,586</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 note is payable in August 2026.

The annual debt service requirements for the note at June 30, 2010 are as follows:

	<u>Section 108 Loan Guarantee</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ 331,471
2012	-	651,295
2013	464,000	627,249
2014	493,000	801,619
2015	524,000	574,294
2016-2020	3,153,000	2,386,809
2021-2025	4,270,000	1,314,550
2026-2030	<u>3,253,000</u>	<u>130,471</u>
	<u>\$ 12,157,000</u>	<u>\$ 6,817,758</u>

As described in Note 6, the Municipality levies an annual special tax of 3.5% 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 73,254,186	\$ 15,545,000	\$ 7,307,411	\$ 81,491,775	\$ 7,242,409
Note payable - CRIM Law 42	2,343,704		46,204	2,297,500	49,108
Note payable - CRIM Law 146	1,126,356		48,972	1,077,384	48,972
Note payable - CRIM (LIMS)	504,171		192,847	311,324	204,493
Note payable - Section 108	12,157,000			12,157,000	-
Total long-term debt	<u>89,385,417</u>	<u>15,545,000</u>	<u>7,595,434</u>	<u>97,334,983</u>	<u>7,544,982</u>
Other Long-term Liabilities:					
Due to CRIM	1,180,273	487,028		1,667,301	1,180,273
Landfill obligation	30,755,469	866,667		31,622,136	
Federal cost disallowances	12,134		12,134	-	-
Due to PR Retirement System Administration	127,599		127,599	-	-
Due to ASES	-	2,763,812		2,763,812	-
Claims and judgements	486,995	1,517,724		2,004,719	2,004,719
Compensated absences	7,393,905		231,336	7,162,569	224,098
Total other long-term liabilities	<u>39,956,375</u>	<u>5,635,231</u>	<u>371,069</u>	<u>45,220,537</u>	<u>3,409,090</u>
Total noncurrent liabilities, governmental activities	<u>\$ 129,341,792</u>	<u>\$ 21,180,231</u>	<u>\$ 7,966,503</u>	<u>\$ 142,555,520</u>	<u>\$ 10,954,072</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, 2010**

Participation is mandatory except for members of the Legislature, Government Secretaries, and 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 the new program. Persons joining the Municipality on or after January, 2000, will

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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, 2010 was approximately \$2.6 million. The Municipality's payroll for employees covered by ERS was approximately \$27.7 million. The Municipality total payroll for all employees was approximately \$38.8 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2010, 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, 2010

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, 2010 was approximately \$169,763.
- 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 no cancellable operational leases, with periods not longer than one year.

19. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

Commonwealth and Federal laws and regulations require the Municipality to place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on future closure.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 \$31,622,136 as of June 30, 2010, 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 2010). 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, 2010. 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, 2010. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$6.3 million.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

22. SUBSEQUENT EVENT

During October 2010, the Municipality issued a general obligation bond of \$28,365,000 for the payment of debts, and acquisition of vehicles. The bond will be due in annual installments through July 2035.

PART II - SINGLE AUDIT SECTION

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Federal Grantor/Program Title	Federal CFDA Number	Entity Identifying Number	Federal Disbursements/ Expenditures
U.S. Department of Housing and Urban Development (HUD)			
Direct Programs:			
Community Development Block Grant Program, Entitlement Grants	14.218		\$ 1,285,224
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253		364,119
Community Development Block Grant Program, Section 108, Loan Guarantee (Note 3)	14.248	B-05-MC-72-0008	874,047
Emergency Shelter Grant Program	14.231		246,432
Home Investment Partnership Program	14.239		355,130
Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257		63,729
Section 8 - Housing Choice Vouchers	14.871		1,575,729
Pass-through Municipality of San Juan:			
Hopwa	14.241		172,496
Subtotal U.S. Department of HUD			<u>4,936,906</u>
U.S. Department of Agriculture			
Pass-through Education Department:			
Child and Adult Care Food Program	10.558		48,366
Early Head Start Food Program	10.558		19,382
Pass-through the Office of Administration for Children and Families:			
Head Start Food Program	10.558		755,096
Subtotal U.S. Department of Agriculture			<u>822,844</u>
U.S. Department of Health and Human Services (HHS)			
Pass-through the Office of Administration for Children and Families:			
Head Start and Early Head Start	93.600		9,113,089
ARRA - Head Start	93.708		106,744
ARRA - Early Head Start	93.709		30,479
Child Care Development Block Grant	93.575		743,105
Special Program for the Aging Title III Part B Grant for Supportive Services and Senior Center	93.044		131,480
ARRA - Aging Congregate Nutrition Services for States	93.707		19,580
Subtotal U.S. Department of HHS			<u>10,144,477</u>
U.S. Department of Energy			
Pass-through the Governmental Bank:			
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		36,005
Subtotal U.S. Department of Energy			<u>36,005</u>
U.S. Department of Justice			
Pass-through the Justice Department:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		59,405
Subtotal U.S. Department of Justice			<u>59,405</u>
TOTAL			<u>\$ 15,999,637</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, 2010**

1. SIGNIFICANT ACCOUNTING POLICIES

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

2. BASIS OF PRESENTATION

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

	<u>Expenditures</u>
Total federal expenditures per schedule	<u>\$15,999,637</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$ 4,936,907
Health and Human Services Programs	9,993,417
Federal expenditures included within other governmental funds:	
• Special Program for the Aging Title III Part B Grant for Supportive Services and Senior Center	131,480
• ARRA – Aging Congregate Nutrition Services for States	19,580
• Other federal programs	<u>918,253</u>
Total	<u>\$15,999,637</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

3. LOAN OUTSTANDING

At June 30, 2010, 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.

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, 2010, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated December 10, 2010. 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 of Toa Baja 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 control deficiencies in internal control, such that adversely affects the Municipality's ability to initiate, authorize, record, process, or report there is a reasonable possibility that a material misstatements of the entity's financial statements will not be prevent, 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 design 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 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 of 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 other matters that we reported to management of Municipality of Toa Baja in a separate letter dated December 10, 2010.

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, others within the entity, 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
December 10, 2010

The stamp 2571484 was affixed
to the original of this report



Ortiz, Rivera, Rivera & Co.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Municipality of Toa Baja's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Toa Baja' major federal programs for the year ended June 30, 2010. Municipality of Toa Baja' 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' management. Our responsibility is to express an opinion on Municipality of Toa Baja' 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. 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' 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 compliance with those requirements.

In our opinion, the Municipality of Toa Baja complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-1 through 10-6.

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 internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Municipality of Toa Baja responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Municipality of Toa Baja's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, others within the entity, 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
December 10, 2010

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to the original of this report.



Ortiz, Rivera, Rivera & Co

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 no 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 unqualified 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:
 - 1) Head Start and Early Head Start Programs - CFDA No. 93.600
 - 2) ARRA Head Start - CFDA No. 93.708
 - 3) ARRA Early Head Start – CFDA No. 93.709
 - 4) Community Development Block Grant Program - CFDA No. 14.218
 - 5) Community Development Block Grant ARRA – Entitlement Grants (CDBG-R) (Recovery Act Funded) – CFDA No. 14.253
 - 6) Community Development Block Grant Program – Section 108, Loan Guarantee - CFDA No. 14.248
 - 7) Child Care Development Block Grant - CFDA No. 93.575
- h. The threshold for distinguishing types A and B programs was \$453,768.
- i. Municipality of Toa Baja was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

- 63 -

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

a. Head Start Program - CFDA No. 93.600

• Condition 10-1 - 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.

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, 2010**

- **Condition 10-2 - Reporting**

The Municipality did not have evidence of the submission of financial reports to the Agency. The reports are: (1) the Final Report for the year ended February 2010, and (2) the Administrative Costs Report for the year ended February 2010.

Criteria

The contract signed into the Municipality and the Agency ("Acuden") includes the required reports and the due date for submission.

Cause

The transmittal forms for reports submitted were not file attached with the copy of the reports.

Effect

The program is in noncompliance with federal regulations related to reporting.

Recommendation

The Municipality should improve the filling procedures 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, 2010**

b. Head Start ARRA Program - CFDA No. 93.708

• **Condition 10-3 – 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.

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, 2010**

- **Condition 10-4 – Reporting**

The Municipality did not have evidence of the submission of financial reports to the Agency. In other cases the reports were submitted late. Our sample for audit procedures includes (1) Accumulative Expenses Report for the quarter ended March 2010, (2) Accumulative Expenses Report for the quarter ended June 2010, and (3) Final Report for the period ended September 2010.

Criteria

The contract signed into the Municipality and the Agency (“Acuden”) includes the required reports and the due date for submission.

Cause

The transmittal forms for reports submitted were not file attached with the copy of the reports.

Effect

The program is in noncompliance with federal regulations related to reporting.

Recommendation

The Municipality should improve the filing procedures 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, 2010**

c. Early Head Start Program - CFDA No. 93.600

• **Condition 10-5 – Reporting**

The Municipality did not submit the federal cash transaction reports of the Early Head Start Program on time. Our sample for audit procedures includes (1) Report for the quarter ended December 31, 2009 and (2) Report for the quarter ended March 31, 2010.

Criteria

The federal cash transaction reports should be sent during the 10 days after quarter end as per federal regulation.

Cause

During the fiscal year the Municipality has changes in personnel related with the functions of report submissions. This situation cause the reports submission was affected.

Effect

The program is in noncompliance with federal regulations related to reporting.

Recommendation

The Municipality should establish procedures in order to comply with all programs requisites even if there personnel changes.

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, 2010**

d. Child Care Development Block Program - CFDA No. 93.575

• **Condition 10-6 – Reporting**

The Municipality did not submit the second and third fund request on time. The funds should be requested during the first ten days of the quarter. The second request was 101 days late and the third was 9 days late.

Criteria

The contract signed into the Municipality and the Agency (“Acuden”) includes the required reports and the due date for submission.

Cause

During the fiscal year the Municipality has changes in personnel related with the functions of report submissions. This situation cause the reports submission was affected.

Effect

The program is in noncompliance with federal regulations related to reporting.

Recommendation

The Municipality should establish procedures in order to comply with all programs requisites even if there personnel changes.

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, 2010**

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.

- 70 -

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**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, 2010**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Head Start Program - CFDA No. 93.600	Condition 09-1 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 still prevails.
Head Start Program - CFDA No. 93.600	Condition 09-2 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.	The condition was corrected.
Section 8 Program - CFDA No. 14.871	Condition 09-3 The schedule of utility allowance was not updated during the year.	Condition was corrected.
Section 8 Program - CFDA No. 14.871	Condition 09-4 The Municipality should enforce the owner obligation to take prompt action relation to the deficiencies observed.	Condition was corrected.
Head Start and Early Start Programs - CFDA No. 93.600	Condition 08-1 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.

**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, 2010**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p>Head Start and Early Start Programs - CFDA No. 93.600</p>	<p>Condition 08-2</p> <p>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.</p>	<p>The condition was corrected.</p>

PART III - CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

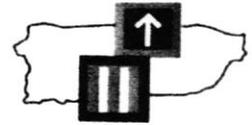
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

Estado Libre Asociado de Puerto Rico
DEPARTAMENTO DE SERVICIOS Y DESARROLLO DEL NIÑO
Municipio de Toa Baja



Anibal Vega Borges
Alcalde



Inés Mercado Santiago
Directora

CORRECTIVE ACTION PLAN

December 10, 2010

Cognizant or Oversight Agency for Audit:

Municipality of Toa Baja respectfully submits the following corrective action plan for the year ended June 30, 2010

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

Audit period: Fiscal year ended June 30, 2010

The findings from the June 30, 2010 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 10-1: Head Start Program - CFDA No. 93.600

Reportable Condition: See Condition 10-1

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. This will be established through consultation with the grantee ACUDEN.

Finding 10-2: Head Start - CFDA No. 93.600

Reportable Condition: See Condition 10-2

Recommendation

The Municipality should improve the filing procedures in order to avoid this situation.

Action Taken

The Final Report and Administrative Costs Report for the year ended February 2010 were submitted to the grantee ACUDEN as established in the interagency contract. We will establish a procedure to guarantee that transmittal forms are kept and filed with the corresponding documents.

Finding 10-3: Head Start ARRA Program – CFDA No. 93.705

Reportable Condition: See Condition 10-3

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. This will be established through consultation with the grantee ACUDEN.

Finding 10-4: Head Start ARRA Program – CFDA No. 93.705

Reportable Condition: See Condition 10-4

Recommendation

The Municipality should improve the filling procedures in order to avoid this situation.

Action Taken

The Delegate Agency of the Municipality of Toa Baja sent the monthly reports to the grantee ACUDEN such as: ARRA Fund Expenditures, Job Creation Report and ARRA Sub Recipients Vendors Report. These reports contain the same information necessary for the Trimester Reports. At this moment we will gather the information from the monthly reports and prepare the required Trimester Reports.

Finding 10-5: Early Head Start Program – CFDA No. 93.600

Reportable Condition: See Condition 10-5

Recommendation

The Municipality should establish procedures in order to comply with all programs requisites even if there personnel changes.

Action Taken

During the period of November 2009 to March 2010 we worked all of the fiscal procedures with only one accountant. This accountant was hired in November 2009 and was in the transition process of implementing his duties within the program. The Municipality of Toa Baja transferred another accountant in March 2010 in order to collaborate with all the necessary work. Both transition processes had an impact in the delivery of documents and reports in the time established for fiscal procedures.

Finding 10-6: Child Care Development Block Program – CFDA No. 93.575

Reportable Condition: See Condition 10-6

Recommendation

The Municipality should establish procedures in order to comply with all programs requisites even if there personnel changes

Action Taken

During March 2010 the Administration of the Municipality of Toa Baja transferred an accountant for the Child Care Program. Prior to this period we had only one accountant that was newly hired working with the Head Start, Early Head Start and Child Care fiscal

procedure. This caused an impact in the delivery of reports in the required time. We requested federal funds for the creation of an accountant position in order to guarantee all fiscal processes for this program. Our request was approved by ACUDEN.

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

Cordially,


Inés Mercado, Head Start Program Director