



Ortiz, Rivera, Rivera & Co.

Certified Public Accountants and Business Advisors

*Jon Baya*

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

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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MUNICIPALITY OF TOA BAJA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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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 Municipality of Toa Baja, as of and for the year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 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, 2011, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt services funds for the 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 23, 2011 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Toa Baja's 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico  
December 23, 2011

The stamp E18864 was affixed to the original of this report.



***Commonwealth of Puerto Rico***  
***Municipality of Toa Baja***  
***Management's Discussion and Analysis***  
***Fiscal Year Ended June 30, 2011***

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 an 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 year's 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**

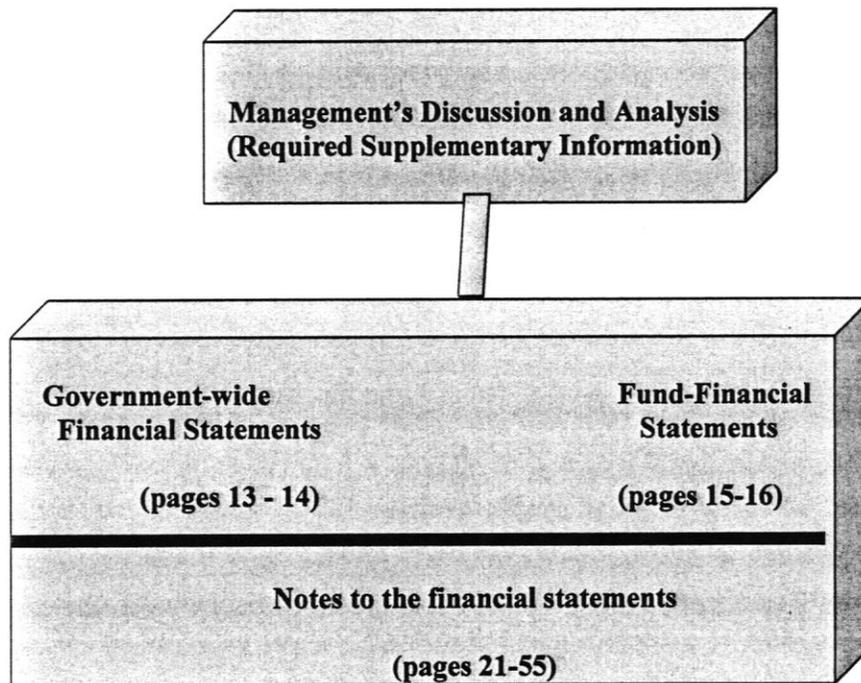
### **Financial Highlights**

- The Municipality's net assets amounted to \$4.5 million at the close of the current fiscal year. This amount represents a decrease of \$12.1 million from the previous year's net assets.
- As of June 30, 2011, the Municipality's General Fund (the primary operating fund) reported a deficiency of \$12.1 million, a decrease of \$10.5 million in comparison with the prior year.
- Capital expenditures amounted to \$6.4 million during the year.
- Loans principal payments were \$7.5 million during fiscal year 2010-2011. Other long-term liabilities payments were \$3.1 million. At June 30, 2011, the total long-term debt balance was \$166.4 million as of same date, as compared to \$142.5 million in prior year.

## USING THIS ANNUAL REPORT

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

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



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

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

**Figure 2**

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

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

**Government-wide Financial Statements**

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

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

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

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

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

### **Fund Financial Statements**

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

The Governmental Major Funds (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 \$4.5 million at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Assets compared to prior year.

**Table 1**  
**Summary of Net Assets**  
**(in million)**

<i>Governmental Activities</i>		
	<b>2011</b>	<b>2010</b>
<b>Current and other assets</b>	\$ 33.0	\$ 33.9
<b>Capital assets</b>	<u>165.2</u>	<u>159.8</u>
<b>Total assets</b>	<u>\$198.2</u>	<u>\$193.7</u>
<b>Current and other liabilities</b>	27.4	34.4
<b>Long-term debt outstanding</b>	<u>166.3</u>	<u>142.5</u>
<b>Total liabilities</b>	<u>193.7</u>	<u>176.9</u>
<b>Net assets:</b>		
<b>Invested in capital assets, net of debt</b>	101.4	71.7
<b>Restricted</b>	7.1	8.0
<b>Unrestricted</b>	<u>(104.0)</u>	<u>( 63.0)</u>
<b>Total net assets</b>	<u>\$ 4.5</u>	<u>\$ 16.7</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 \$104.0 million.

The Municipality's net assets decrease by \$12.1 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 \$5.6 million which is higher than the beginning fund balance of the year (\$521 thousands). This increase was the net result of a increase of \$10.5 million of the General Fund, \$146 thousands in the HHS Programs Fund, \$1.4 in the Debt Service Fund and a decrease of \$2.7 in the HUD Programs, \$2.2 in the Loans and Bonds Fund, and \$1.0 in Other Governmental Fund.

The increase observed in the general fund corresponds mainly to the loan proceeds of \$32.0 million for the payment of debts. 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 \$16.4 million of excess expenditures over revenues.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2011, the Municipality had \$165.2 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 \$5.4 million from the end of last year, as restated.

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

<i>Governmental Activities</i>	<b>2011</b>	<b>2010</b>
<b>Land</b>	\$ 3.3	\$ 3.3
<b>Construction in progress</b>	6.6	17.4
<b>Buildings and improvements</b>	55.1	39.5
<b>Furniture and fixture</b>	2.3	0.6
<b>Vehicles and equipment</b>	4.4	4.6
<b>Infrastructure</b>	<u>93.5</u>	<u>94.4</u>
<b>Total</b>	<b><u>\$ 165.2</u></b>	<b><u>\$ 159.8</u></b>

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

Governmental Activities		
Beginning Balance	\$159.8	154.5
Additions	12.8	10.4
Retirements	(0.6)	(2.1)
Depreciation	<u>(6.8)</u>	<u>(3.9)</u>
Ending balance	<b><u>\$165.2</u></b>	<b><u>\$159.8</u></b>

### **Debt Outstanding**

As of year-end, the Municipality had \$166.3 million in debt (bonds, notes and other long-term debts) outstanding compared to \$142.5 million last year, a net increase of \$23.8 million.

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

	<b>2011</b>	<b>2010</b>
General obligation bonds and notes	\$ 106.3	\$ 81.5
Due to CRIM – Law 42	2.2	2.3
Due to CRIM-LIMS	0.1	0.3
Due to CRIM- Liquidation	0.5	1.7
Note payable-Section 108	12.2	12.2
Landfill obligation	32.5	31.6
Compensated absences	8.1	7.2
Others	<u>4.4</u>	<u>6.2</u>
Totals	<b><u>\$166.3</u></b>	<b><u>\$142.5</u></b>

Long term liabilities was added related to CRIM Liquidation 2010-2011 amounted to 0.5 million. A note payable with a balance due of \$2.2 million represents a repayment agreement with the Government Development Bank and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The \$0.1 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 \$106.3 million is below legal limitation. A note payable of \$12.2 million due to the U.S. Department of Housing and Urban Development is due in August 2026. More detailed information about the Municipality's long-term debts is presented in note 15 to the financial statement.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal

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

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenue are property taxes, municipal license taxes, sales and use tax, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered may factor when setting the fiscal year 2011 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 2011-2012. 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 2011-2012.

### **CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

<u>Assets</u>	<u>Governmental Activities</u>
Cash in bank (Notes 2 and 5)	\$ 2,429,830
Cash with fiscal agent (Notes 2 and 5)	20,093,425
Certificates of deposits (Notes 2 and 5)	5,370,000
Accounts receivable:	
Property taxes	134,474
Municipal license taxes	22,021
Sales and use taxes	402,663
Landfill	124,533
Interest	4,849
Other	88,009
Due from other agencies (Note 9)	4,380,921
Capital assets, net (Note 11)	165,198,747
	<hr/>
Total assets	\$ 198,249,472
	<hr/> <hr/>
<b><u>Liabilities and Net Assets</u></b>	
<b>Liabilities</b>	
Bank overdraft	\$ 107,302
Account payable and accrued liabilities	2,824,112
Due to other agencies (Note 12)	10,018,864
Matured bonds	5,691,466
Matured interest payable	2,342,326
Deferred revenues (Note 13):	
Municipal license tax	6,387,206
Noncurrent liabilities (Note 15):	
Due within one year	8,513,503
Due in more than one year	157,846,852
Total liabilities	193,731,631
	<hr/>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	101,364,381
Restricted for:	
Debt service	3,096,056
Capital project	4,092,658
Unrestricted	(104,035,254)
Total net assets	4,517,841
	<hr/>
Total liabilities and net assets	\$ 198,249,472
	<hr/> <hr/>

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, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Primary Government:</b>			
General government	\$ 46,343,284	\$ -	\$ (39,670,856)
Public safety	7,844,463		(7,844,463)
Public works	4,468,632		(4,468,632)
Culture and recreation	2,056,289		(2,056,289)
Health, public housing, and welfare	25,393,900	16,385,702	(9,008,198)
Economic development	4,348,271		(4,348,271)
Interest on long-term debt	4,767,780		(4,767,780)
<b>Total primary government</b>	<u>\$ 95,222,619</u>	<u>\$ 16,385,702</u>	<u>(72,164,489)</u>
<b>General revenues:</b>			
Property taxes (Note 6)			25,056,531
Municipal license tax (Note 7)			10,338,796
Sales and use tax (Note 8)			5,672,965
Grants and contributions not restricted to specific programs			11,810,365
Interest, fines, and penalties			337,960
Miscellaneous			6,770,921
<b>Total general revenues</b>			<u>59,987,538</u>
Change in net assets			<u>(12,176,951)</u>
Net assets at beginning of year			16,694,792
Net assets at end of year			<u>\$ 4,517,841</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2011**

<u>Assets</u>	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Loans and Bonds	Other Governmental Funds	Total Governmental Funds
Cash (Notes 2 and 5)	\$ 85,904	\$ 1,174,249	\$ 465,221	\$ -	\$ -	\$ 704,456	\$ 2,429,830
Cash with fiscal agent (Notes 2 and 5)	4,861,494			10,995,374	4,092,658	143,899	20,093,425
Certificates of deposits (Notes 2 and 5)		5,370,000					5,370,000
Accounts receivable:							
Municipal license taxes	22,021						22,021
Sales and use taxes	402,663						402,663
Landfill	124,533						124,533
Property taxes				134,474			134,474
Interest		4,849					4,849
Other	62,955	25,054					88,009
Due from other agencies (Note 9)	4,071,102		4,229			305,590	4,380,921
Due from other funds (Note 10)	435,017					3,086,244	3,521,261
Total assets	<u>\$ 10,065,689</u>	<u>\$ 6,574,152</u>	<u>\$ 469,450</u>	<u>\$ 11,129,848</u>	<u>\$ 4,092,658</u>	<u>\$ 4,240,189</u>	<u>\$ 36,571,986</u>

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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, 2011**

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Loans and Bonds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>							
Bank overdraft	\$ 107,302	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,302
Account payable and accrued liabilities	2,614,726	18,847	84,023			106,516	2,824,112
Due to other funds (Note 10)	3,086,244	20,127	8,100			406,790	3,521,261
Due to other agencies (Note 12)	10,018,864						10,018,864
General obligations:							
Bonds				5,691,466			5,691,466
Interest				2,342,326			2,342,326
Deferred revenues: (Note 13)							
Municipal licence tax	6,387,206						6,387,206
Total liabilities	<u>22,214,342</u>	<u>38,974</u>	<u>92,123</u>	<u>8,033,792</u>	<u>-</u>	<u>513,306</u>	<u>30,892,537</u>
<b>Fund Balances (Deficit)</b>							
Reserved for:							
Restricted						264,916	10,273,477
Committed	4,861,494	6,535,178	377,327	3,096,056	4,092,658	2,918,384	11,872,536
Assigned	1,420,523					543,583	1,964,106
Unassigned	(18,430,670)						(18,430,670)
Total fund balances (deficit)	<u>(12,148,653)</u>	<u>6,535,178</u>	<u>377,327</u>	<u>3,096,056</u>	<u>4,092,658</u>	<u>3,726,883</u>	<u>5,679,449</u>
Total liabilities and fund balances (deficit)	<u>\$ 10,065,689</u>	<u>\$ 6,574,152</u>	<u>\$ 469,450</u>	<u>\$ 11,129,848</u>	<u>\$ 4,092,658</u>	<u>\$ 4,240,189</u>	<u>\$ 36,571,986</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2011**

Total fund balances - governmental funds \$ 5,679,449

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 165,198,747
  
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (166,360,355)

Net assets of governmental activities \$ 4,517,841

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

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ORTIZ, RIVERA, RIVERA & CO.

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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, 2011

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Loans and Bonds	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property taxes (Note 6)	\$ 14,692,803	\$ -	\$ -	\$ 10,363,728	\$ -	\$ -	\$ 25,056,531
Municipal license taxes (Note 7)	10,338,796						10,338,796
Licenses, permits, and other local taxes	5,231,677						5,231,677
Sales and use taxes (Note 8)	4,836,099			836,866			5,672,965
Charges for services	488,822					951,929	1,440,751
Intergovernmental revenues (Note 14):							
Federal grants and contributions	6,197,442	5,567,545	9,826,273			991,884	16,385,702
State contributions	196,017	124,325		6,165		5,612,923	11,810,365
Interest, fines, and penalties	6,760,610		800			11,453	337,960
Other revenues						9,511	6,770,921
Total revenues	48,742,266	5,691,870	9,827,073	11,206,759	-	7,577,700	83,045,668
<b>EXPENDITURES</b>							
Current:							
General government	41,530,198		1,209			1,648,820	43,180,227
Public safety	6,882,366	161,612				246,236	7,290,214
Economic development						2,325,923	2,325,923
Health, public housing, and welfare	7,282,428	7,193,810	9,679,733			811,621	24,967,592
Culture and recreation	1,553,216						1,553,216
Public works	9,294,654						9,294,654
Capital outlays		733,875			2,220,602	3,452,288	6,406,765
Debt service:							
Principal				9,138,565			9,138,565
Interest and other				4,767,780			4,767,780
Total expenditures	66,542,862	8,089,297	9,680,942	13,906,345	2,220,602	8,484,888	108,924,936
Excess (deficiency) of revenues over (under) expenditures	(17,800,596)	(2,397,427)	146,131	(2,699,586)	(2,220,602)	(907,188)	(25,879,268)
<b>OTHER FINANCING SOURCES (USES)</b>							
Loan proceeds	32,080,000						32,080,000
Transfers in	4,906			4,069,129			4,074,035
Transfers out	(3,737,658)	(331,471)		(4,906)			(4,074,035)
Total other financing sources (uses)	28,347,248	(331,471)	-	4,064,223	-	-	32,080,000
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	10,546,652	(2,728,898)	146,131	1,364,637	(2,220,602)	(907,188)	6,200,732
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	(22,695,305)	9,284,076	231,196	1,731,419	6,313,260	4,634,071	(521,283)
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	\$ (12,148,653)	\$ 6,555,178	\$ 377,327	\$ 3,096,056	\$ 4,092,658	\$ 3,726,883	\$ 5,679,449

*On Reyes*

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, 2011**

Net change in fund balances - total governmental funds	\$	6,200,732
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.		12,212,119
• 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.		(6,784,967)
• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.		(32,080,000)
• 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.		10,670,269
• 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.		
Landfill obligation		(866,667)
ASES		(552,762)
Accrued vacations		(975,675)
		(2,395,104)
Changes in net assets of governmental activities	\$	(12,176,951)

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund			Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Budgeted Amounts		Actual	
	Original	Final		Original	Final		
<b>REVENUES</b>							
Property taxes	\$ 14,788,097	\$ 14,788,097	\$ 14,692,803	\$ 9,724,389	\$ 9,724,389	\$ 11,218,614	\$ 1,494,225
Municipal license taxes	16,075,000	16,075,000	10,389,070				(5,685,930)
Licenses and permits	4,652,000	5,171,192	5,577,652				406,460
Sales taxes	6,800,000	6,800,000	4,979,943				(1,820,057)
Charges for services	9,125,000	9,125,000	748,740				(8,376,260)
Intergovernmental revenues:							
State contributions	3,705,350	5,868,836	6,217,991				349,155
Interest, fines, and penalties	921,544	921,544	260,904				(660,640)
Other revenues	1,959,692	1,959,692	2,598,736				639,044
Total revenues	58,026,683	60,709,361	45,465,839	9,724,389	9,724,389	11,218,614	1,494,225
<b>EXPENDITURES</b>							
Current:							
General government	31,630,687	33,812,972	35,064,232				(1,251,260)
Public safety	6,349,002	6,195,002	6,194,521				481
Public works	9,571,927	9,804,173	9,793,265				10,908
Culture and Recreation	3,013,728	3,434,631	3,388,295				46,336
Health and welfare	7,461,339	7,462,583	7,416,539				46,044
Debt service:							
Principal and interest				9,724,389	9,724,389	8,465,022	1,259,367
Total expenditures	58,026,683	60,709,361	61,856,852	9,724,389	9,724,389	8,465,022	1,259,367
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (16,391,013)	\$ -	\$ -	\$ 2,753,592	\$ 2,753,592

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, 2011**

**1. ORGANIZATION**

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- 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**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

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.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2011.

**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.

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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

For the fiscal year ended June 30, 2011, the Municipality implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*". The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

**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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.

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.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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

**e. Interfund Receivables and Payables**

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

**f. Capital Assets**

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

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2011.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54. In addition, the financial positions and the results of operations reported in the accompanying fund financial statements as of and for the fiscal year ended June 30, 2011 have not been affected for this change in accounting principle. Accordingly, the accompanying fund financial statements have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2010.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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, 2011 amounted to approximately \$709,526. 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.

**j. Future Adoption of Accounting Pronouncements**

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

<b>Statement Number</b>	<b>Statement Name</b>	<b>Adoption Required in Fiscal Year</b>
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2011-12
59	Financial Instrument Omnibus	2011-12

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
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.

**l. Subsequent Events**

In preparing these financial statements the Municipality has evaluated events and transactions for potential recognition or disclosure through December 23, 2011, the date the financial statements were available to be issued.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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.

**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

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expenditures and other financing uses for the year ended June 30, 2011 is presented below for the general fund:

	<u><b>General Fund</b></u>
Deficiency of revenues under expenditures - budgetary basis	(\$16,391,013)
Entity differences:	
Non-budgeted revenues, net	(4,611,874)
Non-budgeted expenditures, net	55,177,608
Non-budgeted transfer in	(4,906)
Non-budgeted transfer out	3,737,658
Bonds issuance	(32,080,000)
Current year encumbrances recorded as expenditures for budgetary purposes	(1,420,523)
Prior year encumbrances recorded as current year expenditures for GAAP basis	1,705,975
Basis of accounting differences:	
Net change in receivables	2,643,651
Net change in payables	<u>1,790,076</u>
Excess of revenues over expenditures - GAAP basis	<u><u>\$10,546,652</u></u>

**c. Legal Compliance**

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

**4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The governmental fund balance sheet includes 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

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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 \$166.4 million differences are as follows:

Bonds payable	\$106,329,366
Landfill obligation	32,488,803
Notes payable	15,540,635
Compensated absences	8,138,244
ASES	3,316,574
Advances from CRIM	479,673
Claims and judgments	<u>67,060</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$166,360,355</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 \$9.1 million that are restricted principally for capital projects and the \$11.0 million in the debt service fund are uninsured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in one bank 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.

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.

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**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 10.83% for real property and 8.83% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	4.00%	4.00%
Discounts made by state to tax payer	< <u>.20%</u> >	< <u>.20%</u> >
	<u>10.83%</u>	<u>8.83%</u>

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

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

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

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment

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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 2010-11, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2011, the amount advanced by CRIM from taxpayers and charges exceeded the amount collected by CRIM for the same period by approximately \$479,673. 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, 2011. 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

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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 \$6.4 million, corresponding to the next fiscal year municipal license.

**8. SALES AND USE TAXES**

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

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

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**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$4,071,102
U. S. Department of Health and Human Services	4,229
Other governmental funds	<u>305,590</u>
 Total	 <u><u>\$4,380,921</u></u>

**10. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2011, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other governmental funds	General	\$ 3,086,244
General	Other governmental funds	406,790
General	HUD	20,127
General	HHS	<u>8,100</u>
 Total		 <u><u>\$ 3,521,261</u></u>

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

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**b. Interfund Transfers**

Interfund transfers for the year ended June 30, 2011 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$3,737,658
Debt Service	HUD	331,471
General	Debt Service	<u>4,906</u>
 Total		 <u>\$4,074,035</u>

The transfer from the general fund and HUD programs to the debt service fund of \$3,737,658 represents monies transferred to cover debt service payments as become due.

**11. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,254,515	\$ -	\$ -	\$ 3,254,515
Construction in progress	17,404,384	6,836,751	17,666,117	6,575,018
Total capital assets, not being depreciated	<u>20,658,899</u>	<u>6,836,751</u>	<u>17,666,117</u>	<u>9,829,533</u>
Capital assets, being depreciated:				
Buildings and building improvements	51,769,989	17,666,117		69,436,106
Equipment and vehicles	11,287,322	895,277		12,182,599
Furniture and fixtures	4,096,324	3,678,450	569,807	7,204,967
Infrastructure	101,101,973	801,641		101,903,614
Total capital assets, being depreciated	<u>168,255,608</u>	<u>23,041,485</u>	<u>569,807</u>	<u>190,727,286</u>
Less accumulated depreciation for:				
Buildings and building improvements	12,326,084	1,975,701		14,301,785
Equipment and vehicles	6,674,811	1,106,861		7,781,672
Furniture and fixtures	3,492,234	2,004,011	569,807	4,926,438
Infrastructure	6,649,783	1,698,394		8,348,177
Total accumulated depreciation	<u>29,142,912</u>	<u>6,784,967</u>	<u>569,807</u>	<u>35,358,072</u>
Total capital assets, being depreciated, net	<u>139,112,696</u>	<u>16,256,518</u>	<u>-</u>	<u>155,369,214</u>
Governmental activities capital assets, net	<u>\$ 159,771,595</u>	<u>\$ 23,093,269</u>	<u>\$ 17,666,117</u>	<u>\$ 165,198,747</u>

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

General government	\$ 2,299,657
Public safety	554,249
Public works	979,332
Culture and recreation	503,073
Economic development	2,022,348
Health, public housing, and welfare	<u>426,308</u>
 Total	 <u><u>\$ 6,784,967</u></u>

**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2011 are as follows:

Puerto Rico Electric Power Authority	\$ 4,071,102
Retirement System Administration	1,416,313
P.R. Treasury Department	1,345,755
Puerto Rico General Services Administration	1,153,599
State Insurance Fund Corporation	837,172
CRIM	479,673
Puerto Rico Water and Sewer Authority	428,322
Puerto Rico Labor Department	250,962
U.S. Internal Revenue Services	<u>35,966</u>
 Total	 <u><u>\$ 10,018,864</u></u>

**13. DEFERRED REVENUES**

The deferred revenues of approximately \$6.4 million in the general fund related to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.

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**14. INTERGOVERNMENTAL REVENUES**

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

**15. LONG-TERM DEBTS**

Bonds and notes payable and other debt outstanding at June 30, 2011 are as follows:

**a. Legal Debt Margin**

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus the balance of the special ad valorem taxes in the debt service fund.

In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. 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%.	\$ 5,695,000
\$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%.	980,000
\$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%.	935,000
\$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%.	970,000

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\$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%.	\$ 110,000
\$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%.	2,250,000
\$1,500,000 series of 1998, payable in annual installments from \$44,000 to \$108,000 until July 1, 2019, interest at 4.5%.	740,106
\$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%.	2,130,000
\$3,470,000 series of 2000, payable in annual installments of \$140,000 to \$355,000 until June 2014, interest at approximately 8%.	1,290,000
\$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%.	300,000
\$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%.	705,000
\$2,062,000 series of 2001, payable in annual installments of \$62,800 until January 1, 2021, interest at 2%.	1,133,260
\$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%.	2,650,000
\$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%.	2,365,000

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\$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%.	\$ 820,000
\$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%.	10,135,000
\$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%.	520,000
\$1,335,000 series of 2006, payable in annual installments of \$155,000 to \$230,000 until July 2012, interest ranging from 6.2% to 6.5%.	445,000
\$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%.	1,400,000
\$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%.	495,000
\$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%.	30,000
\$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%.	1,240,000
\$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%.	160,000
\$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%.	1,110,000

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\$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%.	\$ 6,569,000
\$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%.	1,435,000
\$4,200,000 series of 2008, payable in annual installments of \$60,000 to \$345,000 until July 1, 2032, interest ranging from 3.93% to 7.25%.	3,995,000
\$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%.	8,980,000
\$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%.	3,600,000
\$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%.	1,975,000
\$28,365,000 series of 2011, payable in annual installments of \$60,000 to \$2,725,000 until July 2036, interest ranging from 6.00% to 7.50%.	<u>28,365,000</u>
Subtotal bonds payable	<u>93,365,000</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%.	180,000
\$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%.	5,194,000

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\$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%.	\$ 290,000
\$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%.	3,423,000
\$3,715,000 series of 2011, payable in annual installments of \$60,000 to \$310,000 until July 2036, interest ranging from 6.00% to 7.50%.	<u>3,715,000</u>
Subtotal special obligation notes	<u>12,802,000</u>
Total bonds and notes	<u>\$106,329,366</u>

The annual debt service requirements for the bonds and notes payable at June 30, 2011 are as follows:

	<b><i>Bonds and Notes</i></b>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 7,774,447	\$ 5,093,543
2013	8,170,527	6,418,054
2014	7,652,651	5,855,369
2015	8,026,812	5,296,267
2016	6,336,019	4,763,396
2017-2021	24,098,910	17,531,324
2022-2026	15,690,000	11,413,114
2027-2031	14,150,000	6,928,937
2032-2036	<u>14,430,000</u>	<u>2,378,271</u>
	<u>\$ 106,329,366</u>	<u>\$ 65,678,275</u>

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**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%.

Debt service requirements in future years are as follows:

	<b><i>CRIM - Law 42</i></b>	
	<b>Principal</b>	<b>Interest</b>
2012	\$ 52,193	\$ 138,325
2013	55,473	135,045
2014	58,958	131,560
2015	62,662	127,855
2016	66,599	123,918
2017-2021	401,277	551,309
2022-2026	544,210	368,159
2027-2031	738,057	214,527
2032-2036	268,963	16,811
	<u>\$ 2,248,392</u>	<u>\$ 1,807,509</u>

**e. Note Payable - CRIM (LIMS)**

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

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Debt service requirements in future years are as follows:

	<i>CRIM - Lims</i>	
	Principal	Interest
2012	\$ 106,831	\$ 3,178

**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>	
	Principal	Interest
2012	\$ 48,972	\$ 63,968
2013	48,972	60,922
2014	48,972	57,876
2015	48,972	51,782
2016	48,972	51,782
2017-2021	244,860	213,220
2022-2026	244,860	137,070
2027-2031	244,860	60,920
2032-2036	48,972	3,046
	\$ 1,028,412	\$ 700,586

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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, 2011 are as follows:

	<b><u>Section 108 Loan Guarantee</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2012	\$ 464,000	\$ 651,395
2013	493,000	627,249
2014	524,000	601,619
2015	556,000	574,294
2016	592,000	545,133
2017-2021	3,560,000	2,202,943
2022-2026	4,820,000	1,050,634
2027-2031	1,148,000	33,120
	<b><u>\$ 12,157,000</u></b>	<b><u>\$ 6,286,387</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Long-term liability activity for the year ended June 30, 2011 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 81,491,775	\$ 32,080,000	\$ 7,242,409	\$ 106,329,366	\$7,774,447
Note payable - CRIM Law 42	2,297,500		49,108	2,248,392	52,193
Note payable - CRIM Law 146	1,077,384		48,972	1,028,412	48,972
Note payable - CRIM (LIMS)	311,324		204,493	106,831	106,831
Note payable - Section 108	12,157,000			12,157,000	464,000
	<u>97,334,983</u>	<u>32,080,000</u>	<u>7,544,982</u>	<u>121,870,001</u>	<u>8,446,443</u>
<b>Other Long-term Liabilities:</b>					
Due to CRIM	1,667,301		1,187,628	479,673	-
Landfill obligation	31,622,136	866,667		32,488,803	-
Due to ASES	2,763,812	552,762		3,316,574	-
Claims and judgements	2,004,719		1,937,659	67,060	67,060
Compensated absences	7,162,569	975,675	-	8,138,244	-
	<u>45,220,537</u>	<u>2,395,104</u>	<u>3,125,287</u>	<u>44,490,354</u>	<u>67,060</u>
Total noncurrent liabilities, governmental activities	<u>\$ 142,555,520</u>	<u>\$ 34,475,104</u>	<u>\$ 10,670,269</u>	<u>\$ 166,360,355</u>	<u>\$8,513,503</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, 2011**

**16. FUND BALANCES**

As of June 30, 2011, fund balances is comprised of the following:

	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Loans and Bonds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,159	\$ 31,159
Public safety						1,736	1,736
Public works						1,016	1,016
Health and welfare		484,531	377,327			231,005	1,092,863
Capital outlays		6,050,647					6,050,647
Debt service				3,096,056			3,096,056
Committed:							
General government	4,861,494					138,818	5,000,312
Capital outlays					4,092,658	2,779,566	6,872,224
Assigned:							
General government	1,214,116					66,903	1,281,019
Health and welfare	206,407						206,407
Capital outlays						476,680	476,680
Unassigned	(18,430,670)						(18,430,670)
	<u>\$ (12,148,653)</u>	<u>\$ 6,535,178</u>	<u>\$ 377,327</u>	<u>\$ 3,096,056</u>	<u>\$ 4,092,658</u>	<u>\$ 3,726,883</u>	<u>\$ 5,679,449</u>

**17. FUND BALANCE DEFICIT**

The following fund had a deficit in fund balance at June 30, 2011:

<u>Fund</u>	<u>Deficit</u>
General	<u>\$ 12,148,653</u>

The deficit of the General fund will be covered by future budgetary appropriations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**18. NET ASSETS**

Net assets invested in capital assets, net of related debt is comprised of the following:

Capital assets, net of accumulated depreciation.	\$ 165,198,747
Outstanding balance on capital related debt	(63,834,366)
Unspend capital debt proceeds	<u>4,092,658</u>
Total invested in capital assets, net of related debt	<u>\$ 101,364,381</u>

**19. RETIREMENT PLAN**

**a. Plan Description**

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

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

Participation is mandatory except for members of the Legislature, Government Secretaries, 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011 was approximately \$1.4 million. The Municipality's payroll for employees covered by ERS was approximately \$15.3 million. The Municipality total payroll for all employees was approximately \$35.5 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**20. 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.

**21. 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- b. Total income from leases during the year ended June 30, 2011 was approximately \$116,431.
- 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.

**22. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS**

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

The recognition of this liability is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care/costs has an outstanding balance of \$32,488,803 as of June 30, 2011, 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 2011). 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, 2011. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**23. 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.

**24. COMMITMENTS**

The Municipality of Toa Baja had several outstanding or planned construction projects as of June 30, 2011. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$4.1 million.

**25. SUBSEQUENT EVENT**

During November 2011, the Municipality issued general debt obligation bonds of \$27,800,000 for the payment of debts and refinancing of old debts . The debt will be due in annual installments through July 2036.

**PART II - SINGLE AUDIT SECTION**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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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, 2011**

Federal Grantor/Program Title	Federal CFDA Number	Entity Identifying Number	Federal Disbursements/ Expenditures
<b>U.S. Department of Housing and Urban Development (HUD)</b>			
Direct Programs:			
Community Development Block Grant Program, Entitlement Grants	14.218		\$ 1,180,877
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253		138,642
Pass-through Commissioner Office of Municipal Affairs Neighborhood Stabilization Program (NSP)	14.218		733,875
Community Development Block Grant Program, Section 108, Loan Guarantee (Note 3)	14.248	B-05-MC-72-0008	3,045,942
Emergency Shelter Grant Program	14.231		274,552
Home Investment Partnership Program	14.239		398,429
Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257		554,338
Section 8 - Housing Choice Vouchers	14.871		1,596,801
Pass-through Municipality of San Juan:			
Hopwa	14.241		161,612
Pass-through Department of Family:			
Emergency Shelter Grant Program (Prevention)	14.231		4,229
Subtotal U.S. Department of HUD			<u>8,089,297</u>
<b>U.S. Department of Agriculture</b>			
Pass-through Education Department:			
Child and Adult Care Food Program - Child Care	10.558		38,465
Child and Adult Care Food Program - Early Head Start	10.558		39,387
Pass-through the Office of Administration for Children and Families:			
Child and Adult Care Food Program - Head Start	10.558		692,078
Subtotal U.S. Department of Agriculture			<u>769,930</u>
<b>U.S. Department of Health and Human Services (HHS)</b>			
Pass-through the Office of Administration for Children and Families:			
Head Start and Early Head Start	93.600		8,193,186
ARRA - Head Start	93.708		417,508
ARRA - Early Head Start	93.709		35,318
Child Care Development Block Grant	93.575		843,470
ARRA - Child Care Development Block Grant	93.713		63,135
Special Program for the Aging - Title III, Part B, Grant for Supportive Services and Senior Center	93.044		38,464
Special Program for the Aging - Title III, Part C, Nutrition Services	93.045		89,861
Subtotal U.S. Department of HHS			<u>9,680,942</u>
<b>U.S. Department of Transportation</b>			
Pass-through the State Department of Transportation:			
Federal Transit - Capital Investment Grants	20.500		78,697
Subtotal U.S. Department of Transportation			<u>78,697</u>
<b>U.S. Department of Justice</b>			
Pass-through the Commonwealth of Puerto Rico; Justice Department:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		70,595
DOJ Public Safety Partnership and Community Policing Grant	16.710		42,479
Subtotal U.S. Department of Justice			<u>113,074</u>
<b>TOTAL</b>			<u>\$ 18,731,940</u>

See notes to schedule of expenditures of federal awards.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**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>18,731,940</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$ 8,089,297
Health and Human Services Programs	9,680,942
Federal expenditures included within other governmental funds	<u>961,701</u>
Total	\$ <u>18,731,940</u>

**3. LOAN OUTSTANDING**

At June 30, 2011, 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 Municipality of Toa Baja, as of and for the year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 23, 2011. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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 23, 2011

The stamp E18865 was affixed  
to the original of this report



**INDEPENDENT AUDITOR'S 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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2011. Municipality of Toa Baja's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality's management. Our responsibility is to express an opinion on Municipality's compliance based on our audit.

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

In our opinion, 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, 2011. 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 11-1 through 11-6.

Internal Control over Compliance

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's internal control over compliance with the 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 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's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality of Toa Baja's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of 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 23, 2011

*Ortiz, Rivera, Rivera '16*

The stamp E18866 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal Control over financial reporting:

Material weakness (es) identified?  Yes  No

Significant deficiency (ies) identified?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal Control over major programs: Unqualified opinion

Material weakness (es) identified?  Yes  No

Significant deficiency (ies) identified?  Yes  No

Type of auditor's report issued on compliance for major programs: Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133?  Yes  No

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Identification of major programs:

<b>CFDA Numbers</b>	<b>Name of Federal Programs or Cluster</b>
93.600	Head Start and Early Head Start
93.708	ARRA – Head Start
93.709	ARRA – Early Head Start
93.575	Child Care and Development Block
93.712	ARRA – Child Care and Development Block
14.218	Community Development Block Grant
14.253	Community Development Block Grant - ARRA
14.218	Neighborhood Stabilization Program
10.558	Child and Adult Care Food Program - Head Start
10.558	Child and Adult Care Food Program - Early Head Start
10.558	Child and Adult Care Food Program - Child Care
14.257	Homelessness Prevention and Rapid Re-Housing Program

Dollar threshold used to distinguish between type A and type B programs:  
\$470,980

Audited qualified as low-risk auditee?  Yes  No

**II. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

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

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

**• Condition 11-1 - 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 request the federal funds to immediate use in order to minimize the time between the receipt of funds and the disbursements for expenditures.

Questioned Costs

None

**b. ARRA Head Start Program - CFDA No. 93.708**

• **Condition 11-2 – 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 improve the internal control system in order to minimize the time between the receipt of funds and the disbursements for expenditures.

Questioned Costs

None

**c. Child and Adult Care Food Program - CFDA No. 10.558**

• **Condition 11-3 – Cash Management**

The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since the available balance in bank is not representative of the approved year budget. The Municipality maintains high balance in bank account.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 request the federal funds based on formula establish by the Agency. The disbursements is based the food purchases. The funds may be different based on market prices.

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 monitor the food inventory and the cash on hand in order to verify the amount requested is the reality of the expenditures.

Questioned Costs

None

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

• **Condition 11-4 – Reporting**

The Municipality did not submit some reports of the Child Care Program on time. Our sample for audit procedures includes (1) Financial Quarter Report for the quarter ended December 31, 2010 and (2) First Petition Report for the semester ended March 31, 2011.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Criteria

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

Cause

The Pass-thought Agency changes the date's submission of reports during program year 2010-2011. This situation create confusions about the due dates or submissions.

Effect

The program is in noncompliance with the requisites established in the contract related to reporting.

Recommendation

The Municipality should verify the requirements of the program in order to avoid this situation.

Questioned Costs

None

**e. Neighborhood Stabilization Program - CFDA No. 14.218**

**• Condition 11-5 – Reporting**

The Municipality did not submitted the financial reports of the Program.

Criteria

The contract number 2010-003159 into the Pass-through Agency (OCAM) and the Municipality establish on one of the clauses that the Municipality will submit all financial report or other reports that are required.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Cause

The Federal Funds were approved under the Pass-thought Agency. This is the first time that the Municipality receives funds from Housing and Urban Development (HUD) through State Agency. The Municipality is not familiar with the requirements.

Effect

The program is in noncompliance with the requisites related to reporting.

Recommendation

The Municipality should verify the requirements with the Agency and file the required financial reports.

Questioned Costs

None

• **Condition 11-6 – Cash Management**

The Municipality did not minimize the time elapsed between the receipt and total 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 cannot disburse on time the federal funds requested.

Effect

The Municipality was not in compliance with cash management regulations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Recommendation

The Municipality should request the federal funds to immediate use in order 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 STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Head Start Program CFDA No. 93.600	<b>Condition 10-1</b>  The Municipality internal control over compliance with the cash management is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.	The condition was corrected.
Head Start Program CFDA No. 93.600	<b>Condition 10-2</b>  The Municipality did not have evidence of the submission of financial reports.	The condition was corrected.
Head Start ARRA Program CFDA No. 93.708	<b>Condition 10-3</b>  The Municipality internal control over compliance with the cash management 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 ARRA Program CFDA No. 93.708	<b>Condition 10-4</b>  The Municipality did not have evidence of the submission of financial reports.	The condition was corrected.
Early Head Start Program CFDA No. 93.600	<b>Condition 10-5</b>  The Municipality did not submit the federal cash transaction reports on time.	The condition was corrected.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>Child Care CFDA No. 93.575</b>	<b>Condition 10-6</b>  The Municipality did not submit the request funds reports on time.	The condition still prevails.
<b>Head Start Program CFDA No. 93.600</b>	<b>Condition 09-1</b>  The Municipality internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.	The condition was corrected.

# **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**  
**Municipio de Toa Baja**  
APARTADO 2359  
TOA BAJA, PR 00951-2359

Aníbal Vega Borges  
Alcalde

December 23, 2011

**CORRECTIVE ACTION PLAN**

Cognizant or Oversight Agency for Audit:

Municipality of Toa Baja respectfully submits the following corrective action plan for the year ended June 30, 2011

**Independent Public Accounting Firm Information:**

Name	Ortiz, Rivera, Rivera & Co.
Address	Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.
Audit period:	Fiscal year ended June 30, 2011

The findings from the June 30, 2011 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 11-1: Early Head Start Program - CFDA No. 93.600**

Reportable Condition: See Condition 11-1

Recommendation

The Municipality should request the federal funds to immediate use in order to minimize the time between the receipt of funds and the disbursements for expenditures.

Action Taken

The Municipality will establish system in order to request the funds only when the documents for payments will be complete.

**Finding 11-2: ARRA Head Start Program - CFDA No. 93.708**

Reportable Condition: See Condition 11-2

Recommendation

The Municipality should improve the internal control system in order to minimize the time between the receipt of funds and the disbursements for expenditures.

Action Taken

The Municipality will establish system in order to request the funds only when the documents for payments will be complete.

**Finding 11-3: Child and Adult Care Food Program - CFDA No. 10.558**

Reportable Condition: See Condition 11-3

Recommendation

The Municipality should monitor the food inventory and the cash on hand in order to verify the amount requested is the reality of the expenditures.

Action Taken

The Municipality will monitor better the food purchases and the food inventory in order to avoid high balance on bank.

**Finding 11-4: Child Care Development Block Grant Program - CFDA No. 93.575**

Reportable Condition: See Condition 11-4

Recommendation

The Municipality should verify the requirements of the program in order to avoid this situation.

Action Taken

The Municipality will verify the due date schedule in order to avoid this situation.

**Finding 11-5: Neighborhood Stabilization Program – CFDA No. 14.218**

Reportable Condition: See Condition 11-5

Recommendation

The Municipality should verify the requirement with the Agency and complete the required financial reports.

Action Taken

The Municipality provided the Agency (OCAM) the information as requested. In addition The Municipality participated in a training offered by OCAM on December 8, 2011. In this training OCAM established the new report requirements to be included in the agreement. The Agency (OCAM) will provide the reports forms to be completed when it are ready. The Municipality will verify the new requirement in order to complete all reports as required.

**Finding 11-6: Neighborhood Stabilization Program – CFDA No. 14.218**

Reportable Condition: See Condition 11-6

Recommendation

The Municipality should request the federal funds to immediate use in order to minimize the time between the receipt of funds and the disbursement for expenditures.

Action Taken

The Municipality will continue enforce the required cash management for all federal programs. This issue was a particular situation.

If the Cognizant or Oversight agency for audit has Questions regarding this corrective action plan, please contact Ines Mercado, Head Start Program Director, at (787) 261-0202, ext. 2390 for Findings 11-1, 11-2, 11-3, 11-4 or Isabel Bastard, Municipal Housing Department Acting Director, at (787) 261-0202 ext. 2423 for Findings 11-5, 11-6.

Cordially

  
Ines Mercado  
Head Start Program Director

  
Isabel Bastard  
Municipal Housing Department  
Acting Director