

JGAM  
DIV. SERVICIOS GENERALES

15 MAR 26 AM 11: 12

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

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2014**

**PART I - FINANCIAL SECTION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**TABLE OF CONTENTS**

	<u>Pages</u>
<b>PART I - FINANCIAL SECTION</b>	
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.....	19-49

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**TABLE OF CONTENTS (CONTINUED)**

	<u>Pages</u>
<b>PART II - REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule - General Fund .....	51
Note to Budgetary Comparison Schedule - General Fund .....	52
<b>PART III - SINGLE AUDIT SECTION</b>	
Schedule of Expenditures of Federal Awards.....	54
Notes to Schedule of Expenditures of Federal Awards .....	55
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.....	56-57
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133 .....	58-60
Schedule of Findings and Questioned Costs.....	61-64
Schedule of Status of Prior Year Audit Findings and Questioned Costs .....	65

## 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, 2014, 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 of 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 auditors' 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 auditors

15 MAR 26 AM 11:12  
DIV. SERVICIOS GENERALES  
U.S.A.M.

consider 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 the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Toa Baja, as of June 30, 2014, 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 51 to 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

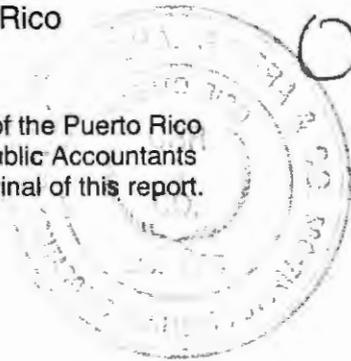
Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 February 6, 2015 on our consideration of the Municipality of Toa Baja' 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' internal control over financial reporting and compliance.

San Juan, Puerto Rico  
February 6, 2015

The stamp E135705 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



*Ortiz, Rivera, Rivera & Co.*

*Commonwealth of Puerto Rico  
Municipality of Toa Baja  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2014*

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's activities, resulting changes and currently known facts, we encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

## **HIGHLIGHTS**

### **Financial Highlights**

- The Municipality's net position amounted to \$(16.4) million at the close of the current fiscal year. This amount represents a decrease of \$3.1 million from the previous year's net position.
- As of June 30, 2014, the Municipality's General Fund (the primary operating fund) reported a deficiency of \$14.4 million, a decrease of \$0.4 million in comparison with the prior year.
- Capital expenditures amounted to \$1.0 million during the year.
- Loans principal payments were \$7.1 million during fiscal year 2013-2014. Other long-term liabilities payments were \$5.1 million. The current additions were \$8.3 million. At June 30, 2014, the total long-term debt balance was \$174.5 million as of same date, as compared to \$178.5 million in prior year.

## Overview of the Financial Statements

The financial statement's focus 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>
<b>Scope</b>	<b>The entire Municipality's Government</b>	<b>The activities of the Municipality</b>
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 worst off as a result of the year's activities?". The Statement of Net Position and the Statement of Activities includes 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 \$(9.5) 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>		
	<b>2014</b>	<b>2013</b>
Current and other assets	\$ 28.4	\$ 31.8
Capital assets	158.8	162.5
Total assets	<u>187.2</u>	<u>194.3</u>
Current and other liabilities	22.2	21.6
Long-term debt outstanding	174.5	178.5
Total liabilities	<u>196.7</u>	<u>200.1</u>
Deferred inflows of resources	7.0	7.6
Total deferred inflows of resources	<u>7.0</u>	<u>7.6</u>
Net position:		
Investment in capital assets, net of debt	106.0	109.3
Restricted	9.7	12.1
Unrestricted	(132.1)	(134.7)
Total net position	<u>\$ (16.4)</u>	<u>\$ (13.3)</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 \$132.1 million.

The Municipality's net position decrease \$3.1 million during the current fiscal year. Such decrease was mainly due to budgeted revenues not collected and the increase of expenditures related to administrative costs and accounts payables due.

## THE MUNICIPALITY FUNDS

### Governmental Funds

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet reported a combined deficit of \$0.7 million which is lower than the beginning

fund balance of the year \$2.7 million. This decrease was the net result of an increase of \$0.4 million of the General Fund and \$0.1 million in the HHS Programs Fund; and a decrease of \$2.4 million in the Debt Services Fund and \$1.5 in the Other Governmental Funds.

**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 \$0.2 million of excess expenditures over revenues.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2014, the Municipality had \$158.8 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 \$3.7 million from the end of last year.

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

<i>Governmental Activities</i>		
	<b>2014</b>	<b>2013</b>
Land	\$ 3.3	\$ 3.3
Construction in progress	1.4	1.2
Building and building improvements	58.4	59.4
Furnitures and fixtures	3.6	4.3
Vehicles and equipment	2.4	2.9
Infraestructure	89.7	91.4
Total	<u>\$ 158.8</u>	<u>\$ 162.5</u>

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

<i>Governmental Activities</i>		
	<b>2014</b>	<b>2013</b>
Beginning balance	\$ 162.5	\$ 165.0
Additions	2.6	3.8
Retirements	(1.2)	(1.1)
Depreciation	(5.1)	(5.2)
Ending balance	<u>\$ 158.8</u>	<u>\$ 162.5</u>

### Debt Outstanding

As of year-end, the Municipality had \$174.5 million in debt (bonds, notes and other long-term debts) outstanding compared to \$178.5 million last year, a net decrease of \$4 million.

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

	<b>2014</b>	<b>2013</b>
General obligations bonds and notes	\$ 109.1	\$ 114.3
Due to CRIM - Law 42	2.1	2.1
Note payable - Section 108	10.1	11.2
Landfill obligation	38.2	35.4
Compensated absences	4.4	5.5
Others	10.6	10.0
Totals	<u>\$ 174.5</u>	<u>\$ 178.5</u>

Long-term liabilities were added related to CRIM Liquidation 2013-2014 amounted to \$0.8 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 \$10.1 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 \$109.1 million is below legal limitation. A note payable of \$10.1 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 2013-2014 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 2014-2015. 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 2014-2015.

### **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 Finance Director on the 4<sup>th</sup> Floor of the City Hall, Sabana Seca Avenue, PO Box 2359, Toa Baja, Puerto Rico 00951.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<u>Governmental Activities</u>
<b><u>Assets</u></b>	
Cash in bank (Notes 2 and 4)	\$ 1,473,139
Cash with fiscal agent (Notes 2 and 4)	17,018,135
Certificates of deposits (Notes 2 and 4)	2,706,285
Accounts receivable:	
Property taxes	140,795
Municipal license taxes	39,761
Sales and use taxes	551,962
Interest	2,198
Other	4,765
Due from other agencies (Note 8)	6,485,884
Capital assets, net (Note 10)	<u>158,810,776</u>
Total assets	<u>187,233,700</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Net Position</u></b>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	976,277
Due to other agencies (Note 11)	12,636,530
Claims and judgments	89,892
Matured bonds	6,081,633
Matured interest payable	2,369,820
Noncurrent liabilities (Note 14):	
Due within one year	9,314,332
Due in more than one year	165,231,034
Total liabilities	<u>196,699,518</u>
<b>Deferred Inflows of Resources</b>	
(Notes 6 and 12)	
Municipal license tax	<u>6,977,595</u>
<b>Net Position</b>	
Investment in capital assets, net of related debt	106,023,776
Restricted for:	
Debt service	6,235,272
Capital projects	3,361,516
Unrestricted	<u>(132,063,977)</u>
Total net position	<u>\$ (16,443,413)</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, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary Government:</b>					
General government	\$ 29,590,866	\$ 1,181,811	\$ -	\$ -	\$ (28,409,055)
Public safety	4,287,311				(4,287,311)
Public works	16,987,767			4,951,954	(12,035,813)
Culture and recreation	1,080,629				(1,080,629)
Health, public housing, and welfare	14,237,557		10,230,791		(4,006,766)
Economic development	999,280				(999,280)
Interest on long-term debts	6,769,672				(6,769,672)
<b>Total primary government</b>	<b>\$ 73,953,082</b>	<b>\$ 1,181,811</b>	<b>\$ 10,230,791</b>	<b>\$ 4,951,954</b>	<b>(57,588,526)</b>
General revenues:					
Property taxes (Note 5)					23,504,567
Municipal license taxes (Note 6)					10,100,804
Sales and use taxes (Note 7)					6,882,463
Grants and contributions not restricted to specific programs					7,986,778
Interest, fines, and penalties					125,503
Miscellaneous					5,858,578
<b>Total general revenues</b>					<b>54,458,693</b>
Change in net position					(3,129,833)
Net position at beginning of year					(13,313,580)
Net position at end of year					<b>\$ (16,443,413)</b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2014

<u>Assets</u>	<u>General</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash in bank (Notes 2 and 4)	\$ 199,896	\$ 232,896	\$ -	\$ 1,040,347	\$ 1,473,139
Cash with fiscal agent (Notes 2 and 4)	293,280		15,475,531	1,249,324	17,018,135
Certificates of deposits (Notes 2 and 4)				2,706,285	2,706,285
Accounts receivable:					
Municipal license taxes	39,761				39,761
Sales and use taxes	452,442		99,520		551,962
Property taxes			140,795		140,795
Interest				2,198	2,198
Other				4,765	4,765
Due from other agencies (Note 8)	6,294,176			191,708	6,485,884
Due from other funds (Note 9)	1,330,268			2,589,951	3,920,219
 Total assets	 <u>\$ 8,609,823</u>	 <u>\$ 232,896</u>	 <u>\$ 15,715,846</u>	 <u>\$ 7,784,578</u>	 <u>\$ 32,343,143</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, 2014

<u>Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)</u>	<u>General</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 736,709	\$ 32,701	\$ -	\$ 206,867	\$ 976,277
Due to other funds (Note 9)	2,589,951	3,244	1,029,121	297,903	3,920,219
Due to other agencies (Note 11)	12,636,530				12,636,530
General obligations:					
Bonds			6,081,633		6,081,633
Interest			2,369,820		2,369,820
Claims and judgments	89,892				89,892
Total liabilities	<u>16,053,082</u>	<u>35,945</u>	<u>9,480,574</u>	<u>504,770</u>	<u>26,074,371</u>
<b>Deferred Inflows of Resources (Notes 6 and 12)</b>					
Municipal license taxes	6,977,595				6,977,595
Total deferred inflows of resources	<u>6,977,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,977,595</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes 22 and 23)</b>					
<b>Fund Balances (Deficit)</b>					
Reserved for:					
Restricted		196,951	6,235,272	3,361,516	9,793,739
Committed	293,280			3,361,744	3,655,024
Assigned	716,082			556,548	1,272,630
Unassigned	(15,430,216)				(15,430,216)
Total fund balances (deficit)	<u>(14,420,854)</u>	<u>196,951</u>	<u>6,235,272</u>	<u>7,279,808</u>	<u>(708,823)</u>
Total liabilities, deferred inflows of resources, and fund balances (deficit)	<u>\$ 8,609,823</u>	<u>\$ 232,896</u>	<u>\$ 15,715,846</u>	<u>\$ 7,784,578</u>	<u>\$ 32,343,143</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, 2014**

Total fund balances - governmental funds \$ (708,823)

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. 158,810,776
- 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)** (174,545,366)

Net position of governmental activities \$ (16,443,413)

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, 2014**

	General	Health and Human Services Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes (Note 5)	\$ 13,126,610	\$ -	\$ 10,377,957	\$ -	\$ 23,504,567
Municipal license taxes (Note 6)	10,100,804				10,100,804
Licenses, permits, and other local taxes	540,216				540,216
Sales and use taxes (Note 7)	5,818,604		1,063,859		6,882,463
Charges for services	105,966			535,629	641,595
Intergovernmental revenues (Note 13):					
Federal grants and contributions		9,162,271		6,020,474	15,182,745
State contributions	5,795,023			2,191,755	7,986,778
Interest, fines, and penalties	93,501		12,397	19,605	125,503
Other revenues	5,857,662			916	5,858,578
Total revenues	<u>41,438,386</u>	<u>9,162,271</u>	<u>11,454,213</u>	<u>8,768,379</u>	<u>70,823,249</u>
<b>EXPENDITURES</b>					
Current:					
General government	19,872,237			2,087,431	21,959,668
Public safety	3,996,810			207,460	4,204,270
Economic development				999,280	999,280
Health, public housing, and welfare	5,037,140	9,063,689		17,464	14,118,293
Culture and recreation	1,080,629				1,080,629
Public works	8,900,170			3,539,851	12,440,021
Capital outlays				1,494,433	1,494,433
Debt service:					
Principal			11,848,713		11,848,713
Interest and other			6,769,672		6,769,672
Total expenditures	<u>38,886,986</u>	<u>9,063,689</u>	<u>18,618,385</u>	<u>8,345,919</u>	<u>74,914,979</u>
Excess (deficiency) of revenues over expenditures	<u>2,551,400</u>	<u>98,582</u>	<u>(7,164,172)</u>	<u>422,460</u>	<u>(4,091,730)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of refunding bond				28,045,000	28,045,000
Payments of refunding bond			(27,360,000)		(27,360,000)
Transfers in	4,039,928		36,116,009		40,155,937
Transfers out	(6,196,515)		(4,039,928)	(29,919,494)	(40,155,937)
Total other financing sources (uses)	<u>(2,156,587)</u>	<u>-</u>	<u>4,716,081</u>	<u>(1,874,494)</u>	<u>685,000</u>
Net change in fund balances	394,813	98,582	(2,448,091)	(1,452,034)	(3,406,730)
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	<u>(14,815,667)</u>	<u>98,369</u>	<u>8,683,363</u>	<u>8,731,842</u>	<u>2,697,907</u>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<u>\$ (14,420,854)</u>	<u>\$ 196,951</u>	<u>\$ 6,235,272</u>	<u>\$ 7,279,808</u>	<u>\$ (708,823)</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT  
OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds \$ (3,406,730)

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. 1,494,433
- 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. (5,143,317)
- 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. 12,267,987
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.
  - Landfill obligation (8,342,206)

Changes in net assets of governmental activities \$ (3,129,833)

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, 2014**

**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, 2014**

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, 2014**

- 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, 2014.

**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.

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 related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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

The 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. 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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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) 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.

3) 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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.

**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><b>Useful Life</b></u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.

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

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

- 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.

Negative fund balance amounts are assigned amounts to eliminate the deficit. 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, 2014.

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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014 amounted to \$824,289. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$665,854 for workers' compensation insurance covering all municipal employees.

**i. Compensated Absences**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**j. Future Adoption of Accounting Pronouncements**

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

<b>Statement Number</b>	<b>Statement Name</b>	<b>Adoption Required in Fiscal Year</b>
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15
71	Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68	2014-15

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

**k. Deferred Inflows**

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 arise 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, 2014 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-

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.

**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 \$174.5 million differences are as follows:

Bonds payable	\$109,061,741
Landfill obligation	38,244,403
Notes payable	13,083,272
ASES	5,098,499
Compensated absences	4,414,215

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

General Services Administration	\$ 1,844,450
Retirement System	1,065,720
Municipal Revenues Collection Center	1,017,307
Puerto Rico Water and Sewer Authority	415,759
Claims and judgments	<u>300,000</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	 <u>\$174,545,366</u>

**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 \$1.2 million that are restricted for general purpose and the \$15.6 million in the debt service fund are unsecured 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 11.58% for real property and 9.58% 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	4.75%	4.75%
Discounts made by state to tax payer	< <u>.20%</u> >	< <u>.20%</u> >
	<u>11.58%</u>	<u>9.58%</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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Based on the final settlement received from CRIM related to fiscal year 2013-2014 on the six-month period after fiscal year ends, the amount collected by CRIM from taxpayers and charges exceeded the amount advanced by CRIM for the same period by \$879,315. Such amount is presented as due to CRIM in the accompanying financial statements. (See note 15).

**6. MUNICIPAL LICENSE TAXES**

Municipal license taxes receivable are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2014. The annual municipal license tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Toa Baja, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

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

Financial institutions	=	1.5%
Other organizations	=	.5%

The amounts collected in advance are recorded as deferred inflows of resources in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$7.0 million, corresponding to the next fiscal year municipal license.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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	\$6,069,989
Government Development Bank for Puerto Rico	224,187
Education Department (Other Governmental Funds)	190,015
Justice Department (Other Governmental Funds)	<u>1,693</u>
Total	<u><u>\$6,485,884</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**9. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2014, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other governmental funds	General	\$ 2,589,951
General	Debt services	1,029,121
General	HHS	3,244
General	Other governmental funds	<u>297,903</u>
Total		<u>\$ 3,920,219</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, 2014 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$ 6,196,515
Debt Service	Other governmental	29,919,494
General	Debt Service	<u>4,039,928</u>
Total		<u>\$ 40,155,937</u>

The transfer from the general fund and other governmental funds to the debt service fund of \$6,196,515 represents monies transferred to cover debt service payments as become due.

The transfer from other governmental to the debt service fund of \$27,360,000 are for the payment of refunded bonds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**10. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,254,515	\$ -	\$ -	\$ 3,254,515
Construction in progress	1,186,652	1,439,410	1,233,743	1,392,319
Total capital assets, not being depreciated	<u>4,441,167</u>	<u>1,439,410</u>	<u>1,233,743</u>	<u>4,646,834</u>
Capital assets, being depreciated:				
Buildings and building improvements	78,140,636	1,233,743		79,374,379
Equipment and vehicles	13,507,189			13,507,189
Furniture and fixtures	8,944,434	55,023		8,999,457
Infrastructure	103,185,987			103,185,987
Total capital assets, being depreciated	<u>203,778,246</u>	<u>1,288,766</u>	<u>-</u>	<u>205,067,012</u>
Less accumulated depreciation for:				
Buildings and building improvements	18,686,947	2,273,057		20,960,004
Equipment and vehicles	9,211,990	623,043		9,835,033
Furniture and fixtures	6,084,769	527,450		6,612,219
Infrastructure	11,776,047	1,719,767		13,495,814
Total accumulated depreciation	<u>45,759,753</u>	<u>5,143,317</u>	<u>-</u>	<u>50,903,070</u>
Total capital assets, being depreciated, net	<u>158,018,493</u>	<u>(3,854,551)</u>	<u>-</u>	<u>154,163,942</u>
Governmental activities capital assets, net	<u>\$ 162,459,660</u>	<u>\$ (2,415,141)</u>	<u>\$ 1,233,743</u>	<u>\$ 158,810,776</u>

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

General government	\$ 393,266
Public safety	83,041
Public works and economic development	4,547,746
Health, public housing, and welfare	<u>119,264</u>
Total depreciation expense-governmental activities	<u>\$ 5,143,317</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**11. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2014 are as follows:

Puerto Rico Electric Power Authority	\$ 6,069,989
P.R. Treasury Department	2,873,521
Puerto Rico Water and Sewer Authority	1,362,635
Puerto Rico Labor Department	1,315,288
U.S. Internal Revenue Services	463,115
Puerto Rico General Services Administration	312,048
Retirement System Administration	207,588
Puerto Rico Employees Association	<u>32,346</u>
 Total	 <u>\$ 12,636,530</u>

**12. DEFERRED INFLOWS OF RESOURCES**

The deferred inflows of resources approximately \$7.0 million in the general fund related to municipal license tax collected in fiscal year 2013-2014 that will be earned in fiscal year 2014-2015.

**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, 2014 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, 2014**

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%.	\$ 4,220,000
\$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%.	725,000
\$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%.	265,000
\$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%.	755,000
\$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%.	1,735,000
\$1,500,000 series of 1998, payable in annual installments from \$44,000 to \$108,000 until July 1, 2019, interest at 4.5%.	493,106
\$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%.	940,000
\$3,470,000 series of 2000, payable in annual installments of \$140,000 to \$355,000 until June 2014, interest at approximately 8%.	355,000
\$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%.	135,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

\$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%.	\$ 620,000
\$2,062,000 series of 2001, payable in annual installments of \$62,800 until January 1, 2021, interest at 2%.	816,635
\$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%.	2,365,000
\$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%.	1,960,000
\$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%.	8,705,000
\$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%.	1,295,000
\$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%.	1,150,000
\$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%.	885,000
\$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%.	1,340,000
\$4,200,000 series of 2008, payable in annual installments of \$60,000 to \$345,000 until July 1, 2032, interest ranging from 3.93% to 7.25%.	3,740,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

\$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%.	\$ 6,610,000
\$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%.	2,650,000
\$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%.	1,810,000
\$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 2037, interest ranging from 6.00% to 7.50%.	3,960,000
\$28,045,000 series of 2014, payable in annual installments of \$485,000 to \$2,415,000 until July 2036, interest ranging from 6.00% to 7.50%.	<u>28,045,000</u>
Subtotal bonds payable	<u>103,939,741</u>
 <b>c. Special Obligation - Notes</b>	
\$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%.	\$ 80,000
\$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%.	1,502,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

\$3,715,000 series of 2011, payable in annual installments of \$60,000 to \$310,000 until July 2036, interest ranging from 6.00% to 7.50%.	<u>\$ 3,540,000</u>
Subtotal special obligation notes	<u>5,122,000</u>
Total bonds and notes	<u>\$109,061,741</u>

The annual debt service requirements for the bonds and notes payable at June 30, 2014 are as follows:

	<i><b>Bonds and Notes</b></i>	
	<b>Principal</b>	<b>Interest</b>
2015	\$ 6,226,812	\$ 7,945,645
2016	5,906,019	8,929,992
2017	4,902,269	8,547,723
2018	5,239,566	8,178,453
2019	5,607,016	5,942,178
2020-2024	21,170,059	33,744,682
2025-2029	22,270,000	24,932,092
2030-2034	23,870,000	14,316,980
2035-2039	13,870,000	2,732,056
	<u>\$ 109,061,741</u>	<u>\$ 115,269,801</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, 2014**

Debt service requirements in future years are as follows:

	<b><i>CRIM - Law 42</i></b>	
	<b>Principal</b>	<b>Interest</b>
2015	\$ 62,662	\$ 127,855
2016	66,599	123,918
2017	70,783	119,734
2018	75,231	115,286
2019	79,958	110,558
2020-2024	481,768	469,114
2025-2029	653,372	260,701
2029-2032	591,397	75,413
	<u>\$ 2,081,770</u>	<u>\$ 1,402,579</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, 2014**

Debt service requirements in future years are as follows:

	<b><i>CRIM - Law 146</i></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2015	\$ 48,966	\$ 22,070
2016	48,966	20,844
2017	48,966	19,618
2018	48,966	18,392
2019	48,966	17,166
2020-2024	244,830	67,436
2025-2029	244,830	36,780
2030-2034	<u>147,012</u>	<u>7,356</u>
	<u>\$ 881,502</u>	<u>\$ 209,662</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, 2014 are as follows:

	<b><i>Section 108 Loan Guarantee</i></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2015	\$ -	\$ 280,100
2016	592,000	545,133
2017	628,000	514,021
2018	668,000	480,274
2019	709,000	443,500
2020-2024	4,270,000	1,560,871
2024-2026	<u>3,253,000</u>	<u>288,031</u>
	<u>\$ 10,120,000</u>	<u>\$ 4,111,930</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Long-term liability activity for the year ended June 30, 2014 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 114,306,392	\$ 685,000	\$ 5,929,651	\$ 109,061,741	\$ 6,226,812
Note payable-Section 108	11,200,000		1,080,000	10,120,000	-
Note payable-CRIM Law 42	2,140,727		58,957	2,081,770	62,662
Note payable-CRIM Law 146	930,468		48,966	881,502	48,966
	<u>128,577,587</u>	<u>685,000</u>	<u>7,117,574</u>	<u>122,145,013</u>	<u>6,338,440</u>
<b>Total long-term debts</b>					
<b>Other Long-term Liabilities:</b>					
Landfill obligation	35,366,603	2,877,800		38,244,403	
Due to CRIM	2,149,311	749,511	1,881,515	1,017,307	137,992
Due to AAA	1,413,581		997,822	415,759	415,759
Due to General Services Administration	-	1,883,915	39,465	1,844,450	473,578
Due to Retirement System	-	2,145,980	1,080,260	1,065,720	1,065,720
Due to ASES	5,098,499			5,098,499	
Claims and judgements	445,000		145,000	300,000	
Compensated absences	5,420,566		1,006,351	4,414,215	882,843
	<u>49,893,560</u>	<u>7,657,206</u>	<u>5,150,413</u>	<u>52,400,353</u>	<u>2,975,892</u>
<b>Total other long-term liabilities</b>					
Total noncurrent liabilities, governmental activities	<u>\$ 178,471,147</u>	<u>\$ 8,342,206</u>	<u>\$ 12,267,987</u>	<u>\$ 174,545,366</u>	<u>\$ 9,314,332</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, 2014**

**15. FUND BALANCES**

As of June 30, 2014, fund balances are comprised of the following:

	<u>General</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted:					
General government	\$ -	\$ -	\$ -	\$ 44,881	\$ 44,881
Health and welfare		196,951		35,998	232,949
Capital outlays				3,280,637	3,280,637
Debt service			6,235,272		6,235,272
Committed:					
General government	14				14
Capital outlays	293,266			3,361,744	3,655,010
Assigned:					
General government	716,082			556,548	1,272,630
Unassigned	(15,430,216)				(15,430,216)
	<u>\$ (14,420,854)</u>	<u>\$ 196,951</u>	<u>\$ 6,235,272</u>	<u>\$ 7,279,808</u>	<u>\$ (708,823)</u>

**16. FUND BALANCE DEFICIT**

The following fund had a deficit in fund balance at June 30, 2014:

<u>Fund</u>	<u>Deficit</u>
General	<u>\$ 14,420,854</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**17. NET POSITION**

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

Capital assets, net of accumulated depreciation	\$ 158,810,776
Outstanding balance on capital related debt	<u>(52,787,000)</u>
Total invested in capital assets, net of related debt	<u>\$ 106,023,776</u>

**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 retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, and Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

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

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

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 (12.275% 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 12.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2014 was approximately \$0.7 million. The Municipality's payroll for employees covered by ERS was approximately \$5.8 million. The Municipality total payroll for all employees was approximately \$25.8 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2014, 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

- b. Total income from leases during the year ended June 30, 2014 was approximately \$105,966.
- 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.

**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 \$38,244,403 as of June 30, 2014, which is based on an 86% usage of the landfill. It is estimated that an additional \$5,755,597 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, 2014. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF TOA BAJA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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 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.

**23. COMMITMENTS**

The Municipality of Toa Baja had several outstanding or planned construction projects as of June 30, 2014. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$1.2 million.

**24. SUBSEQUENT EVENTS**

In preparing these financial statements the Municipality has evaluated events and transactions for potential recognition or disclosure through February 6, 2015, 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, 2014**

	<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>	
<b>REVENUES</b>				
Property taxes	\$ 13,126,610	\$ 13,126,610	\$ 13,126,610	\$ -
Municipal license taxes	12,575,000	12,575,000	10,172,336	(2,402,664)
Sales and use taxes	7,125,000	7,125,000	5,816,541	(1,308,459)
Licenses and permits	3,625,000	3,625,000	686,747	(2,938,253)
Charges for services and rent	120,000	120,000	105,966	(14,034)
Intergovernmental revenues:				
State contributions	5,786,047	5,786,047	5,792,042	5,995
Interest, fines and penalties	150,000	150,000	107,291	(42,709)
Other revenues	2,909,000	3,667,120	8,465,354	4,798,234
Total revenues	<u>45,416,657</u>	<u>46,174,777</u>	<u>44,272,887</u>	<u>(1,901,890)</u>
<b>EXPENDITURES</b>				
Current:				
General government	27,594,139	29,180,683	28,236,830	943,853
Public safety	4,936,137	4,051,750	3,979,029	72,721
Public works	4,594,073	5,222,400	5,086,239	136,161
Recreation	2,218,822	2,231,834	2,102,527	129,307
Health and welfare	6,073,486	5,488,110	5,055,162	432,948
Total expenditures	<u>45,416,657</u>	<u>46,174,777</u>	<u>44,459,787</u>	<u>1,714,990</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (186,900)</u>	<u>\$ (186,900)</u>
<b>Explanation of Differences:</b>				
<b>Sources/Inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			\$ 44,272,887	
Differences - budget to GAAP:				
Net change in receivables				(2,834,501)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 41,438,386</u>	
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule			\$ 44,459,787	
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				898,176
Net change in payables				(5,873,524)
Current year encumbrances recorded as expenditures for budgetary purposes				(557,453)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 38,926,986</u>	

See notes to Budgetary Comparison Schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTE TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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, 2014 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, 2014**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>			
Direct Programs:			
Community Development Block Grant Program, Entitlement Grants Pass-through Commissioner Office of Municipal Affairs	14.218		\$ 2,162,492
Neighborhood Stabilization Program (NSP)	14.218		425,018
Community Development Block Grant Program, Section 108, Loan Guarantee (Note 3)	14.248	B-05-MC-72-0008	654,950
Emergency Shelter Grant Program	14.231		24,186
Home Investment Partnership Program	14.239		307,690
Section 8 - Housing Choice Vouchers	14.871		1,811,539
Pass-through Municipality of San Juan:			
Hopwa	14.241		168,791
Subtotal U.S. Department of HUD			<u>5,554,666</u>
<b>U.S. Department of Agriculture</b>			
Pass-through Education Department:			
Child and Adult Care Food Program - Child Care	10.558		70,879
Child and Adult Care Food Program - Early Head Start	10.558		55,094
Pass-through the Office of Administration for Children and Families:			
Child and Adult Care Food Program - Head Start	10.558		904,244
Subtotal U.S. Department of Agriculture			<u>1,030,217</u>
<b>U.S. Department of Health and Human Services (HHS)</b>			
Direct Program:			
Early Head Start	93.600		984,986
Pass-through the Office of Administration for Children and Families:			
Head Start and Early Head Start	93.600		7,446,294
Child Care Development Block Grant	93.575		468,404
Special Programs for the Aging - Title III, Part B	93.044		31,211
Special Programs for the Aging - Title III, Part C	93.045		106,705
Nutrition Services Incentive Program (NSIP)	93.053		26,089
Subtotal U.S. Department of HHS			<u>9,063,689</u>
<b>U.S. Department of Transportation</b>			
Direct Program:			
Federal Transit – Capital Investment Grants	20.500	90-X-530-7	2,400
Subtotal U.S. Department of Transportation			<u>2,400</u>
<b>U.S. Department of Homeland Security</b>			
Pass-through Governor's Office			
Disaster Grants - Public Assistance	97.036		34,480
Subtotal U.S. Department of Homeland Security			<u>34,480</u>
<b>U.S. Department of Justice</b>			
Pass-through Governor's Office			
Public Safety Partnership and Community Policing Grants	16.710		5,188
Subtotal U.S. Department of Justice			<u>5,188</u>
<b>U.S. Department of Energy</b>			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program (EESBG)	81.128		18,304
Subtotal U.S. Department of Energy			<u>18,304</u>
<b>TOTAL</b>			<u>\$ 15,708,944</u>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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 the requirements of OMB Circular A-133.

**2. BASIS OF PRESENTATION**

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

	<u><b>Expenditures</b></u>
Total federal expenditures per schedule	\$ <u>15,708,944</u>
Federal expenditures per basic financial statements included within:	
Health and Human Services Programs	\$ 9,063,689
Federal expenditures included within other governmental funds	<u>6,645,255</u>
Total	\$ <u>15,708,944</u>

**3. LOAN OUTSTANDING**

At June 30, 2014, 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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated February 6, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 weaknesses 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.

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 14-A and 14-B.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from 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 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 14-A and 14-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.

### **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  
February 6, 2015

*Ortiz, Rivera, Rivera & Co.*

The stamp E135706 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

- 57 -

**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, 2014. 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 programs.

**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, 2014.

### **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 control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

- 59 -

ORTIZ, RIVERA, RIVERA & CO.

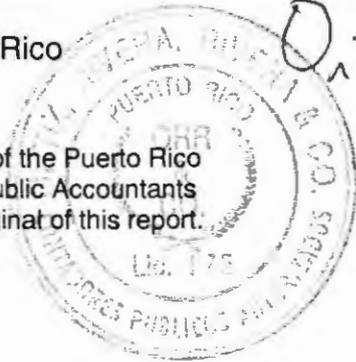
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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  
February 6, 2015

*Ortiz, Rivera, Rivera & Co.*

The stamp E135707 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, 2014**

**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' 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 auditors' 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:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
93.600	Head Start Program
93.600	Early Head Start Program
10.558	Child and Adult Care Food Program



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

necessary measures are taken in order to stop this trend. The Municipality should work on increasing actual revenues and/or reducing expenditures.

- **14-B: Estimated Revenue Shortfall**

Condition

As of June 30, 2014, the Municipality did not meet certain projected revenues by significant amounts, causing an increase in its General Fund deficit (see Finding 14-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 \$2.4 million, a 24% budget shortfall.
- For sales and usage taxes, the Municipality failed to meet its expectations by \$1.3 million, a 22% budget shortfall.
- For licenses and permits, the Municipality failed to meet its expectations by \$2.9 million, a 4.28% 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.

Recommendation

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA BAJA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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, 2014**

The Municipality has not prior year findings and questioned costs to give follow up.