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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA

BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012

*In context  
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cutting findings  
17/04/2013*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**PART I - FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Toa Baja, as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Toa Baja as of June 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2012 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the

results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

San Juan, Puerto Rico  
December 28, 2012

The stamp E41563 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, 2012*

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

## **HIGHLIGHTS**

### **Financial Highlights**

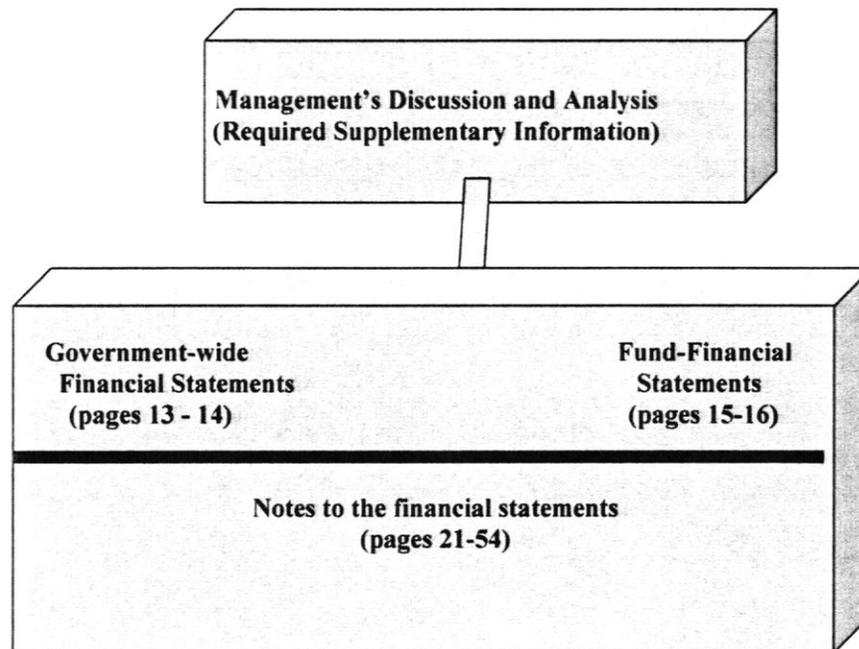
- The Municipality's net assets amounted to \$(7.1) million at the close of the current fiscal year. This amount represents a decrease of \$11.6 million from the previous year's net assets.
- As of June 30, 2012, the Municipality's General Fund (the primary operating fund) reported a deficiency of \$10.5 million, a decrease of \$1.6 million in comparison with the prior year.
- Capital expenditures amounted to \$4.9 million during the year.
- Loans principal payments were \$18.4 million during fiscal year 2011-2012. Other long-term liabilities payments were \$3.2 million. The current additions were \$30.4 million. At June 30, 2012, the total long-term debt balance was \$175.1 million as of same date, as compared to \$166.4 million in prior year.

## USING THIS ANNUAL REPORT

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

**Figure 1**

### Required components of the Municipality's Annual Financial Report



The 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 \$(7.1) 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>2012</b>	<b>2011</b>
<b>Current and other assets</b>	\$ 33.8	\$ 33.0
<b>Capital assets</b>	<u>165.0</u>	<u>165.2</u>
<b>Total assets</b>	<u>\$ 198.8</u>	<u>\$ 198.2</u>
<b>Current and other liabilities</b>	39.3	27.4
<b>Long-term debt outstanding</b>	<u>166.6</u>	<u>166.3</u>
<b>Total liabilities</b>	<u>205.9</u>	<u>193.7</u>
<b>Net assets:</b>		
<b>Invested in capital assets, net of debt</b>	111.1	101.4
<b>Restricted</b>	4.3	7.1
<b>Unrestricted</b>	<u>(122.5)</u>	<u>(104.0)</u>
<b>Total net assets</b>	<u>\$ ( 7.1)</u>	<u>\$ 4.5</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 \$122.5 million.

The Municipality's net assets decrease by \$11.6 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 fund balances of \$3.1 million which is lower than the beginning fund balance of the year (\$5.6 million). This decrease was the net result of an increase of \$1.6 million of the General Fund and \$1.1 in the Debt Service Fund, and a decrease of \$2.0 in the HUD Programs Fund, \$327 thousand in the HHS Programs Fund and \$3.0 in Other Governmental Funds.

The increase observed in the general fund corresponds mainly to the loan proceeds of \$27.8 million for the payment of debts and refinancing. The decrease on other governmental funds 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 \$12.3 million of excess expenditures over revenues.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2012, the Municipality had \$165.0 million (net of depreciation) invested in capital assets, as reflected in the following table, which represents a net decrease (additions less retirements and depreciation) of \$0.2 million from the end of last year.

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

<i>Governmental Activities</i>		
	<b>2012</b>	<b>2011</b>
<b>Land</b>	\$ 3.3	\$ 3.3
<b>Construction in progress</b>	1.2	6.6
<b>Buildings and improvements</b>	59.8	55.1
<b>Furniture and fixture</b>	5.1	2.3
<b>Vehicles and equipment</b>	3.3	4.4
<b>Infrastructure</b>	<u>92.3</u>	<u>93.5</u>
<b>Total</b>	<b><u>\$ 165.0</u></b>	<b><u>\$ 165.2</u></b>

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

Governmental Activities		
Beginning Balance	\$ 165.2	\$ 159.8
Additions	10.8	12.8
Retirements	(5.8)	(0.6)
Depreciation	<u>(5.2)</u>	<u>(6.8)</u>
Ending balance	<b><u>\$ 165.0</u></b>	<b><u>\$ 165.2</u></b>

**Debt Outstanding**

As of year-end, the Municipality had \$175.1 million in debt (bonds, notes and other long-term debts) outstanding compared to \$166.3 million last year, a net increase of \$8.8 million.

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

	<b>2012</b>	<b>2011</b>
General obligation bonds and notes	\$ 116.3	\$ 106.3
Due to CRIM – Law 42	2.2	2.2
Due to CRIM-LIMS	-	0.1
Due to CRIM- Liquidation	-	0.5
Note payable-Section 108	11.7	12.2
Landfill obligation	32.5	32.5
Compensated absences	5.5	8.1
Others	6.9	4.4
Totals	<u>\$ 175.1</u>	<u>\$ 166.3</u>

Long-term liabilities were added related to CRIM Liquidation 2011-2012 amounted to \$1.6 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 takes advances from fiscal years up to 2001. A note payable of \$11.7 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 \$116.3 million is below legal limitation. A note payable of \$11.7 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 many factors when setting the fiscal year 2012 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 2012-2013. 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 2012-2013.

#### **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, 2012**

	<u>Governmental Activities</u>
<b><u>Assets</u></b>	
Cash in bank (Notes 2 and 5)	\$ 3,903,768
Cash with fiscal agent (Notes 2 and 5)	18,218,509
Certificates of deposits (Notes 2 and 5)	3,670,158
Accounts receivable:	
Property taxes	143,669
Municipal license taxes	1,121
Sales and use taxes	429,708
Interest	6,801
Other	2,090,270
Due from other agencies (Note 9)	5,392,350
Capital assets, net (Note 11)	<u>164,972,129</u>
Total assets	<u>\$ 198,828,483</u>
<b><u>Liabilities and Net Assets</u></b>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 2,570,162
Due to other agencies (Note 12)	12,887,639
Claims and judgments	143,294
Matured bonds	5,890,000
Matured interest payable	2,228,278
Deferred revenues (Note 13):	
Municipal license tax	7,068,684
Noncurrent liabilities (Note 15):	
Due within one year	8,536,440
Due in more than one year	<u>166,611,685</u>
Total liabilities	<u>205,936,182</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	111,123,210
Restricted for:	
Debt service	4,236,473
Capital project	4,114,288
Unrestricted	<u>(126,581,670)</u>
Total net assets	<u>(7,107,699)</u>
Total liabilities and net assets	<u>\$ 198,828,483</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Functions/Programs</u>	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Primary Government:</b>			
General government	\$ 36,928,125	\$ -	(32,336,001)
Public safety	6,728,388		(6,728,388)
Public works	8,633,032		(8,633,032)
Culture and recreation	1,903,170		(1,903,170)
Health, public housing, and welfare	23,665,478	16,274,397	(7,391,081)
Economic development	10,177,928		(10,177,928)
Interest on long-term debt	5,751,001		(5,751,001)
<b>Total primary government</b>	<b>\$ 93,787,122</b>	<b>\$ 16,274,397</b>	<b>(72,920,601)</b>
<b>General revenues:</b>			
Property taxes (Note 6)			24,240,255
Municipal license tax (Note 7)			8,949,335
Sales and use taxes (Note 8)			5,693,473
Grants and contributions not restricted to specific programs			15,528,861
Interest, fines, and penalties			590,121
Miscellaneous			6,293,016
<b>Total general revenues</b>			<b>61,295,061</b>
Change in net assets			(11,625,540)
Net assets at beginning of year			4,517,841
Net assets at end of year			<b>\$ (7,107,699)</b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2012

<u>Assets</u>	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
Cash (Notes 2 and 5)	\$ 1,183,207	\$ 959,261	\$ 214,294	\$ -	\$ 1,547,006	\$ 3,903,768
Cash with fiscal agent (Notes 2 and 5)	3,304,679			12,211,082	2,702,748	18,218,509
Certificates of deposits (Notes 2 and 5)		3,670,158				3,670,158
Accounts receivable:						
Municipal license taxes	1,121					1,121
Sales and use taxes	429,708					429,708
Property taxes				143,669		143,669
Interest					6,801	6,801
Other	2,090,270					2,090,270
Due from other agencies (Note 9)	5,276,210				116,140	5,392,350
Due from other funds (Note 10)	618,160				1,040,864	1,659,024
Total assets	<u>\$ 12,903,355</u>	<u>\$ 4,636,220</u>	<u>\$ 214,294</u>	<u>\$ 12,354,751</u>	<u>\$ 5,406,758</u>	<u>\$ 35,515,378</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, 2012

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Liabilities and Fund Balance (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable and accrued liabilities	\$ 2,306,185	\$ 19,294	\$ 165,118	\$ -	\$ 79,565	\$ 2,570,162
Due to other funds (Note 10)	1,040,864	91,800			526,360	1,659,024
Due to other agencies (Note 12)	12,887,639					12,887,639
General obligations:						
Bonds				5,890,000		5,890,000
Interest				2,228,278		2,228,278
Deferred revenues: (Note 13)						
Municipal license tax	7,068,684					7,068,684
Claims and judgments	143,294					143,294
Total liabilities	23,446,666	111,094	165,118	8,118,278	605,925	32,447,081
<b>Fund Balances (Deficit)</b>						
Reserved for:						
Restricted		4,525,126	49,175	4,236,473	116,546	8,927,320
Committed	3,304,679				4,114,288	7,418,967
Assigned	1,543,311					1,543,311
Unassigned	(15,391,301)				570,000	(14,821,301)
Total fund balances (deficit)	(10,543,311)	4,525,126	49,175	4,236,473	4,800,834	3,068,297
Total liabilities and fund balances (deficit)	\$ 12,903,355	\$ 4,636,220	\$ 214,293	\$ 12,354,751	\$ 5,406,759	\$ 35,515,378

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, 2012**

Total fund balances - governmental funds \$ 3,068,297

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. 164,972,129
  
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (175,148,125)

Net assets of governmental activities \$ (7,107,699)

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes (Note 6)	\$ 13,558,481	\$ -	\$ -	\$ 10,681,774	\$ -	\$ 24,240,255
Municipal license taxes (Note 7)	8,949,335					8,949,335
Licenses, permits, and other local taxes	3,057,962					3,057,962
Sales and use taxes (Note 8)	4,728,280			965,193		5,693,473
Charges for services	316,823				1,217,339	1,534,162
Intergovernmental revenues (Note 14)						
Federal grants and contributions		5,070,800	9,714,455			14,785,255
State contributions	7,599,394					7,599,394
Interest, fines, and penalties	512,187	40,667		7,876		570,730
Other revenues	6,292,834				182	6,293,016
Total revenues	<u>45,015,296</u>	<u>5,111,467</u>	<u>9,714,455</u>	<u>11,654,843</u>	<u>10,665,521</u>	<u>82,161,582</u>
<b>EXPENDITURES</b>						
Current						
General government	43,251,032					43,251,032
Public safety	5,952,432	163,021				6,115,453
Economic development					1,886,708	1,886,708
Health, public housing, and welfare	7,059,834	5,430,979	10,041,570		338,029	13,570,412
Culture and recreation	1,689,354				8,469,823	10,159,177
Public works	10,491,045				1,010,915	11,501,960
Capital outlays		412,224				412,224
Debt service					1,979,790	1,979,790
Principal						
Interest and other						
Total expenditures	<u>68,443,697</u>	<u>6,006,224</u>	<u>10,041,570</u>	<u>8,644,977</u>	<u>13,685,265</u>	<u>112,572,734</u>
Deficiency of revenues under expenditures	<u>(23,428,401)</u>	<u>(894,757)</u>	<u>(327,115)</u>	<u>(2,741,135)</u>	<u>(3,019,744)</u>	<u>(30,411,152)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond issuance	27,800,000					27,800,000
Transfers in	6,621					6,621
Transfers out	(2,772,878)			3,388,173		615,295
Total other financing sources (uses)	<u>25,033,743</u>	<u>(1,115,295)</u>	<u>(1,115,295)</u>	<u>3,388,173</u>	<u>(6,621)</u>	<u>27,800,000</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	1,605,342	(2,010,052)	(327,115)	1,140,417	(3,019,744)	(2,611,152)
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR AS RESTATED (Note 25)</b>	<u>(12,148,653)</u>	<u>6,535,178</u>	<u>376,290</u>	<u>3,096,056</u>	<u>7,820,578</u>	<u>5,679,449</u>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<u>\$ (10,543,311)</u>	<u>\$ 4,525,126</u>	<u>\$ 49,175</u>	<u>\$ 4,236,473</u>	<u>\$ 4,800,834</u>	<u>\$ 3,068,297</u>

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, 2012**

Net change in fund balances - total governmental funds \$ (2,611,152)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 4,977,539
- 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. (5,204,157)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (27,800,000)
- 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. 21,653,242
- 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.
  - Due to CRIM (1,632,820)
  - Due to Labor Department (285,430)
  - ASES (552,762)
  - Claims and judgments (170,000)

Changes in net assets of governmental activities \$ (11,625,540)

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, 2012

	General Fund				Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	
	Original	Final			Original	Final		
<b>REVENUES</b>								
Property taxes	\$ 13,558,479	\$ 13,558,479	\$ 13,558,481	\$ 2	\$ 9,931,849	\$ 9,931,849	\$ 11,639,026	\$ 1,707,177
Municipal license taxes	18,125,000	18,125,000	8,970,235	(9,154,765)				
Licenses and permits	7,000,000	7,000,000	4,701,235	(2,298,765)				
Sales taxes	5,957,841	5,957,841	3,030,647	(2,927,194)				
Charges for services	125,000	125,000	441,356	316,356				
Intergovernmental revenues								
State contributions	8,108,118	8,108,118	6,394,286	(1,713,832)				
Interest, fines, and penalties	1,001,052	1,001,052	518,808	(482,244)				
Other revenues	2,517,926	9,351,648	10,890,015	1,538,367				
Total revenues	56,393,416	63,227,138	48,505,063	(14,722,075)	9,931,849	9,931,849	11,639,026	1,707,177
<b>EXPENDITURES</b>								
Current:								
General government	33,645,277	40,041,810	39,127,089	914,721				
Public safety	6,116,348	5,701,009	5,351,193	349,816				
Public works	6,090,642	6,793,141	6,267,695	525,446				
Culture and recreation	3,012,429	3,371,220	3,118,321	252,899				
Health and welfare	7,528,720	7,319,958	6,982,667	337,291				
Debt service:								
Principal and interest					9,931,849	9,931,849	10,423,319	(491,470)
Total expenditures	56,393,416	63,227,138	60,846,965	2,380,173	9,931,849	9,931,849	10,423,319	(491,470)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (12,341,902)	\$ (12,341,902)	\$ -	\$ -	\$ 1,215,707	\$ 1,215,707

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, 2012**

**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, 2012**

- 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, 2012**

- 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, 2012.

**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, 2012**

During 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*". 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 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012**

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.

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

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund. Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**

During fiscal year 2011, 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 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 Municipality'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.
- 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012.

In situations when 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.

**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, 2012 amounted to \$783,539. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.8 million for workers' compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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>
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
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and AICPA Pronouncements	2012-13
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2012-13
65	Items Previously Reported as Assets and Liabilities	2013-14

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
66	Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and 62	2013-14
67	Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25	2013-14
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15

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

**k. Use of Estimates**

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

**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**a. Budgetary Control**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 expenditures and other financing uses for the year ended June 30, 2012 is presented below for the general fund:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>
Deficiency of revenues under expenditures - budgetary basis	\$(12,341,902)
Entity differences:	
Non-budgeted revenues, net	236,541
Non-budgeted expenditures, net	(13,155,578)
Current year encumbrances recorded as expenditures for budgetary purposes	(1,543,311)
Prior year encumbrances recorded as current year expenditures for GAAP basis	1,420,523
Basis of accounting differences:	
Net change in receivables	1,297,178
Net change in payables	<u>658,148</u>
Deficiency of revenues under expenditures - GAAP basis	<u>\$(23,428,401)</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 that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

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The details of the approximately \$175.1 million differences are as follows:

Bonds payable	\$116,363,919
Landfill obligation	32,488,803
Notes payable	14,868,639
Compensated absences	5,469,178
ASES	3,869,336
Advance from CRIM	1,632,820
Puerto Rico Labor Department	285,430
Claims and judgments	<u>170,000</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$175,148,125</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 \$2.7 million that are restricted principally for capital projects and the \$12.2 million in the debt service fund are uninsured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in 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	< .20% >	< .20% >
	<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 2011-12, 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, 2012, the amount advanced by CRIM from taxpayers and charges exceeded the amount collected by CRIM for the same period by approximately \$1,632,820. Such amount is presented as due to CRIM in the accompanying governmental wide financial statements (See Note 15).

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**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, 2012. The annual municipal license tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Toa Baja, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

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

Financial institutions	=	1.5%
Other organizations	=	.5%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$7.1 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,

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

**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power Authority	\$5,276,210
Other governmental funds	<u>116,140</u>
Total	<u><u>\$5,392,350</u></u>

**10. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2012, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other governmental funds	General	\$ 1,040,864
General	Other governmental funds	526,360
General	HUD	77,779
General	HHS	<u>14,021</u>
Total		<u><u>\$ 1,659,024</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, 2012 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$ 2,772,878
Debt Service	HUD	1,115,295
General	Debt Service	<u>6,621</u>
Total		<u>\$ 3,894,794</u>

The transfer from the general fund and HUD programs to the debt service fund of \$3,888,173 represents monies transferred to cover debt service payments as become due.

**11. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,254,515	\$ -	\$ -	\$ 3,254,515
Construction in progress	6,575,018	543,892	5,881,983	1,236,927
Total capital assets, not being depreciated	<u>9,829,533</u>	<u>543,892</u>	<u>5,881,983</u>	<u>4,491,442</u>
Capital assets, being depreciated:				
Buildings and building improvements	69,436,106	6,861,589		76,297,695
Equipment and vehicles	12,182,599	1,324,590		13,507,189
Furniture and fixtures	7,204,967	1,546,784		8,751,751
Infrastructure	101,903,614	582,667		102,486,281
Total capital assets, being depreciated	<u>190,727,286</u>	<u>10,315,630</u>	<u>-</u>	<u>201,042,916</u>
Less accumulated depreciation for:				
Buildings and building improvements	14,301,785	2,157,638		16,459,423
Equipment and vehicles	7,781,672	727,512		8,509,184
Furniture and fixtures	4,926,438	610,903		5,537,341
Infrastructure	8,348,177	1,708,104		10,056,281
Total accumulated depreciation	<u>35,358,072</u>	<u>5,204,157</u>	<u>-</u>	<u>40,562,229</u>
Total capital assets, being depreciated, net	<u>155,369,214</u>	<u>5,111,473</u>	<u>-</u>	<u>160,480,687</u>
Governmental activities capital assets, net	<u>\$ 165,198,747</u>	<u>\$ 5,655,365</u>	<u>\$ 5,881,983</u>	<u>\$ 164,972,129</u>

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

General government	\$ 2,157,638
Public safety	274,906
Public works	727,512
Culture and recreation	213,816
Economic development	1,708,105
Health, public housing, and welfare	<u>122,180</u>
Total	<u>\$ 5,204,157</u>

**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2012 are as follows:

Puerto Rico Electric Power Authority	\$ 5,276,210
CRIM	3,162,280
Puerto Rico General Services Administration	2,709,705
Puerto Rico Water and Sewer Authority	1,238,732
Retirement System Administration	237,429
U.S. Internal Revenue Services	183,609
Puerto Rico Labor Department	67,764
P.R. Treasury Department	<u>11,910</u>
Total	<u>\$ 12,887,639</u>

**13. DEFERRED REVENUES**

The deferred revenues of approximately \$7.1 million in the general fund related to municipal license tax collected in fiscal year 2011-12 that will be earned in fiscal year 2012-13.

**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.

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**15. LONG-TERM DEBTS**

Bonds and notes payable and other debt outstanding at June 30, 2012 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%.	\$ 5,240,000
\$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%.	900,000
\$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%.	730,000
\$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%.	905,000
\$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%.	2,090,000
\$1,500,000 series of 1998, payable in annual installments from \$44,000 to \$108,000 until July 1, 2019, interest at 4.5%.	661,106

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\$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%.	\$ 1,760,000
\$3,470,000 series of 2000, payable in annual installments of \$140,000 to \$355,000 until June 2014, interest at approximately 8%.	1,000,000
\$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%.	250,000
\$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%.	680,000
\$2,062,000 series of 2001, payable in annual installments of \$62,800 until January 1, 2021, interest at 2%.	1,029,813
\$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%.	2,560,000
\$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%.	2,235,000
\$2,515,000 series of 2005, payable in annual installments of \$305,000 to \$420,000 until July 2012, interest ranging from 4.2% to 4.7%.	420,000
\$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%.	9,685,000
\$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%.	270,000

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\$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%.	\$ 230,000
\$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%.	1,365,000
\$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%.	340,000
\$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%.	1,210,000
\$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%.	85,000
\$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%.	1,040,000
\$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%.	1,405,000
\$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%.	3,915,000
\$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%.	8,250,000
\$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%.	3,305,000

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\$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%.	\$ 1,925,000
\$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>81,850,919</u>

**c. Special Obligation - Notes**

\$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%.	225,000
\$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%.	2,823,000
\$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%.	3,665,000
\$27,800,000 series of 2012, payable in annual installments of \$440,000 to \$2,355,000 until July 2037, interest ranging from 6.00% to 7.50%.	<u>27,800,000</u>
Subtotal special obligation notes	<u>34,513,000</u>
Total bonds and notes	<u>\$116,363,919</u>

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The annual debt service requirements for the bonds and notes payable at June 30, 2012 are as follows:

	<i>Bonds and Notes</i>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 6,077,527	\$ 6,729,606
2014	5,869,651	7,271,462
2015	6,156,812	6,960,812
2016	5,821,019	6,594,697
2017	4,812,269	6,255,964
2018-2022	23,681,641	26,339,167
2023-2027	20,700,000	19,542,361
2028-2032	21,595,000	12,095,094
2033-2037	<u>21,650,000</u>	<u>3,734,333</u>
	<u>\$ 116,363,919</u>	<u>\$ 95,523,496</u>

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

Note payable of \$2,343,704 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in semi-annual aggregate principal installments of \$95,258 plus interest rate of 6.18%.

Debt service requirements in future years are as follows:

	<i>CRIM - Law 42</i>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 55,473	\$ 135,045
2014	58,958	131,560
2015	62,662	127,855
2016	66,599	123,918
2017	70,783	119,734
2018-2022	426,491	526,095
2023-2027	578,404	333,966
2028-2032	784,430	168,152
2033-2037	<u>92,399</u>	<u>2,859</u>
	<u>\$ 2,196,199</u>	<u>\$ 1,669,184</u>

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

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

Debt service requirements in future years are as follows:

	<i>CRIM - Law 146</i>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 48,972	\$ 60,922
2014	48,972	57,876
2015	48,972	54,829
2016	48,972	51,781
2017	48,972	48,736
2018-2022	244,860	197,990
2023-2027	244,860	121,840
2028-2032	244,860	45,690
	<u>\$ 979,440</u>	<u>\$ 639,664</u>

**f. Note Payable - Section 108**

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

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The annual debt service requirements for the note at June 30, 2012 are as follows:

	<u>Section 108 Loan Guarantee</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 493,000	\$ 627,249
2014	524,000	601,619
2015	556,000	574,294
2016	592,000	545,133
2017	628,000	514,021
2018-2022	3,783,000	2,004,422
2023-2027	<u>5,117,000</u>	<u>768,254</u>
	<u>\$ 11,693,000</u>	<u>\$ 5,634,992</u>

Long-term liability activity for the year ended June 30, 2012 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	\$ 106,329,366	\$ 27,800,000	\$ 17,765,447	\$ 116,363,919	\$ 6,077,527
Note payable - CRIM Law 42	2,248,392		52,193	2,196,199	55,473
Note payable - CRIM Law 146	1,028,412		48,972	979,440	48,972
Note payable - CRIM (LIMS)	106,831		106,831	-	-
Note payable - Section 108	<u>12,157,000</u>		<u>464,000</u>	<u>11,693,000</u>	<u>493,000</u>
Total long-term debt	<u>121,870,001</u>	<u>27,800,000</u>	<u>18,437,443</u>	<u>131,232,558</u>	<u>6,674,972</u>
<b>Other Long-term Liabilities:</b>					
Due to CRIM	479,673	1,632,820	479,673	1,632,820	-
Landfill obligation	32,488,803			32,488,803	-
Due to Labor Department	-	285,430		285,430	67,764
Due to ASES	3,316,574	552,762		3,869,336	-
Claims and judgements	67,060	170,000	67,060	170,000	-
Compensated absences	<u>8,138,244</u>		<u>2,669,066</u>	<u>5,469,178</u>	<u>1,793,704</u>
Total other long-term liabilities	<u>44,490,354</u>	<u>2,641,012</u>	<u>3,215,799</u>	<u>43,915,567</u>	<u>1,861,468</u>
Total noncurrent liabilities, governmental activities	<u>\$ 166,360,355</u>	<u>\$ 30,441,012</u>	<u>\$ 21,653,242</u>	<u>\$ 175,148,125</u>	<u>\$ 8,536,440</u>

As described in Note 6, the Municipality levies an annual special tax of 4.0% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and

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FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

notes of the Municipality. The property taxes are collected and retained by the CRIM.

**16. FUND BALANCES**

As of June 30, 2012, fund balances are 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>Other Governmental Funds</u>	<u>Total</u>
Restricted:						
General government	\$ -	\$ -	\$ -	\$ -	\$ 116,546	\$ 116,546
Health and welfare		514,159	49,175			563,334
Capital outlays		4,010,967				4,010,967
Debt service				4,236,473		4,236,473
Committed:						
General government	3,304,679				1,541,852	4,846,531
Capital outlays					2,572,436	2,572,436
Assigned:						
General government	1,507,888				570,000	2,077,888
Health and welfare	35,423					35,423
Unassigned	(15,391,301)					(15,391,301)
	<u>\$ (10,543,311)</u>	<u>\$ 4,525,126</u>	<u>\$ 49,175</u>	<u>\$ 4,236,473</u>	<u>\$ 4,800,834</u>	<u>\$ 3,068,297</u>

**17. FUND BALANCE DEFICIT**

The following fund had a deficit in fund balance at June 30, 2012:

<u>Fund</u>	<u>Deficit</u>
General	<u>\$ 10,543,311</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, 2012**

**18. NET ASSETS**

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

Capital assets, net of accumulated depreciation.	\$ 164,972,129
Outstanding balance on capital related debt	<u>(53,848,919)</u>
Total invested in capital assets, net of related debt	<u>\$ 111,123,210</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 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

pensions will not be granted under System 2000. The employer's contribution (10.275% 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 10.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2012 was approximately \$1.7 million. The Municipality's payroll for employees covered by ERS was approximately \$16.3 million. The Municipality total payroll for all employees was approximately \$34.5 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2012, 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, 2012**

- b. Total income from leases during the year ended June 30, 2012 was approximately \$118,844.
- 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, 2012, 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 2012). The estimated total current costs of the landfill closure and post-closure care (\$26,000,000) 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, 2012. 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, 2012**

**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, 2012. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$2.1 million.

**25. RESTATEMENTS**

The beginning fund balance of the Loans and Bonds fund has been presented as part of other governmental funds because does not qualify to be presented as major fund.

The beginning fund balance of the Health and Human Services Program fund and other governmental funds has been restated to reclassify a federal program as follows:

	<u>HHS Programs</u>	<u>Other Governmental</u>
Beginning fund balances, as previously recorded	\$ 377,327	\$ 7,819,541
Reclasification of federal program	<u>(1,037)</u>	<u>1,037</u>
Beginning fund balance, as restated	<u>\$ 376,290</u>	<u>\$ 7,820,578</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**26. SUBSEQUENT EVENTS**

In preparing these financial statements the Municipality has evaluated events and transactions for potential recognition or disclosure through December 28, 2012, the date the financial statements were available to be issued.

**PART II - SINGLE AUDIT SECTION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>			
Direct Programs:			
Community Development Block Grant Program, Entitlement Grants	14.218		\$ 880,263
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253		17,760
Pass-through Commissioner Office of Municipal Affairs Neighborhood Stabilization Program (NSP)	14.218		412,224
Community Development Block Grant Program, Section 108, Loan Guarantee (Note 3)	14.248	B-05-MC-72-0008	2,083,869
Emergency Shelter Grant Program	14.231		197,189
Home Investment Partnership Program	14.239		403,239
Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257		184,245
Section 8 - Housing Choice Vouchers	14.871		1,655,610
Pass-through Municipality of San Juan:			
Hopwa	14.241		163,022
Pass-through Department of Family:			
Emergency Shelter Grant Program (Prevention)	14.231		8,803
Subtotal U.S. Department of HUD			<u>6,006,224</u>
<b>U.S. Department of Agriculture</b>			
Pass-through Education Department:			
Child and Adult Care Food Program - Child Care	10.558		46,476
Child and Adult Care Food Program - Early Head Start	10.558		69,772
Pass-through the Office of Administration for Children and Families:			
Child and Adult Care Food Program - Head Start	10.558		889,001
Subtotal U.S. Department of Agriculture			<u>1,005,249</u>
<b>U.S. Department of Health and Human Services (HHS)</b>			
Direct Program:			
Early Head Start	93.600		999,389
Pass-through the Office of Administration for Children and Families:			
Head Start and Early Head Start	93.600		7,955,328
ARRA - Early Head Start	93.709		205
Child Care Development Block Grant	93.575		824,920
Special Program for the Aging - Title III, Part B, Grant for Supportive Services and Senior Center	93.044		26,900
Special Program for the Aging - Title III, Part C, Nutrition Services	93.045		234,828
Subtotal U.S. Department of HHS			<u>10,041,570</u>
<b>U.S. Department of Transportation</b>			
Direct Program:			
Federal Transit - Capital Investment Grants	20.500	90-X-530-7	144,053
Federal Transit - Capital Investment Grants (ARRA)	20.500	96-X-007-0	315,515
Subtotal U.S. Department of Transportation			<u>459,568</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		104,725
DOJ Public Safety Partnership and Community Policing Grant	16.710		55,605
Subtotal U.S. Department of Justice			<u>160,330</u>
<b>TOTAL</b>			<u>\$ 17,672,941</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**2. BASIS OF PRESENTATION**

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

	<u><b>Expenditures</b></u>
Total federal expenditures per schedule	\$ <u>17,672,941</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$ 6,006,224
Health and Human Services Programs	10,041,570
Federal expenditures included within other governmental funds	<u>1,625,147</u>
Total	\$ <u>17,672,941</u>

**3. LOAN OUTSTANDING**

At June 30, 2012, 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 \$11,693,000.

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Toa Baja, as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 28, 2012. 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

Management of the Municipality is responsible for establishing and maintaining effective 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a control deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material 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 28, 2012

*Ortiz, Rivera, Rivera & Co.*

The stamp E41564 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 the compliance of Municipality of Toa Baja with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Toa Baja's major federal programs for the year ended June 30, 2012. Municipality of Toa Baja's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Toa Baja's management. Our responsibility is to express an opinion on Municipality of Toa Baja's compliance based on our audit.

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

In our opinion, the Municipality of Toa Baja complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of non compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-1.

#### 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 of Toa Baja'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 effectiveness. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

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

Municipality'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's response and, accordingly, we express no opinion on it.

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

San Juan, Puerto Rico  
December 28, 2012

*Ortiz, Rivera, Rivera & Co.*

The stamp E41565 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, 2012**

**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   X   No

Significant deficiency (ies) identified?      Yes   X   No

Noncompliance material to financial statements noted?      Yes   X   No

Federal Awards

Internal Control over major programs: Unqualified opinion

Material weakness (es) identified?      Yes   X   No

Significant deficiency (ies) identified?      Yes   X   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?   X   Yes      No

Identification of major programs:

<b>CFDA Numbers</b>	<b>Name of Federal Programs or Cluster</b>
93.600	Head Start and Early Head Start
14.871	Housing Choice Vouchers
20.500	Federal Transit – Capital Investment Grant

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Dollar threshold used to distinguish between type A and type B programs:  
\$467,672.

Audited qualified as low-risk auditee?  X  Yes      No

**II. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

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

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

- **Condition 12-1 – Reporting**

The required reports were submitted after the due date to the Agency. Those were the following:

Report	Program	Period	Date to be Submitted	Date Submitted	Days in excess
"Informe Cierre Gastos Acumulados Final"	Head Start	March 2011 to February 2012	3/20/2012	3/29/2012	9
"Petición de Fondos"	Head Start	October 2011	10/5/2011	10/7/2011	2

Criteria

The Contract between the Municipality and the Family Department establishes the due date of the required reports.

Cause

The Municipality does not have an schedule of the required due dates for filing the reports.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Effect

The Municipality is not in compliance with the requirements established in the contract and the federal funds can be suspended.

Recommendation

The Municipality should have the due date on schedule for each required report in order to prepare on time the reports. The information should be prepared and revised immediately after period ended in order to prepare and submit the reports on time.

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, 2012**

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, 2012**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>Early Head Start Program CFDA No. 93.600</b>	<b>Condition 11-1</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.	Condition was corrected.
<b>ARRA Head Start Program CFDA No. 93.708</b>	<b>Condition 11-2</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.	Condition was corrected.
<b>Child and Adult Care Food Program CFDA No. 10.558</b>	<b>Condition 11-3</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.	Condition was corrected.
<b>Child Care Development Block Grant Program CFDA No. 93.575</b>	<b>Condition 11-4</b>  The Municipality did not submit some financial reports on time.	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, 2012**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>Neighborhood Stabilization Program CFDA No. 14.218</b>	<b>Condition 11-5</b>  The Municipality did not submit some financial reports to the Agency.	Condition was corrected.
<b>Neighborhood Stabilization Program CFDA No. 14.218</b>	<b>Condition 11-6</b>  The Municipality did not minimize the time elapsed between the receipt and the total disbursement of funds.	Condition was corrected.
<b>Head Start ARRA Program CFDA No. 93.708</b>	<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.	Condition was corrected.
<b>Child Care CFDA No. 93.575</b>	<b>Condition 10-6</b>  The Municipality did not submit the request funds reports on time.	Condition was corrected.

**CORRECTIVE ACTION PLAN**

Estado Libre Asociado de Puerto Rico  
**PROGRAMA HEAD START/EARLY HEAD START Y CHILD CARE**  
Municipio de Toa Baja



Anibal Vega Borges  
Alcalde



Inés Mercado Santiago  
Directora

## CORRECTIVE ACTION PLAN

December 28, 2012

Cognizant or Oversight Agency for Audit:

Municipality of Toa Baja respectfully submits the following corrective action plan for the year ended June 30, 2012

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

Audit period: Fiscal year ended June 30, 2012

The findings from the June 30, 2012 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 12-1 - Head Start - CFDA No. 93.600

Reportable condition: See condition 12-1

Recommendation:

The Municipality should have the due date clear of each required report in order to prepare on time the reports. The information should be prepared and revised immediately after period ended in order to prepare and submit the reports on time.

Management response:

The Municipality of Toa Baja included an additional process monitoring for fiscal internal controls. This monitoring will be undertaken by the Administration Manager to ensure the delivery of documents and reports on dates determined by the ACUDEN.

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

Cordially,

  
Ines Mercado  
Head Start Program Director