

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

14-02-0231
OCAM
DIV. SERVICIOS GENERALES
14 FEB 28 PM 2:06

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS

	<u>Pages</u>
PART I - FINANCIAL SECTION	
Independent Auditors' Report.....	1-3
Management's Discussion and Analysis	4-11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities.....	13
Fund Financial Statements-Governmental Funds	
Balance Sheet	14-15
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	18
Notes to Basic Financial Statements.....	19-50

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART II - REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	52
Note to Budgetary Comparison Schedule - General Fund	53
PART III - SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards.....	55
Notes to Schedule of Expenditures of Federal Awards	56
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.....	57-58
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	59-61
Schedule of Findings and Questioned Costs.....	62-65
Schedule of Status of Prior Year Audit Findings and Questioned Costs	66-67

PART I - FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Toa Baja, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 11 and 52 to 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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, economical, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Toa Baja's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133,

Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2014, on our consideration of the Municipality of Toa Baja's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Toa Baja's internal control over financial reporting and compliance.

San Juan, Puerto Rico
January 7, 2014

Ortiz, Rivera, Rivera & Co

The stamp E65050 of the Puerto Rico Society of Certified Public Accountants 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, 2013

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

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

HIGHLIGHTS

Financial Highlights

- The Municipality's net position amounted to \$(13.3) million at the close of the current fiscal year. This amount represents a decrease of \$6.2 million from the previous year's net position.
- As of June 30, 2013, the Municipality's General Fund (the primary operating fund) reported a deficiency of \$14.8 million, a decrease of \$4.3 million in comparison with the prior year.
- Capital expenditures amounted to \$4.1 million during the year.
- Loans principal payments were \$6.7 million during fiscal year 2012-2013. Other long-term liabilities payments were \$1.9 million. The current additions were \$11.9 million. At June 30, 2013, the total long-term debt balance was \$178.5 million as of same date, as compared to \$175.1 million in prior year.

Overview of the Financial Statements

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

Figure 1

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

	<i>Government-wide Statements</i>	<i>Fund Statements</i>
Scope	The entire Municipality's Government	The activities of the Municipality
Required financial statements	Statement of net position 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

One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worse off as a result of the year's activities?". The Statement of Net Position and the Statement of Activities reports 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. Accruals of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position 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 position as a 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. However, you will need to consider other non-financial factors 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 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

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 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 the governmental funds, which focuses on how money flows in 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 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 Position 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.

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 statement requires that these assets be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the municipality 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 Position

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial position. In this case of the Municipality, assets exceeded liabilities by \$(15.1) million at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Position compared to prior year.

Table 1
Summary of Net Position
(in million)

<i>Governmental Activities</i>		
	2013	2012
Current and other assets	\$ 31.8	\$ 33.8
Capital assets	162.5	165.0
Total assets	<u>194.3</u>	<u>198.8</u>
Current and other liabilities	29.2	39.3
Long-term debt outstanding	178.5	166.6
Total liabilities	<u>207.7</u>	<u>205.9</u>
Net position:		
Investment in capital assets, net of debt	109.3	111.1
Restricted	12.1	4.3
Unrestricted	(134.7)	(122.5)
Total net position	<u>\$ (13.3)</u>	<u>\$ (7.1)</u>

By far, the largest portion of the Municipality's net position 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 position represents resources that are subject to external restrictions on how they may be used. As a result, the unrestricted balance of net position resulted in a deficit of \$134.7 million.

The Municipality's net position decrease by \$6.2 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 reported a combined fund balances of \$2.7 million which is lower than the beginning fund balance of the year (\$3.1 million). This decrease was the net result of a decrease of \$4.3 million of the General Fund, \$0.7 million in the HUD Programs Fund and \$1.6 million in other Governmental Funds, and an increase of \$0.05 million in the HHS Programs Fund, \$4.5 million in the Debt Service Fund, and \$1.7 million in the Joint Resolutions 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 \$13.7 million of excess expenditures over revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the Municipality had \$162.5 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 \$2.5 million from the end of last year.

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

<i>Governmental Activities</i>		
	2013	2012
Land	\$ 3.3	\$ 3.3
Construction in progress	1.2	1.2
Building and building improvements	59.4	59.8
Furnitures and fixtures	4.3	5.1
Vehicles and equipment	2.9	3.3
Infraestructure	91.4	92.3
Total	<u>\$ 162.5</u>	<u>\$ 165.0</u>

Table 3
Change in Capital Assets
(in millions)

<i>Governmental Activities</i>		
	2013	2012
Beginning balance	\$ 165.0	\$ 165.2
Additions	3.8	10.8
Retirements	(1.1)	(5.8)
Depreciation	(5.2)	(5.2)
Ending balance	<u>\$ 162.5</u>	<u>\$ 165.0</u>

Debt Outstanding

As of year-end, the Municipality had \$178.5 million in debt (bonds, notes and other long-term debts) outstanding compared to \$175.1 million last year, a net increase of \$3.4 million.

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

	2013	2012
General obligations bonds and notes	\$ 114.3	\$ 116.3
Due to CRIM - Law 42	2.1	2.2
Note payable - Section 108	11.2	11.7
Landfill obligation	35.4	32.5
Compensated absences	5.5	5.5
Others	10.0	6.9
Totals	<u>\$ 178.5</u>	<u>\$ 175.1</u>

Long-term liabilities were added related to CRIM Liquidation 2012-2013 amounted to \$2.1 million. A note payable with a balance due of \$2.1 million represents a repayment agreement with the Government Development Bank and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. A note payable of \$11.2 million is due to the U.S. Department of Housing and Urban Development. The landfill obligation represents an estimated liability for future closure and post-closure care costs.

The Municipality levies an annual special tax of 1.48% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality. The outstanding general obligation debt of the Municipality of \$114.3 million is below legal limitation. A note payable of \$11.2 million due to the U.S. Department of Housing and Urban Development is due in August 2026. More detailed information about the Municipality's long-term debts is presented in the notes 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 2012-2013 budget. One of the factors was 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 2013-2014. 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 2013-2014.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash in bank (Notes 2 and 4)	\$ 1,753,983
Cash with fiscal agent (Notes 2 and 4)	20,241,806
Certificates of deposits (Notes 2 and 4)	3,190,167
Accounts receivable:	
Property taxes	159,066
Municipal license taxes	111,291
Sales and use taxes	557,638
Interest	4,130
Other	146,532
Due from other agencies (Note 8)	5,715,842
Capital assets, net (Note 10)	<u>162,459,660</u>
Total assets	<u>\$ 194,340,115</u>
<u>Liabilities and Net Position</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 1,785,401
Due to other agencies (Note 11)	13,250,863
Claims and judgments	144,146
Matured bonds	5,349,556
Matured interest payable	1,367,244
Deferred revenues (Note 12):	
Municipal license tax	7,285,338
Noncurrent liabilities (Note 14):	
Due within one year	9,440,918
Due in more than one year	<u>169,030,229</u>
Total liabilities	<u>207,653,695</u>
Net Position	
Investment in capital assets, net of related debt	109,345,990
Restricted for:	
Debt service	8,683,363
Capital projects	3,364,862
Unrestricted	<u>(134,707,795)</u>
Total net position	<u>(13,313,580)</u>
Total liabilities and net position	<u>\$ 194,340,115</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, 2013**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:				
General government	\$ 38,567,878	\$ 2,539,327	\$ -	\$ (36,028,551)
Public safety	5,085,728	-	-	(5,085,728)
Public works	14,688,450		4,737,289	(9,951,161)
Culture and recreation	1,375,225			(1,375,225)
Health, public housing, and welfare	19,667,470		17,226,842	(2,440,628)
Economic development	716,128			(716,128)
Interest on long-term debts	5,232,875			(5,232,875)
Total primary government	\$ 85,333,754	\$ 2,539,327	\$ 17,226,842	(60,830,296)
General revenues:				
Property taxes (Note 5)				24,727,390
Municipal license taxes (Note 6)				9,616,782
Sales and use taxes (Note 7)				6,469,337
Grants and contributions not restricted to specific programs				8,154,025
Interest, fines, and penalties				242,886
Miscellaneous				5,413,995
Total general revenues				54,624,415
Change in net position				(6,205,881)
Net position at beginning of year				(7,107,699)
Net position at end of year				\$ (13,313,580)

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, 2013

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Joint Resolutions</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash in bank (Notes 2 and 4)	\$ 593,562	\$ 703,264	\$ 153,114	\$ -	\$ 13,491	\$ 290,552	\$ 1,753,983
Cash with fiscal agent (Notes 2 and 4)	2,379,193			15,133,839	10,278	2,718,496	20,241,806
Certificates of deposits (Notes 2 and 4)		3,190,167					3,190,167
Accounts receivable:							
Municipal license taxes	111,291						111,291
Sales and use taxes	450,380			107,258			557,638
Property taxes				159,066			159,066
Interest		4,130					4,130
Other	146,532						146,532
Due from other agencies (Note 8)	5,477,055					238,787	5,715,842
Due from other funds (Note 9)	1,752,177				3,344,093		5,096,270
Total assets	<u>\$ 10,910,190</u>	<u>\$ 3,897,561</u>	<u>\$ 153,114</u>	<u>\$ 15,400,163</u>	<u>\$ 3,367,862</u>	<u>\$ 3,247,835</u>	<u>\$ 36,976,725</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 (CONTINUED)
JUNE 30, 2013

<u>Liabilities and Fund Balances (Deficit)</u>	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Joint Resolutions	Other Governmental Funds	Total Governmental Funds
Liabilities							
Accounts payable and accrued liabilities	\$ 1,701,417	\$ 19,796	\$ 19,776	\$ -		\$ 44,412	\$ 1,785,401
Due to other funds (Note 9)	3,344,093	14,021	34,969		3,000	1,700,187	5,096,270
Due to other agencies (Note 11)	13,250,863						13,250,863
General obligations:							
Bonds				5,349,556			5,349,556
Interest				1,367,244			1,367,244
Deferred revenues: (Note 12)							
Municipal license taxes	7,285,338						7,285,338
Claims and judgments	144,146						144,146
Total liabilities	<u>25,725,857</u>	<u>33,817</u>	<u>54,745</u>	<u>6,716,800</u>	<u>3,000</u>	<u>1,744,599</u>	<u>34,278,818</u>

COMMITMENTS AND CONTINGENCIES
(Notes 22 and 23)

<u>Fund Balances (Deficit)</u>	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Joint Resolutions	Other Governmental Funds	Total Governmental Funds
Reserved for:							
Restricted		3,863,744	98,369	8,683,363		108,670	12,754,146
Committed	2,379,192				3,364,862	1,323,257	7,067,311
Assigned	1,093,228						1,093,228
Unassigned	(18,288,087)					71,309	(18,216,778)
Total fund balances (deficit)	<u>(14,815,667)</u>	<u>3,863,744</u>	<u>98,369</u>	<u>8,683,363</u>	<u>3,364,862</u>	<u>1,503,236</u>	<u>2,697,907</u>
Total liabilities and fund balances (deficit)	<u>\$ 10,910,190</u>	<u>\$ 3,897,561</u>	<u>\$ 153,114</u>	<u>\$ 15,400,163</u>	<u>\$ 3,367,862</u>	<u>\$ 3,247,835</u>	<u>\$ 36,976,725</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2013**

Total fund balances - governmental funds \$ 2,697,907

Amounts reported for governmental activities in the statement of net position 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. 162,459,660

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. **(Note 3)** (178,471,147)

Net position of governmental activities \$ (13,313,580)

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, 2013

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Joint Resolutions	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 5)	\$ 13,281,406	\$ -	\$ -	\$ 11,445,984	\$ -	\$ -	\$ 24,727,390
Municipal license taxes (Note 6)	9,616,782						9,616,782
Licenses, permits, and other local taxes	1,469,822						1,469,822
Sales and use taxes (Note 7)	5,154,754			1,314,583		918,676	6,469,337
Charges for services	150,829						1,069,505
Intergovernmental revenues (Note 13):							
Federal grants and contributions	7,570,529	5,679,032	9,869,687		4,737,289	1,678,123	17,226,842
State contributions	208,989	237		10,315		583,496	12,891,314
Interest, fines, and penalties	5,413,589					23,345	242,886
Other revenues	42,866,700	5,679,269	9,869,687	12,770,882	4,737,289	406	5,413,995
Total revenues						3,204,046	79,127,873
EXPENDITURES							
Current:							
General government	30,670,979				471,095	1,585,906	32,727,980
Public safety	4,640,478	190,012				172,144	5,002,634
Economic development						716,128	716,128
Health, public housing, and welfare	5,231,461	3,613,132	9,820,493			872,280	19,537,366
Culture and recreation	1,375,225						1,375,225
Public works	8,700,343						8,700,343
Capital outlays		1,417,257			2,600,202	73,726	4,091,185
Debt service:							
Principal							
Interest and other				6,134,527			6,134,527
Total expenditures	50,618,486	5,220,401	9,820,493	11,367,402	3,071,297	3,420,184	83,518,263
Excess (deficiency) of revenues over expenditures	(7,751,786)	458,868	49,194	1,403,480	1,665,992	(216,138)	(4,390,390)
OTHER FINANCING SOURCES (USES)							
Bond issuance	4,020,000						4,020,000
Transfers in	1,391,448			3,052,268			4,443,716
Transfers out	(1,932,018)	(1,120,250)		(8,858)		(1,382,590)	(4,443,716)
Total other financing sources (uses)	3,479,430	(1,120,250)		3,043,410		(1,382,590)	4,020,000
Net change in fund balances	(4,272,356)	(661,382)	49,194	4,446,890	1,665,992	(1,598,728)	(370,390)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(10,543,311)	4,525,126	49,175	4,236,473	1,698,870	3,101,964	3,068,297
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (14,815,667)</u>	<u>\$ 3,863,744</u>	<u>\$ 98,369</u>	<u>\$ 8,683,363</u>	<u>\$ 3,364,862</u>	<u>\$ 1,503,236</u>	<u>\$ 2,697,907</u>

Handwritten signature and initials:
 [Signature]
 [Initials]

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, 2013**

Net change in fund balances - total governmental funds \$ (370,390)

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. 2,685,055
- 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. (5,197,524)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (4,020,000)
- 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. 8,641,833
- 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.
 - CRIM (2,149,311)
 - Landfill (2,877,800)
 - Claims and judgments (275,000)
 - ASES (1,229,163)
 - AAA (1,413,581)

Changes in net position of governmental activities \$ (6,205,881)

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, 2013**

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

The following is a summary of the more significant policies:

a. Reporting Entity

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, 2013

- 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, 2013.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements.

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 effect of all inter-fund activities (assets, liabilities, revenues, expenditures and other financing sources/uses among governmental funds) have been eliminated from the governmental-wide financial statements.

Separate fund financial statements are provided for governmental funds. Major governmental funds are reported on separate columns to segregate transactions

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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.

On July 1, 2012, the Municipality adopted the provision of GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net position renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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.

The governmental fund financial statements are reported using the *current financial resources measurements 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 60 days of the end of the current fiscal period.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days or year-end). Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 infectious disease and immunization services.

4) Joint Resolutions Fund

This fund is used to account for the revenues received from joint resolutions through the Legislature or other State Agency to develop construction projects into the Municipality.

5) 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, 2013**

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

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, 2013

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, 2013**

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, 2013.

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, 2013 amounted to \$1,044,318. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$656,619 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, 2013**

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:

Statement Number	Statement Name	Adoption Required in Fiscal Year
65	Items Previously Reported as Assets and Liabilities	2013-14
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
69	Government Combinations and Disposals of Government Operations	2013-14

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Statement Number	Statement Name	Adoption Required in Fiscal Year
70	Accounting for Financial Reporting for Non-exchange Financial Guarantees	2013-14
71	Pension Transition for Contribution Made Subsequent to the Measurement Date	2014-15

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

k. Deferred Inflows

On July 1, 2012 the Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of deferred Outflows of resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63).

In the GFFS, deferred inflows arises when one of the following situations occur:

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (reported as *earned but unavailable revenue* in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2013 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as *unearned revenue* in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred inflows is removed and revenue is recognized.

Deferred inflows at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as *unearned revenue* in the accompanying statement of net position). No *earned but unavailable revenue* is accounted for in the accompanying statement of net position.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

I. 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. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

The details of the approximately \$178.5 million differences are as follows:

Bonds payable	\$114,306,392
Landfill obligation	35,366,603
Notes payable	14,271,195
Compensated absences	5,420,566
AAA	1,413,581
ASES	5,098,499
Advance from CRIM	2,149,311
Claims and judgments	<u>445,000</u>
Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	<u>\$178,471,147</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

4. 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 \$5.1 million that are restricted for general purpose and the \$15.1 million in the debt service fund are uninsured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in one 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.

5. PROPERTY TAXES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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 2012-13, 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, 2013, the amount advanced by CRIM from taxpayers and charges exceeded the amount collected by CRIM for the same period by approximately \$267,796. Such amount is presented as due to CRIM in the accompanying governmental wide financial statements (See Note 14).

6. 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, 2013. 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%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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 \$7.3 million, corresponding to the next fiscal year municipal license.

7. SALES AND USE TAXES

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

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

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

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power Authority	\$5,477,055
Other governmental funds	<u>238,787</u>
Total	<u><u>\$5,715,842</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

9. INTERFUND TRANSACTIONS

a. Due from/to Other Funds

The due from and due to other fund balances as of June 30, 2013, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other governmental funds	General	\$ 3,344,093
General	HUD	14,021
General	HHS	34,969
General	Joint Resolutions	3,000
General	Other governmental funds	<u>1,700,187</u>
Total		<u>\$ 5,096,270</u>

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

b. Interfund Transfers

Interfund transfers for the year ended June 30, 2013 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$ 1,932,018
Debt Service	HUD	1,120,250
General	Debt Service	8,858
General	Other governmental	<u>1,382,590</u>
Total		<u>\$ 4,443,716</u>

The transfer from the general fund and HUD programs to the debt service fund of \$3,052,268 represents monies transferred to cover debt service payments as become due.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,254,515	\$ -	\$ -	\$ 3,254,515
Construction in progress	1,236,927	1,142,712	1,192,987	1,186,652
Total capital assets, not being depreciated	<u>4,491,442</u>	<u>1,142,712</u>	<u>1,192,987</u>	<u>4,441,167</u>
Capital assets, being depreciated:				
Buildings and building improvements	76,297,695	1,842,941		78,140,636
Equipment and vehicles	13,507,189			13,507,189
Furniture and fixtures	8,751,751	192,683		8,944,434
Infrastructure	102,486,281	699,706		103,185,987
Total capital assets, being depreciated	<u>201,042,916</u>	<u>2,735,330</u>	<u>-</u>	<u>203,778,246</u>
Less accumulated depreciation for:				
Buildings and building improvements	16,459,423	2,227,524		18,686,947
Equipment and vehicles	8,509,184	702,806		9,211,990
Furniture and fixtures	5,537,341	547,428		6,084,769
Infrastructure	10,056,281	1,719,766		11,776,047
Total accumulated depreciation	<u>40,562,229</u>	<u>5,197,524</u>	<u>-</u>	<u>45,759,753</u>
Total capital assets, being depreciated, net	<u>160,480,687</u>	<u>(2,462,194)</u>	<u>-</u>	<u>158,018,493</u>
Governmental activities capital assets, net	<u>\$ 164,972,129</u>	<u>\$ (1,319,482)</u>	<u>\$ 1,192,987</u>	<u>\$ 162,459,660</u>

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

General government	\$ 402,349
Public safety	83,094
Public works and economic development	4,581,977
Health, public housing, and welfare	<u>130,104</u>
Total	<u>\$ 5,197,524</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2013 are as follows:

Puerto Rico Electric Power Authority	\$ 5,477,055
P.R. Treasury Department	2,824,353
Puerto Rico General Services Administration	2,523,938
Puerto Rico Labor Department	956,485
Retirement System Administration	773,803
U.S. Internal Revenue Services	581,393
Puerto Rico Water and Sewer Authority	<u>113,836</u>
Total	<u>\$ 13,250,863</u>

12. DEFERRED REVENUES

The deferred revenues of approximately \$7.3 million in the general fund related to municipal license tax collected in fiscal year 2012-13 that will be earned in fiscal year 2013-14.

13. 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.

14. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2013 are as follows:

a. Legal Debt Margin

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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%.	\$ 4,750,000
\$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%.	815,000
\$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%.	505,000
\$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%.	835,000
\$3,530,000 series of 1998, payable in annual installments of \$145,000 to \$305,000 until July 1, 2019, interest ranging from 6% to 7.08%.	1,920,000
\$1,500,000 series of 1998, payable in annual installments from \$44,000 to \$108,000 until July 1, 2019, interest at 4.5%.	579,106
\$5,075,000 series of 1999, payable in annual installments of \$195,000 to \$540,000 until July 1, 2015, interest ranging from 6.16% to 11.06%.	1,365,000
\$3,470,000 series of 2000, payable in annual installments of \$140,000 to \$355,000 until June 2014, interest at approximately 8%.	690,000
\$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%.	195,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

\$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%.	\$ 650,000
\$2,062,000 series of 2001, payable in annual installments of \$62,800 until January 1, 2021, interest at 2%.	924,286
\$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%.	2,465,000
\$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%.	2,100,000
\$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%.	9,210,000
\$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%.	1,330,000
\$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%.	175,000
\$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%.	1,180,000
\$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%.	965,000
\$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%.	1,375,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

\$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%.	\$ 3,830,000
\$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%.	7,460,000
\$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%.	2,990,000
\$2,015,000 series of 2009, payable in annual installments of \$40,000 to \$185,000 until July 2029, interest ranging from 5.00% to 7.50%.	1,870,000
\$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%.	28,365,000
\$4,020,000 series of 2012, payable in annual installments of \$60,000 to \$335,000 until July 2038, interest ranging from 6.00% to 7.50%.	<u>4,020,000</u>
Subtotal bonds payable	<u>80,563,392</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%.	\$ 155,000
\$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%.	2,183,000
\$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%.	3,605,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

\$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>33,743,000</u>
Total bonds and notes	<u>\$114,306,392</u>

The annual debt service requirements for the bonds and notes payable at June 30, 2013 are as follows:

	<i>Bonds and Notes</i>	
	Principal	Interest
2014	\$ 5,929,651	\$ 5,705,320
2015	6,221,812	7,255,375
2016	5,891,019	6,881,197
2017	4,887,269	6,540,026
2018	5,224,566	6,214,845
2019-2023	22,652,075	26,151,622
2024-2028	21,880,000	19,183,749
2029-2033	23,205,000	11,242,230
2034-2038	18,415,000	2,587,868
	<u>\$ 114,306,392</u>	<u>\$ 91,762,232</u>

d. Note Payable - CRIM - Law 42

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Debt service requirements in future years are as follows:

	<i>CRIM - Law 42</i>	
	Principal	Interest
2014	\$ 58,958	\$ 131,560
2015	62,662	127,855
2016	66,599	123,918
2017	70,783	119,734
2018	75,231	115,286
2019-2023	453,287	499,297
2024-2028	614,746	297,624
2029-2032	738,461	118,865
	<u>\$ 2,140,727</u>	<u>\$ 1,534,139</u>

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Debt service requirements in future years are as follows:

	<i>CRIM - Law 146</i>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 48,972	\$ 57,876
2015	48,972	54,829
2016	48,972	51,782
2017	48,972	48,736
2018	48,972	45,690
2019-2023	244,860	182,760
2024-2028	244,860	106,610
2029-2032	<u>195,888</u>	<u>30,460</u>
	<u>\$ 930,468</u>	<u>\$ 578,743</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.

The annual debt service requirements for the note at June 30, 2013 are as follows:

	<i>Section 108 Loan Guarantee</i>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 524,000	\$ 601,619
2015	556,000	574,294
2016	592,000	545,133
2017	628,000	514,021
2018	668,000	480,274
2019-2023	4,019,000	1,790,545
2024-2026	<u>4,213,000</u>	<u>501,857</u>
	<u>\$ 11,200,000</u>	<u>\$ 5,007,743</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Long-term liability activity for the year ended June 30, 2013 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>
Governmental Activities:					
Bonds payable	\$ 116,363,919	\$ 4,020,000	\$ 6,077,527	\$ 114,306,392	\$ 5,929,651
Note payable-CRIM Law 42	2,196,199		55,472	2,140,727	58,958
Note payable-CRIM Law 146	979,440		48,972	930,468	48,972
Note payable-Section 108	11,693,000		493,000	11,200,000	524,000
Total long-term debt	<u>131,232,558</u>	<u>4,020,000</u>	<u>6,674,971</u>	<u>128,577,587</u>	<u>6,561,581</u>
Other Long-term Liabilities:					
Due to CRIM	1,632,820	2,149,311	1,632,820	2,149,311	1,881,515
Landfill obligation	32,488,803	2,877,800		35,366,603	-
Due to Labor Department	285,430		285,430		-
AAA		1,413,581		1,413,581	997,822
Due to ASES	3,869,336	1,229,163		5,098,499	-
Claims and judgements	170,000	275,000		445,000	-
Compensated absences	5,469,178		48,612	5,420,566	-
Total other long-term liabilities	<u>43,915,567</u>	<u>7,944,855</u>	<u>1,966,862</u>	<u>49,893,560</u>	<u>2,879,337</u>
Total noncurrent liabilities, governmental activities	<u>\$ 175,148,125</u>	<u>\$ 11,964,855</u>	<u>\$ 8,641,833</u>	<u>\$ 178,471,147</u>	<u>\$ 9,440,918</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 notes of the Municipality. The property taxes are collected and retained by the CRIM.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

15. FUND BALANCES

As of June 30, 2013, fund balances are comprised of the following:

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Joint Resolutios	Other Governmental Funds	Total
Restricted:							
General government	\$ -	\$ 912	\$ -	\$ -	\$ -	\$ 108,670	\$ 109,582
Health and welfare		364,235	98,369				462,604
Capital outlays		3,498,597					3,498,597
Debt service				8,683,363			8,683,363
Committed:							
General government	2,379,192						2,379,192
Capital outlays					3,364,862	1,323,257	4,688,119
Assigned:							
General government	1,093,228					71,309	1,164,537
Unassigned	(18,288,087)						(18,288,087)
	<u>\$ (14,815,667)</u>	<u>\$ 3,863,744</u>	<u>\$ 98,369</u>	<u>\$ 8,683,363</u>	<u>\$ 3,364,862</u>	<u>\$ 1,503,236</u>	<u>\$ 2,697,907</u>

16. FUND BALANCE DEFICIT

The following fund had a deficit in fund balance at June 30, 2013:

<u>Fund</u>	<u>Deficit</u>
General	<u>\$ 14,815,667</u>

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

17. NET POSITION

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

Capital assets, net of accumulated depreciation	\$ 162,459,660
Available funds for capital projects	(10,278)
Outstanding balance on capital related debt	<u>(53,103,392)</u>
Total invested in capital assets, net of related debt	<u>\$ 109,345,990</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

18. 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. 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 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 11.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2013 was approximately \$0.9 million. The Municipality's payroll for employees

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

covered by ERS was approximately \$8.3 million. The Municipality total payroll for all employees was approximately \$30.6 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

19. 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.

20. LEASES

Operating Leases

Leasing arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2013 was approximately \$106,019.
- 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

21. 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 \$35,366,603 as of June 30, 2013, which is based on an 80% usage of the landfill. It is estimated that an additional \$2,877,800 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 2017). The estimated total current costs of the landfill closure and post-closure care (\$44,000,000) 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, 2013. 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.

22. 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 it 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

23. COMMITMENTS

The Municipality of Toa Baja had several outstanding or planned construction projects as of June 30, 2013. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$6.8 million.

24. SUBSEQUENT EVENTS

In preparing these financial statements the Municipality has evaluated events and transactions for potential recognition or disclosure through January 7, 2014, the date the financial statements were available to be issued.

PART II – REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note 1)</u>	
REVENUES				
Property taxes	\$ 13,281,406	\$ 13,281,406	\$ 13,281,406	\$ -
Municipal license taxes	18,050,000	18,050,000	9,506,612	(8,543,388)
Sales and use taxes	8,625,000	8,625,000	5,134,082	(3,490,918)
Licenses and permits	6,595,000	6,595,000	1,413,560	(5,181,440)
Charges for services and rent	150,000	150,000	150,829	829
Intergovernmental revenues:				
State contributions	5,849,036	5,849,036	5,369,684	(479,352)
Interest, fines and penalties	1,425,000	1,425,000	217,847	(1,207,153)
Other revenues	3,959,132	3,959,132	4,349,474	390,342
Total revenues	<u>57,934,574</u>	<u>57,934,574</u>	<u>39,423,494</u>	<u>(18,511,080)</u>
EXPENDITURES				
Current:				
General government	36,158,504	37,831,862	34,828,211	3,003,651
Public safety	5,681,393	5,065,627	4,625,759	439,868
Public works	6,303,388	6,356,337	5,715,932	640,405
Recreation	3,003,349	2,982,987	2,582,665	400,322
Health and welfare	6,787,940	5,697,761	5,336,769	360,992
Total expenditures	<u>57,934,574</u>	<u>57,934,574</u>	<u>53,089,336</u>	<u>4,845,238</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,665,842)</u>	<u>\$ (13,665,842)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 39,423,494
Differences - budget to GAAP:				
Net change in receivables				<u>3,443,206</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 42,866,700</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule				\$ 53,089,336
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				1,543,311
Net change in payables				(3,115,985)
Current year encumbrances recorded as expenditures for budgetary purposes				(898,176)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 50,618,486</u>

The accompanying note to Budgetary Comparison Schedule
is an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTE TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America, 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 certain appropriations within the budget known as Mayor's Executive Orders do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For US 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. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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.

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2013 representing the original budget.

PART III - SINGLE AUDIT SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)			
Direct Programs:			
Community Development Block Grant Program, Entitlement Grants	14.218		\$ 2,059,830
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253		49,240
Pass-through Commissioner Office of Municipal Affairs Neighborhood Stabilization Program (NSP)	14.218		1,417,257
Community Development Block Grant Program, Section 108, Loan Guarantee (Note 3)	14.248	B-05-MC-72-0008	507,170
Emergency Shelter Grant Program	14.231		73,027
Home Investment Partnership Program	14.239		248,966
Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257		83,344
Section 8 - Housing Choice Vouchers	14.871		1,711,805
Pass-through Municipality of San Juan:			
Hopwa	14.241		190,012
Subtotal U.S. Department of HUD			<u>6,340,651</u>
U.S. Department of Agriculture			
Pass-through Education Department:			
Child and Adult Care Food Program - Child Care	10.558		70,079
Child and Adult Care Food Program - Early Head Start	10.558		80,303
Pass-through the Office of Administration for Children and Families:			
Child and Adult Care Food Program - Head Start	10.558		720,023
Subtotal U.S. Department of Agriculture			<u>870,405</u>
U.S. Department of Health and Human Services (HHS)			
Direct Program:			
Early Head Start	93.600		1,086,361
Pass-through the Office of Administration for Children and Families:			
Head Start and Early Head Start	93.600		7,715,119
Child Care Development Block Grant	93.575		774,158
Special Programs for the Aging - Title III, Part B	93.044		48,603
Special Programs for the Aging - Title III, Part C	93.045		121,287
Nutrition Services Incentive Program (NSIP)	93.053		74,965
Subtotal U.S. Department of HHS			<u>9,820,493</u>
U.S. Department of Transportation			
Direct Program:			
Federal Transit – Capital Investment Grants	20.500	90-X-530-7	73,726
Subtotal U.S. Department of Transportation			<u>73,726</u>
U.S. Department of Labor			
Pass-through Commonwealth of Puerto Rico - Human Resources and Occupational Development Council:			
Workforce Investment Act (WIA) - Youth Activities	17.259		28,007
Subtotal U.S. Department of Labor			<u>28,007</u>
U.S. Department of Energy			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program (EESBG)	81.128		716,128
Subtotal U.S. Department of Energy			<u>716,128</u>
TOTAL			<u>\$ 17,849,410</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

1. SIGNIFICANT ACCOUNTING POLICIES

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

2. BASIS OF PRESENTATION

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

	<u>Expenditures</u>
Total federal expenditures per schedule	\$ <u>17,849,410</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$ 6,340,651
Health and Human Services Programs	9,820,493
Federal expenditures included within other governmental funds	<u>1,688,266</u>
Total	\$ <u>17,849,410</u>

3. LOAN OUTSTANDING

At June 30, 2013, 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 \$11,200,000.

**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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise Municipality's basic financial statements, and have issued our report thereon dated January 7, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as item 13-A and 13-B.

Municipality of Toa Baja's Response to Findings

Municipality's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality'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*, and which are described in the accompanying schedule of findings and questioned cost as 13-A and 13-B.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico
January 7, 2014

The stamp E65051 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of the report.



Ortiz, Rivera, Rivera & Co.

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for each Major Federal Program

We have audited Municipality of Toa Baja's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2013. Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality's compliance.

Opinion on Each Major Federal Program

In our opinion, the Municipality complied, in all material respects, with the types of 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, 2013.

Report on Internal Control over Compliance

Management of Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

San Juan, Puerto Rico
January 7, 2014

The stamp E65052 of the Puerto Rico Society of Certified Public Accountants 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, 2013**

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? X Yes 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? Yes X No

Identification of major programs:

CFDA Numbers	Name of Federal Programs or Cluster
14.218	Community Development Block Grant Program
14.218	Community Development Block Grant ARRA Program (CDBG-R)
14.253	Neighborhood Stabilization Program (NSP)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
14.248	Section 108 Loan Guarantee
81.128	Energy Efficiency and Conservation Block Grant Program

Dollar threshold used to distinguish between type A and type B programs:
\$535,482.

Audited qualified as low-risk auditee? Yes No

II. FINDINGS - FINANCIAL STATEMENTS AUDIT

- **13-A: General Fund Deficit**

Condition

As of June 30, 2013, the Municipality closed with an accumulated deficit of \$14,815,667, three of the last five years the Municipality has closed its operations reporting a deficit.

Criteria

Article 7.011(a) of Autonomous Municipal Act (Law 81 of August 30, 1991), as amended, establishes that municipalities with deficits at their closing dates must provide for sufficient resources during the next fiscal year period in order to cover such deficit.

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that special care must be provided for the estimation of future revenues in order to avoid budget appropriations in excess of available resources.

Cause

The deficit is caused by the overestimation of budgeted revenues and by the incurrence of obligations without the proper consideration of current and future available resources. The Mayor and the Finance Director should improve the budgeting procedures to avoid continuing with operating deficit each fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Recommendation

The continuing deficit reported by the Municipality may harm the basic governmental services provided to its citizens. We strongly recommend that the necessary measures are taken in order to stop this trend. The Municipality should work on increasing actual revenues and/or reducing expenditures.

• **13-B: Estimated Revenue Shortfall**

Condition

As of June 30, 2013, the Municipality did not meet certain projected revenues by significant amounts, causing an increase in its General Fund deficit (see Finding 13-A). The following deficiencies were noted based on our comparison of budgeted revenues versus final operating results:

- For municipal license taxes, the Municipality failed to meet its expectations by \$8.5 million, a 47% budget shortfall.
- For sales and usage taxes, the Municipality failed to meet its expectations by \$3.4 million, a 40% budget shortfall.
- For licenses and permits, the Municipality failed to meet its expectations by \$5.2 million, a 79% budget shortfall.

Criteria

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that special care must be provided for the estimation of future revenues in order to avoid budget appropriations in excess of available resources.

Cause

The Mayor and the Finance Director did not follow adequate budgeting procedures for establishing reasonable estimates.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA BAJA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Recommendation

The Municipality should revise and amend the budget as current information related to collections of budgeted revenues became available.

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

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, 2013**

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, 2013

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Head Start Program CFDA No. 93.600	Condition 12-1 Some required financial reports were submitted after the due date to the Agency.	Condition was corrected.

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, 2013

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Joint Resolutions	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 5)	\$ 13,281,406	\$ -	\$ -	\$ 11,445,984	\$ -	\$ -	\$ 24,727,390
Municipal license taxes (Note 6)	9,616,782						9,616,782
Licenses, permits, and other local taxes	1,469,822						1,469,822
Sales and use taxes (Note 7)	5,154,754			1,314,583			6,469,337
Charges for services	150,829					918,676	1,069,505
Intergovernmental revenues (Note 13):							
Federal grants and contributions	7,570,529	5,679,032	9,869,687		4,737,289	1,678,123	17,226,842
State contributions	208,989	237		10,315		583,496	12,891,314
Interest, fines, and penalties	5,413,589					23,345	242,886
Other revenues	42,866,700		9,869,687	12,770,882	4,737,289	3,204,046	5,413,995
Total revenues	42,866,700	5,679,269	9,869,687	12,770,882	4,737,289	3,204,046	79,127,873
EXPENDITURES							
Current:							
General government	30,670,979			6,134,527	471,095	1,585,906	32,727,980
Public safety	4,640,478	190,012		5,232,875		172,144	5,002,634
Economic development				11,367,402	3,071,297	716,128	19,537,366
Health, public housing, and welfare	5,231,461	3,613,132	9,820,493	1,403,480	1,665,992	872,280	1,375,225
Culture and recreation	1,375,225						8,700,343
Public works	8,700,343				2,600,202	73,726	4,091,185
Capital outlays		1,417,257					
Debt service:							
Principal				6,134,527			6,134,527
Interest and other				5,232,875			5,232,875
Total expenditures	50,618,486	5,220,401	9,820,493	11,367,402	3,071,297	3,420,184	83,518,263
Excess (deficiency) of revenues over expenditures	(7,751,786)	458,868	49,194	1,403,480	1,665,992	(216,138)	(4,390,390)
OTHER FINANCING SOURCES (USES)							
Bond issuance	4,020,000			3,052,268		(1,382,590)	4,020,000
Transfers in	1,391,448			(8,858)		(1,382,590)	4,443,716
Transfers out	(1,932,018)	(1,120,250)		3,043,410		(1,382,590)	(4,443,716)
Total other financing sources (uses)	3,479,430	(1,120,250)		3,043,410		(1,382,590)	4,020,000
Net change in fund balances	(4,272,356)	(661,382)	49,194	4,446,890	1,665,992	(1,598,728)	(370,390)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(10,543,311)	4,525,126	49,175	4,236,473	1,698,870	3,101,964	3,068,297
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (14,815,667)	\$ 3,863,744	\$ 98,369	\$ 8,683,363	\$ 3,364,862	\$ 1,503,236	\$ 2,697,907

Handwritten signature and initials

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

OCAM
DIVISION REGLAMENTACION
E INTERVENCION

MAR -3 AM 11:52

MUNICIPIO DE TOA BAJA

DEPARTAMENTO DE FINANZAS

HOJA DE TRAMITE

A:	OFIC. COMISIONADO ASUNTOS MUNICIPALES
DE	SR. VICTOR M. CRUZ QUINTERO DIRECTOR

FECHA	18 DE FEBRERO DE 2014
ASUNTO:	ENTREGA DE ESTADOS FINANCIEROS 2012-2013

-  ESTUDIO Y RECOMENDACIÓN
-  SEGÚN SOLICITADO
-  FIRMAR Y DEVOLVER

-  CONOCIMIENTO
-  VISTOBUENO
-  EVALUACIÓN

 PARA SU ACCION CORRESPONDIENTE

RECIBIDO 

FECHA 28/02/14

HORA 2:02 PM

14 FEB 28 PM 2:01

OCAM
DIV. SERVICIOS GENERALES