

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE TRUJILLO ALTO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES
02 APR - 1 PM 3: 04
RECIBIDO
UNIDAD DE CORREO

Cant #01-5936

**MUNICIPALITY OF TRUJILLO ALTO
TRUJILLO ALTO, PUERTO RICO**

**GENERAL PURPOSE COMBINED
FINANCIAL STATEMENTS
WITH THE INDEPENDENT AUDITOR'S
REPORT THEREON**

JUNE 30, 2001

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SINGLE AUDIT REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2001

TABLE OF CONTENTS

GENERAL-PURPOSE FINANCIAL STATEMENTS	<u>Page</u>
Independent Auditors' Report on General - Purpose Financial States	1
Combined Balance Sheet – All Fund Types And Account Groups.....	2 – 3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types.....	4 - 5
Combined Statement of Revenues and Expenditures Budget and Actual (Budgetary basis) – General and Debt Service Funds	6
Notes to General-Purpose Financial Statements	7 – 29

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SINGLE AUDIT REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2001

TABLE OF CONTENTS

ADDITIONAL REPORTS AND INFORMATION REQUIRED BY
THE SINGLE AUDIT ACT

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	30-31
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program, Internal Control Over Compliance in Accordance with OMB-Circular A-133 and Federal Financial Awards.....	32-34
Schedule of Federal Financial Awards.....	35
Notes to Schedule of Federal Financial Awards.....	36-37
Section I-Summary of Auditor's Results.....	38
Section II-Financial Statement Findings	39
Section III-Federal Award Findings and Questioned Costs	40-50
Prior Year Findings and Questioned Costs	51



NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITORS' REPORT

To the Trujillo Alto's Honorable Mayor
and Members of the Municipality's Assembly
Trujillo Alto, Puerto Rico

We have audited the accompanying general-purpose financial statements of the Municipality of Trujillo Alto, Puerto Rico, as of June 30, 2001, and for the year then ended as listed in the accompanying table of contents. These general-purpose financial statements are the responsibility of the management of the Municipality of Trujillo Alto, Puerto Rico. Our responsibility is to express an opinion on the general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and Governmental 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 general-purpose financial statements are free of material evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Municipality of Trujillo Alto, Puerto Rico lacks an adequate system to account for the fixed assets of the general fixed assets account group. Accordingly, we were unable to perform all necessary audit procedures over the fixed assets balance as of June 30, 2001 amounting to \$21,025,232.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to perform the procedures described in the third paragraph, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Trujillo Alto, Puerto Rico, as of June 30, 2001, and the results of its operations for the year then ended in conformity with general accepted accounting principle generally accepted in the United States of America.

San Juan, Puerto Rico
December 20, 2001

Stamp #1690718 was affixed
to the record copy.

Nieves Velazquez & Co., P.S.C.



Municipality of Trujillo Alto, Puerto Rico
 Combined Balance Sheet - All fund Types and Account Groups
 For the fiscal year ended June 30, 2001

	Governmental Fund types				Fiduciary Fund Type	Account Groups		Totals
	General	Special Revenue	Debt Service	Capital Project	Agency	General Fixed Assets	General Long Term Debt	(Memorandum Only)
ASSETS AND OTHER DEBITS								
Cash (including \$9 millions in certificates of deposits)	\$ 7,306,495	1,306,371		1,722,663	520,868			10,856,397
Cash with fiscal agent	116,275		4,699,005	6,842,912				11,658,192
Accounts receivable :								
From federal and local agencies	2,372,135	1,112,838	52,970	2,565,704				6,103,647
Other	6,831		14,156					20,987
Due from other funds, Net of \$748,400 for doubtful accounts	267,658							267,658
Property, plant & equipment						21,025,232		21,025,232
Amount available in debt service fund							3,549,618	3,549,618
Other debits								
Amounts to be provided for:								
Payment of general long term debt							10,894,862	10,894,862
Payment of accrued compensated absences							1,670,733	1,670,733
Payment of property tax							1,013,491	1,013,491
Total assets and debits	\$ 10,069,394	2,419,209	4,766,131	11,131,279	520,868	21,025,232	17,128,704	67,060,817
LIABILITIES AND FUND EQUITY								
Liabilities								
Accounts payable	\$ 1,185,681	757,427		698,775	520,868			3,162,751
Due to federal and local agencies	446,054	399,365						845,419
Due to other funds		974,969	41,089					1,016,058
Matured bonds and notes			691,218					691,218
Accrued interest payable			484,206					484,206
General long term debt							14,444,480	14,444,480
Deferred revenue	3,178,971	159,279		2,345,789				5,684,039
Accrued compensated absences							1,670,733	1,670,733
Property tax advances							1,013,491	1,013,491
Total liabilities	4,810,706	2,291,040	1,216,513	3,044,564	520,868	-	17,128,704	29,012,395

(CONTINUES)

Municipality of Trujillo Alto, Puerto Rico
 Combined Balance Sheet - All fund Types and Account Groups
 For the fiscal year ended June 30, 2001

	Governmental Fund types			Fiduciary Fund Type	Account Groups		Totals	
	General	Special Revenue	Debt Service	Capital Project	Agency	General Fixed Assets	General Long Term Debt	(Memorandum Only)
(CONTINUED)								
Fund Equity								
Investment in general fixed assets						21,025,232		21,025,232
Fund balances								
Designated for debt service			3,549,618					3,549,618
Reserved for capital projects				8,086,715				8,086,715
Reserved for encumbrances	766,005							766,005
Reserved for other purposes		128,169						128,169
Unreserved	4,492,683							4,492,683
Total fund equity	5,258,688	128,169	3,549,618	8,086,715	-	21,025,232	-	38,048,422
Total liabilities and fund equity	\$ 10,069,394	2,419,209	4,766,131	11,131,279	520,868	21,025,232	17,128,704	67,060,817

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

Municipality of Trujillo Alto, Puerto Rico
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the fiscal year ended June 30, 2001

	Governmental Fund types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Project	
REVENUES					
Property taxes	\$7,572,813				7,572,813
Volume of business tax	3,223,855				3,223,855
Licenses and permits	1,432,254				1,432,254
Property Rent	123,858				123,858
Intergovernmental services	176,800	3,979,742	2,150,067	2,726,444	9,033,053
Intergovernmental grants	2,074,184				2,074,184
Interest	1,378,478				1,378,478
Miscellaneous	53,035	11,024			64,059
Total revenues	16,035,277	3,990,766	2,150,067	2,726,444	24,902,554
EXPENDITURES					
General government	10,715,018				10,715,018
Public works	3,343,359	11,828		5,739,500	9,094,687
Health and welfare	850,641	202,980			1,053,621
Elderly Programs	447,103	158,821			605,924
Recreation and Sports	393,177	207,877			601,054
Education and Training	380,217				380,217
Public safety	127,504	335,989			463,493
Housing	84,938	2,522,456			2,607,394
Debt service:					
Principal			904,870		904,870
Interest			969,314		969,314
Total expenditures	16,341,957	3,439,951	1,874,184	5,739,500	27,395,592

(CONTINUES)

Municipality of Trujillo Alto, Puerto Rico
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the fiscal year ended June 30, 2001

	Governmental Fund types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Project	
(CONTINUED)					
Excess of revenues (expenditures) over expenditures (revenues)	(306,680)	550,815	275,883	(3,013,056)	(2,493,038)
Other financing sources (uses)					
Proceeds from debt issuance					
Transfers in			246,293		246,293
Transfers out	(6,672)			(239,621)	(246,293)
Total other financing (uses) sources	(6,672)	-	246,293	(239,621)	-
Excess of revenues (expenditures) and other sources (uses) over expenditures (revenues)	(313,352)	550,815	522,176	(3,252,677)	(2,493,038)
Fund balances at beginning of year	5,572,040		4,114,516	11,339,392	21,025,948
Prior period adjustments		(422,646)	(1,087,074)		(1,509,720)
Fund balance, as restated	5,572,040	(422,646)	3,027,442	11,339,392	19,516,228
Fund balances at end of year	<u>\$5,258,688</u>	<u>128,169</u>	<u>3,549,618</u>	<u>8,086,715</u>	<u>17,023,190</u>

The accompanying notes are an integral part of these general purpose financial statements

Municipality of Trujillo Alto, Puerto Rico

Statement of Revenues and Expenditures
Budget and Actual - General Fund and Debt Service Fund

Budget Basis
Year Ended June 30, 2001

	GENERAL FUND			DEBT SERVICE FUND		
	Revised Budget	Adjusted Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Property taxes	\$ 7,374,239	7,572,813	198,574	1,918,777	2,150,067	231,290
Volume of business tax	3,002,873	3,223,855	220,982			
Licenses and permits	1,424,638	1,432,254	7,616			
Property Rent	122,522	176,800	54,278			
Intergovernmental services	220,800	2,074,184	1,853,384			
Intergovernmental grants	1,371,549	123,858	(1,247,691)			
Interest	1,300,443	1,378,478	78,035			
Miscellaneous (See note 1)	2,130,725	53,035	(2,077,690)			
Transfer in					246,293	246,293
Total Revenues	16,947,789	16,035,277	(912,512)	1,918,777	2,396,360	477,583
Expenditures						
General government	12,027,536	11,397,301	630,235			
Public works	3,449,382	3,343,359	106,023			
Health and welfare	399,948	850,641	(450,693)			
Elderly Programs	137,233	447,103	(309,870)			
Recreation and Sports	387,690	393,177	(5,487)			
Education and Training	459,549	380,217	79,332			
Public safety	86,451	127,504	(41,053)			
Housing		84,938	(84,938)			
Debt service:						
Principal				952,087	904,870	47,217
Interest				966,690	969,314	(2,624)
Transfer out		6,672	(6,672)			
Total Expenditures	16,947,789	17,030,912	(83,123)	1,918,777	1,874,184	44,593
Excess of (expenditures) revenues over (revenues) expenditures	\$ -	(995,635)	(995,635)	-	522,176	522,176

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

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 personality and separate and independent from the government of the Commonwealth of Puerto Rico under Law No. 81 of August 31, 1991, know as "Ley de Municipios Autónomos". The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing, community development, cultural and recreational, as well as many other general and administrative services.

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

Financial reporting entity

The general-purpose financial statements include all of the funds and account groups relevant to the operations of the Municipality of Trujillo Alto. The general-purpose financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distant units of government apart from the Municipality of Trujillo Alto.

Basis of presentation

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Amounts in the "totals-memorandum only" columns in the combined general-purpose

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Basis of presentation (Continuation)

financial statements represent a summation of the financial statements line items of the fund types and account groups and are presented only for the analytical purposes.

The summation includes a) fund types and account groups that use a different basis of accounting, b) interfund transactions that have not been eliminated and c) the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "totals-memorandum only" columns are not comparable to a consolidation and do not represent the total resources available or the total revenues and expenditures of the Municipality.

The following fund types and account groups are used by the Municipality:

Governmental Fund Types

Governmental funds are used to account for the general government functions of the Municipality. The following are the Municipality's governmental fund types:

General Fund – The General Fund is the primary operating fund of the Municipality. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Special Revenue Fund – Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Governmental Fund Types (Continuation)

Debt Service Fund – Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Fund – Capital Project Fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Fund Types

Fiduciary Fund is used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Agency Fund – Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account groups

Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt.

General Fixed Assets Accounts Group - The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources."

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Account groups (Continuation)

General Fixed Assets Accounts Group (Continuation) - Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available expendable resources" during a period. Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, will be capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

General Long-Term Debt Account Group - Long-term liabilities expected to be financed from governmental funds are accounted for in the General-Long Term Account Group, not in the governmental funds. Since they do not affect net current assets, such long-term accounts are not recognized as governmental fund type expenditures of fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

The two account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations.

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Also it relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available to pay liabilities of the current period.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Municipality. Therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for a failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier, if the susceptible to accrual criteria is met.

Municipal license taxes are recorded as revenue when levied, even though a portion of the taxes may be collected in the following year. Licenses and permits, sale of property and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continuation)

The Municipality reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the Municipality has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when, the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacations and sick leave pay, which are recorded in the general long-term debt account group and (2) principal and interest on general long-term debt, which is recognized when due.

Budgets and Budgetary Accounting

The following procedures are used by the Municipality in establishing the budgetary data reflected in the combined financial statements:

- * In accordance with the Law of "Municipios Autónomos" of August 31, 1991, prior to June of each year, the Major submits to the Municipal Assembly a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the last year.
- * The budget document is available for public inspection prior to its approval by the Municipal Assembly.

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Budgets and Budgetary Accounting (Continuation)

- * Prior to June 1 or 10 days after being submitted to the Municipal Assembly, the budget is legally enacted through the passage of an ordinance.
- * The Mayor is required by the Law of "Municipios Autónomos" to present the results of operations of the preceding year, before October 16.
- * Formal budgetary integration is employed as a management control device during the year for the General Fund.
- * Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budgetary basis information already included in the combined financial statements. The Municipality readjusted the current year budget by \$2,295,390 mainly from the prior year general fund balance of \$5.6 millions. Such amount is presented principally as a miscellaneous revenue in the budgetary basis financial statements.
- * Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined general-purpose financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual-General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The main difference between budgetary and accounting basis is that encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balance under the accounting basis.

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Compensated absences

The Municipality accounts for compensated absences in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16 "Accounting for Compensated Absences".

The employees of the Municipality are annually granted with thirty (30) days of vacation and eighteen (18) days of sick leave. Vacation time accumulated is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation, except that in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of 90 days. The Municipality is required to pay the excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31, of prior year.

Accounting for pension costs

The management of the Municipality accounts for pension costs in accordance with the provisions of Governmental Accounting Standards Board Statements (SGAS) No. 27: "Accounting for Pensions by States and Local Governmental Employers".

The SGAS No. 27 establishes standards of accounting and financial reporting for pension expenditures and related pension liabilities, pension assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. The statement defines that the pension expense is equal to the required statutory contribution to the employees' retirement system.

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk management

The Municipality is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, and other losses. Insurance coverage is obtained for claims arising from such matters. The Secretary of the Treasury of the Commonwealth of Puerto Rico is the commissioned agent to place all of the Municipality's insurance coverage.

Inventories

The general fund purchases office and printing supplies, gasoline, oil and other items. The cost of inventories, which is not significant, is recorded as an expenditure and the inventory at the year-end is not recorded in the financial statements.

Encumbrances

Encumbrances accounting is used in the government funds. Under the encumbrance system, purchase orders, contracts and other commitments for expenditures of funds are recorded to reserve that portion of the applicable appropriation for future obligations. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Total columns (Memorandum only)

Total columns in the general-purpose financial statements are captioned "Totals-Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

2. CASH AND CASH EQUIVALENTS

The Municipality maintained all its deposits in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico (Department of Treasury), and such deposits were kept in separate bank accounts in the name of the Municipality. The Municipality's cash at June 30, 2001 were entirely covered by the Federal Depository Insurance or by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank for Puerto Rico and is guaranteed by the Commonwealth of Puerto Rico.

Puerto Rico laws authorize government entities to invest in direct obligations or obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit.

The Municipality's cash and cash equivalents are considered to be demand deposits and certificate of deposits.

3. CASH WITH FISCAL AGENT

An annual special tax of 1.25% of the assessed value of all real property is levied by the Municipality. The proceeds of said 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 Municipal Revenue Collection Center as agent for the Municipality. At June 30, 2001 cash retained by the Municipal Revenue Collection Center amounted to \$4,699,005.

Cash with fiscal agent amounting to \$6,959,187 represents, mainly, unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements.

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

4. MUNICIPAL LICENSE TAX

The Municipal license tax is levied annually based on prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Act of Puerto Rico. All taxpayers are required to file their declarations by April 15th of each year.

The applicable tax rates are as follows:

- a. 1.50% for financial institutions
- b. .50% for all other organizations

Taxes are payable in two equal semi-annual installments in July 1 and January 1 of the following fiscal year. The amount levied is subject to a five percent (5%) discount if payment is made before its due date, April 15th.

Collection of taxes applicable to the next fiscal year are recorded as deferred revenues in the General Fund. The Municipality currently collected \$1,759,653 in advance, corresponding to municipal license taxes of the next fiscal year.

5. INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenues mainly consist of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Energy and Power Authority Grants and subsidies received from the Commonwealth of Puerto Rico, which include, among others, a general subsidy for capital improvements.

All of these intergovernmental revenues are accounted for through the general fund, except for those directly related to capital improvements, which are accounted for through the capital project fund.

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

5. INTERGOVERNMENTAL REVENUES (Continuation)

In addition to the aforementioned intergovernmental revenues, the Municipality receives federal grants, which are accounted for through the special revenues fund. The federal grants are recorded under the deferred method of accounting. Therefore, revenues are recognized based upon the expenditures recorded.

6. PROPERTY AND EQUIPMENT

Property and equipment have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of various governmental funds and capitalized at cost in the General Fixed Assets Account Group or, if donated to the Municipality, at estimated fair market value at time of construction. Depreciation is not provided on general fixed assets. Certain improvements constructed, such as roads, streets, gutters, curbs, sidewalks, and drainage, are not recorded in this group of accounts (infrastructure). These assets are immovable and of value only to the Municipality.

A summary of the changes in unaudited general fixed assets balance for the year ended June 30, 2001, is as follows:

<u>Asset class</u>	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2001</u>
Property, and and equipment	\$14,884,540	\$6,140,692	\$ _____ -	\$21,025,232

7. DUE FROM FEDERAL AND LOCAL AGENCIES

The amount of \$6,103,647 represents funds due from various federal and state government agencies as follows:

<u>General Fund:</u>	
Municipal Revenue Collection Center (CRIM)	\$ 1,419,319
P.R. Energy and Power Authority	<u>952,816</u>
Total	\$ <u>2,372,135</u>

MUNICIPALITY OF TRUJILLO ALTO
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

7. DUE FROM FEDERAL AND LOCAL AGENCIES (CONTINUED)

Special Revenue Fund:

U.S. Department of Housing and Urban Development	\$ 27,208
U.S. Department of Agriculture	80,111
Federal Emergency Management Agency	997,844
Municipality of San Juan	<u>7,675</u>
	<u>\$1,112,838</u>

Capital Project Fund:

U.S. Department of Housing and Urban Development	
	<u>\$2,565,704</u>

Debt Service Fund:

Municipal Revenue Collection Center	<u>\$52,970</u>
-------------------------------------	-----------------

The amount receivable of \$1,419,319 from the CRIM is presented as a deferred revenue in the accompanying financial statements.

The balance due from Federal Government represents an excess of expenses over cash receipts for grants that require monies to be used for specified purposes. Generally, "due from balances" are caused by differences in the timing of cash receipts and expenses.

8. COMPENSATED ABSENCES

Employees are entitled to 30 vacations days leave and 18 sick days leave yearly. A maximum of 60 days of regular vacations and 90 days for sick leave can be accumulated at the end of a calendar year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement. Therefore, the Municipality has \$1,670,733 as an accrued liability in the general long-term debt account group, for compensated absences earned, but not taken.

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

8. COMPENSATED ABSENCES (Continuation)

As per Law Number 156 of August 20, 1996, for fiscal years beginning on July 1, 1997, the employees will have the right to accumulate the excess of 90 days in sick leave until December 31st of each year. That excess should be paid to the employee before March 31st of the following year.

9. DUE TO FEDERAL AND LOCAL AGENCIES

The balance of this account amounted to \$845,419 as of June 30, 2001, consists of the following:

General Fund:

Puerto Rico Telephone Company	\$ 134,550
Water and Sewer Authority	18,581
Municipality of Carolina	89,546
Municipality of Guaynabo	20,463
General Service Administration	10,289
Municipality of Juncos	122,024
Estate Insurance Fund Corporation	35,601
"Corporación de Desarrollo Económico de Trujillo Alto"	<u>15,000</u>
	\$ <u>446,054</u>

Special Revenue Fund:

U.S. Department of Housing and Urban Development	\$ <u>399,365</u>
--	-------------------

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

10. DEBT SERVICE FUNDS

Sources of debt service funds consist primarily of the "ad valorem" property taxes, which are recognized as revenue when they are collected by the Municipal Revenue Collection Center. The Municipal Revenue Collection Center withholds these collections for the debt service requirements of the general obligations bonds issued by the Municipality. Principal and interest on the bonds are generally paid by the Governmental Development Bank from funds transferred from the Municipal Revenue Collection Center which were obtained from the "ad Valorem" taxes.

11. LONG-TERM DEBT

The following is a summary of the changes in obligations for the year ended June 30, 2001:

	<u>Balance at June 30, 2000</u>	<u>Debt Issued</u>	<u>Debt Paid</u>	<u>Balance at June 3, 2001</u>
General obligations:				
Bonds and Notes				
Payable	\$ <u>16,000,568</u>	\$ <u> -</u>	\$ <u>1,556,088</u>	\$ <u>14,444,480</u>

A summary of the general bond, notes and special obligations as of June 30, 2001 follows:

<u>General Bonds Obligations</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Balance at 6-30-01</u>	<u>Due Date</u>
Series 1994	\$ 3,390,000	6.1%-7.7%	\$ 2,660,000	2013
Series 1999	<u>11,230,000</u>	6.71%-8%	<u>10,540,000</u>	2022
Sub-total	<u>14,620,000</u>		<u>13,200,000</u>	

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

11. LONG-TERM DEBT (Continuation)

<u>Notes</u>				
<u>Obligations</u>				
Series 1999	1,560,000	4.86-6.31%	990,000	2005
Operational				
Loan	<u>97,400</u>	8%	<u>19,480</u>	2005
Sub-total	<u>1,657,400</u>		<u>1,009,480</u>	
<u>Special</u>				
<u>Obligations</u>				
Federal Program				
Notes guaranteed				
By HUD	<u>1,600,000</u>	6.43-8.84%	<u>235,000</u>	2001
Total	<u>\$17,877,400</u>		<u>\$14,444,480</u>	

The annual requirements to amortize the general bond, notes and special obligations outstanding as of June 30, 2001 are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2002	\$ 811,088
2003	619,870
2004	669,870
2005	718,652
2006	475,000
Thereafter	<u>11,150,000</u>
	<u>\$14,444,480</u>

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond located in the Municipality of Trujillo Alto.

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

12. PENSION PLAN

The employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality of Trujillo Alto, Puerto Rico, under age 55 at the date of employment, become members of the System as a condition to their employment.

The System provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. 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 credit service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service, or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, or participants with thirty (30) years of credited service, regardless of their age, are entitled to an annual benefit, payable monthly for life.

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

Participants who have completed at least thirty 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.

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

12. PENSION PLAN (Continuation)

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

Act number 1 of February 16, 1990 made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the time for elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

Commonwealth legislation requires employees to contribute 5.77% for the first \$6,600 of their annual gross salary and 8.275% for the salary in excess of \$6,600 for employees hired on or before March 31, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The employees and the Municipality's contribution required is 9.275% of the gross salary. The Municipality's total payroll for the fiscal year ended June 30, 2001, amounted to approximately \$6,550,000 of which \$5,350,000 was subject to the System. The annual employer and employees contribution for the year ended June 30, 2001 amounted to approximately \$478,000 and approximately \$407,000, respectively.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. The actuarial determined present value of benefits accrued as of July 1, 2000 (latest date available) for the System as a whole, determined through an actuarial valuation performed at such date, amounted to \$9.5 billions. The net assets available for benefits at such date were \$2.1 billions, resulting in an excess of accrued benefits over net assets (actuarial deficiency) of \$7.4 billions.

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

12. PENSION PLAN (Continuation)

No pension liability or asset was recorded at the beginning of the year measured in accordance with SGAS 27. Prior to the adoption of SGAS 27 at the beginning of this fiscal year no pension liability or asset was reported.

Additional information on ERS is provided in its financial statements for the year ended June 30, 2001, a copy of which can be obtained from the Administrator, Administrator, of the Retirement System Administration, P.O. Box 42003, San Juan, Puerto Rico 00940.

13. PROPERTY TAXES

Annual Revenues

The Municipal Revenue Collection Center (CRIM) is responsible for the assessment of all real and personal property located within the Municipality of Trujillo Alto and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of assessment. The annual tax rate for fiscal year ended June 30, 2001 is 8.28% for real property and 6.28% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

13. PROPERTY TAXES (Continuation)

Annual Revenues (Continuation)

The amounts advanced during the year to the Municipality by the CRIM are recorded as property taxes revenues in the General Fund. Advances in excess of actual collections received by the Municipality are recorded in the General Fund as other financial resources and as a debt in the General Long-Term Debt Account Group. During the years 1999 and 2000 property tax collections were less than advances resulting in a \$267,176 debt to the CRIM. This amount, together with other Municipality's debt, is under financing restructuring by the CRIM, and, therefore, is presented as a long-term debt in the accompanying financial statements. During the current year, the property tax collections exceeded the advances by \$852,685 resulting in an account receivable. This amount is presented as a deferred revenue in the accompanying financial statements. Also, the CRIM agreed to reimburse to the Municipality \$566,634 related with the LIMS project, which had been paid by the Municipality in prior years. The amount is presented as an account receivable and deferred revenue in the accompanying financial statements.

The additional tax is recorded as revenue in the Debt Service Fund when collected, and notified to the Municipality by the Municipal Revenue Collection Center.

Prior year advances

Prior to 1994, the Department of the Treasury was the agency responsible for the assessment of real property and for the administration and collection of the related taxes. Amounts advanced by the Secretary of the Treasury to the Municipality of Trujillo Alto, which had not been amortized through the collections of property taxes, amounted \$746,315 as of June 30, 2001. The Municipality of Trujillo Alto has been granted a 15-year period (starting in December 1994) to repay this amount.

MUNICIPALITY OF TRUJILLO ALTO

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

14. BUDGETARY COMPARISONS

As explained in Note 1, the statement of revenues and expenditures – budget and actual – was prepared in accordance with the budgetary basis of accounting. This method is not in accordance, in some aspects, with generally accepted accounting principles.

The adjustments necessary to reconcile the general fund revenues and expenditures for the year ended June 30, 2001 from the generally accepted accounting principles to the budgetary basis, are as follows:

Excess of expenditures and other financing sources over revenues and other financing uses (Budgetary-Statutory Basis)	\$(995,635)
Less: Current year encumbrances recognized as expenditures on the budgetary basis	766,005
Add: Prior year encumbrances recognized as expenditures on the accounting basis	<u>(83,722)</u>
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$(313,352)</u>

15. FUND EQUITY (RESERVES AND DESIGNATIONS)

Reserved for encumbrances

The reserve for encumbrances in the amount of \$766,005 in the General Fund represents the portion of purchase orders and contracts awarded, for which the goods or services have not yet been received at June 30, 2001.

Designated for debt service

In accordance with legal restrictions, these amounts are reserved for the payment of principal and interest of the general long-term debt maturing in later years. The resources for this reserve arise from the additional special contributions of property taxes.

MUNICIPALITY OF TRUJILLO ALTO

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

15. FUND EQUITY (RESERVES AND DESIGNATIONS) (Continuation)

Designated For Capital Projects

This reservation represents net asset available to finance future capital outlays.

Designated For Other Projects

These resources arise from the Housing Assistance Payment Grant by HUD to Section 8 program.

16. CONTINGENCIES

Litigations

Certain claims, suits and complaints arising in the ordinary course of operations amounting to approximately \$4.6 millions have been filed or are pending against the Municipality. The Municipality expects to obtain a favorable judgment in the cases. However, the ultimate outcome of this litigation is unknown at the present time. Accordingly, no significant provision for any liability that might result from claims, suits and complaints has been made in the accompanying financial statements. In the opinion of management, the existing litigations are not considered to be material in relation to the Municipality's financial position.

Federal Programs

The Municipality participated in various Federal assisted grant programs. These programs are subject to financial and compliance monitoring by the grantors or their representatives. As of June 30, 2001, the audits of certain grant programs have not been completed. Accordingly, the Municipality's compliance with applicable grant requirements will be determined at a later date. In the opinion of the Municipality's Management, the expected disallowance will not have a material effect on the financial statements as of June 30, 2001.

MUNICIPALITY OF TRUJILLO ALTO
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

17. PRIOR YEAR ADJUSTMENTS

Special Revenue Fund

The prior year adjustment to the beginning fund balance is mainly related with account receivable from a federal agency incorrectly recorded in the 2000 financial statements.

Debt Service Fund

The prior year adjustment to the beginning fund balance is principally related with \$691,218 matured notes and bonds payable and \$513,006 accrued interest payable due on July 1, 2000, but not recorded in the 2000 financial statements.

18. SUBSEQUENT EVENT

On August 22, 2001, the Municipality obtained a \$3,985,000 loan from the Government Development Bank for Puerto Rico. The loan's interest rate should not exceed 12% and is payable in 25 years.

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

**ADDITIONAL REPORTS REQUIRED UNDER
THE OMB CIRCULAR A-133**



NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

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

To the Honorable Mayor and
Members of the Municipal Assembly
Municipality of Trujillo Alto, Puerto Rico

We have audited the general-purpose financial statements of the Municipality of Trujillo Alto, Puerto Rico as of and for the year ended June 30, 2001, and have issued our report thereon dated December 17, 2001. 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. In our report, our opinion was qualified because The Municipality of Trujillo Alto, Puerto Rico lacks an adequate system to account for the fixed assets of the general fixed assets account group. Accordingly, we were unable to perform all necessary audit procedures over the fixed assets balance amounting to \$21,025,232 as of June 30, 2001.

Compliance

As part of obtaining reasonable assurance about whether the Municipality's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS
(CONTINUATION)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management and members of the Municipal Assembly of the Municipality of Trujillo Alto, Puerto Rico, federal awarding agencies and passed through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
January 29, 2002

Stamp 1780255 was affixed
to the record copy of this
report.

Nieves Velazquez & Co., P.S.C.





NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the Municipal Assembly
Municipality of Trujillo Alto, Puerto Rico

Compliance

We have audited the compliance of the Municipality of Trujillo Alto, Puerto Rico (The Municipality) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The Municipality's major federal programs are identified in the summary of auditor's results section in the accompanying Schedule of Findings and Questioned Costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the Municipality of Trujillo Alto's Management our responsibility is to express an opinion on the Company's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and 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 test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

In our opinion, the Municipality of Trujillo Alto, Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 01-III-1 to 01-III-6.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133
(CONTINUATION)**

Internal Control Over Compliance

The management of the Municipality of Trujillo Alto, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-III-1 to 01-III-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that non of the reportable conditions described above is a material weakness.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133
(CONTINUATION)**

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the Municipality of Trujillo Alto as of and for the year ended June 30, 2001, and have issued our report thereon dated December 17, 2001. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements of Municipality of Trujillo Alto. Such information has been subjected to the auditing procedures applied in the audit of the general purposes financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole. In our report, our opinion was qualified as described in the following paragraph:

The Municipality of Trujillo Alto, Puerto Rico lacks an adequate system to account for the fixed assets of the general fixed assets account group. Accordingly, we were unable to perform all necessary audit procedures over the fixed assets balance as of June 30, 2001 amounting to \$21,025,232.

This report is intended for the information and use of the management and members of the Municipal Assembly of the Municipality of Trujillo Alto, Puerto Rico federal awarding agencies and passed through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
January 29, 2002

Stamp 1780256 was affixed
to the report copy of this
report.

Nieves Velazquez & Co., P.S.C.



MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SCHEDULE OF FEDERAL FINANCIAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
Direct Programs:			
Community Development Block Grant	14.218	N/A	\$2,060,165
Section 8 Programs:			
Rental Certificate	14.857	RQ46E013	204,893
Lower Income Housing Assistance	14.856	RQ46K013	1,070,947
Choice Voucher	14.871	RQ47V013	1,113,142
Housing Opportunities for Persons with AIDS	14.241	N/A	74,915
U. S. Department of Justice			
Direct Program:			
Public Safety and Partnership and Community Universal-Hiring Program	16.710	N/A	335,989
U.S. Department of Health & Human Services			
Passed-through:			
P.R. Governor Office of Elderly Affairs Special Programs for the Aging Title III-B Part C-1 and C-2 Services Nutrition	93.044	N/A	134,235
U.S. Department of Agriculture			
Passed-through:			
P.R. Governor Office of Elderly Affairs Special Program for the Aging-Part C	93.045	N/A	<u>24,586</u>
Total Federal Financial Assistance Expenditures			<u>\$5,018,872</u>

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO
NOTES TO SCHEDULE OF FEDERAL FINANCIAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

1. GENERAL

The accompanying Schedule of Federal Financial Awards includes the federal grant activity of the Municipality of Trujillo Alto, Puerto Rico. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State and Local Government and Non-Profit Organizations. The Municipality of Trujillo Alto reporting entity is defined in Note 1 to the general purpose financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Awards is presented using the modified accrual basis of accounting, which is described in Note 1 (C) to the general purpose financial statements.

3. FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

4. PASS-THROUGH ENTITY IDENTIFYING

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity for federal awards received as a subrecipient. Number identified as N/A are not applicable and numbers identified as N/AV are not available.

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO
 NOTES TO SCHEDULE OF FEDERAL FINANCIAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2001

5. RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Amounts included in the accompanying schedule agree with the amounts included in the general purpose financial statements as follows:

<u>Fund</u>	<u>Federal Assistance</u>	<u>Other Assistance</u>	<u>Total per Financial Statements</u>
Special Revenue	\$ 2,958,707	481,245	3,439,952
Capital Project	<u>2,060,165</u>	<u>3,918,956</u>	<u>5,979,121</u>
	<u>\$ 5,018,872</u>	<u>4,400,201</u>	<u>9,419,073</u>

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION I - SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2001

Financial Statements

Type of auditor's report issued, qualified.

Internal control over financial reporting:

* Material weakness(es) identified? yes no
 * Reportable condition(s) identified that are not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? yes no
 * Reportable condition(s) identified that are not considered to be material weaknesses? yes no

Type of auditor's report issued on compliance for major programs was unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number (s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.871;14.856;14.857	Section 8
16.710	COPS

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION II – FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Note:	There were no financial statement's finding for the year ended June 30, 2001.	

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	01-III-1	<p>Cash Management</p> <p><u>Criteria and Condition</u></p> <p>Section 21 of the OMB Circular A-102, Common Rule and 31 CFR requires that the timing of Federal Cash draws are in compliance with the applicable funding techniques specified in the Treasury-State Agreement or Subpart B procedures. During our examination we found that the average monthly cash balance was almost 6 times the average HAP monthly payment</p> <p><u>Cause</u></p> <p>Once the budget is approved by the federal agency the amount is evenly transferred monthly to the program but, Municipality officials have not been able to achieve the number of approved participants. Therefore, the excess cash.</p>	-

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	01-III-1	<p>Cash Management (Continuation)</p> <p><u>Effect</u></p> <p>The excess cash is unnecessary maintained in the program. It generates interest income which is required to be reimbursed to the federal agency.</p> <p><u>Recommendation</u></p> <p>Because the Municipality's has the option to return those excess monies or hold it until the next fiscal year for Federal Budget adjustments, we recommend to the Municipality to establish a formal communication directly with HUD for the purpose of diminish this excess.</p> <p><u>Management comments</u></p> <p>The excess cash is reflected in the year ended closing to the federal agency and subsequent cash adjustments are made to next year budget.</p>	

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	01-III-2	Special Tests and Provisions	

Criteria and Condition

According to the Section 982 of the OMB Circular A-102 and 24 CFR, every new participant admission should be made according to the waiting list. The examined waiting list, which was not updated, we noted that from a tested sample showed that 18 of the 60 examined files, were from new participants accepted during 2000-2001, did not have waiting list number. Second, there were no records to document the basis for the determination that rent to owner was reasonable. Third, there were no updated utility allowance schedules in which the Municipality can review and adjust its allowance for the participant's rent. Finally, the program did not maintain a subsidiary ledger to properly account for the payment received and issued related with the participants. Those payments are better known as "Portabilities".

Cause

The program's management neither updated, nor kept a proper waiting list. Also, the Municipality was not aware of the documentation for reasonable rent criteria and Utility Allowance Schedules. Finally, there were no good accounting records for "Portabilities" paid and received.

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	01-III-2	Special Tests and Provisions (Continuation) <u>Effect</u> The federal program is not complying with the waiting list requirements, adequacy of owner rent payment, utility allowance schedules and proper accounting for the payments of portabilities. <u>Recommendation</u> The program's management should update the waiting list, as required, then make the necessary researches for Rent Payments and Tenants' Utility Allowances. Finally, better records for "Portabilities" paid and received should be maintained to avoid the aforementioned effects. <u>Management Comments</u> The program's management is currently taking the corrective actions regarding the waiting list, rent and utility schedules and "Portabilities" controls.	

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG	01-III-3	<p><u>Special Tests and Provisions</u> (Continuation)</p> <p><u>Criteria and Condition</u> According to the OMB Circular A-102, Municipalities are prohibited to make obligations and expenditures of federal awards prior the approval of the Request for Release of Funds (RROF). During our examination, we found that the P.O. #20015872, for “Las Lomas” Project for the amount of \$108,265 and dated March 23, 2001, was encumbered before the approved RROF on May 4, 2001.</p> <p><u>Cause</u></p> <p>The program Project supervisor was not aware of the RROF date of approval.</p> <p><u>Effect</u></p> <p>The Municipality is not complying with the program regulation regarding request for release of funds.</p> <p><u>Recommendation</u></p> <p>The program’s management should not prepare any purchase order until the federal agency approves the Request for Release of Funds (RROF) in order to comply with the program regulation.</p> <p><u>Management comments</u></p> <p>The Municipality is aware of this situation and expect to clear this finding in the next monitoring review.</p>	-

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8 CDBG	01-III-4	Equipment and Real Property Management	

Criteria and Conditions

OMB Circular 102 of the Common Rules requires that equipment records shall be accurate maintained and physical inventory shall be taken at least once every two years and reconciled to the equipment control account. During our analysis, the Municipality did not have an accurate detail of inventory purchased with federal funds and did not make a physical inventory in the past years.

Cause

Due to the lack of adequate equipment records, we could not examine the acquisitions and the dispositions of equipment and real property for the fiscal year 2000-01.

Effect

The Municipality's is not complying with the program requirements and regulations.

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8 CDBG	01-III-4	Equipment and Real Property Management (Continuation)	

Recommendation

We recommend that more supervision should be exercised to ensure that the Municipality maintains proper records for equipment and adequately safeguards to comply with program requirements and regulations.

Management Comments

Municipality officials indicated that proper arrangements have been made to update the equipment records, take a physical inventory and reconcile with the control account before June 30, 2002.

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
COPS	01-III-5	<p>Matching, Levels of Effort, Earmarking</p> <p><u>Criteria and Conditions</u> According to the OMB Circular A-133 the grantee is obligated to contribute at least 25% of the costs of the program funded by COPS. During our examination, we noted that the Municipality was incorrectly using payroll amount paid to the Municipal Police Superintendent and his secretary as the matching amount of the program. Therefore, 25% of the \$333,096 federal share amounting to \$83,274 ($\\$333,096 \times 25\%$) is questioned.</p> <p><u>Cause</u> The Municipality was wrongly advised about this method of improper matching.</p> <p><u>Effect</u> No matching funds were received from the Municipality. Therefore, did not comply with the program requirements.</p>	\$83,274

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
COPS	01-III-5	<p>Matching, Levels of Effort, Earmarking (Continuation)</p> <p><u>Recommendation</u></p> <p>The Municipality should make the appropriate matching efforts for the next fiscal years.</p> <p><u>Management Comments</u></p> <p>Municipality officials indicated that internal arrangements have been made to increase the Municipality's matching from 26% to 74% in the next two years budget to cover the first year under matching.</p>	

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG	01-III-6	<p>Program Income</p> <p><u>Criteria and Condition</u></p> <p>According to the OMB Circular A-102, the program should maintain good program income accounting records. During our examination we noted that there were no proper accounting records for the “program income” received for the year. The monies collected from the related properties are deposited in the general fund, instead of the federal program.</p> <p><u>Cause</u></p> <p>There is not an adequate control procedures in which the Municipality’s Collector’s Agents can identify such program income and keep them in a separate account.</p> <p><u>Effect</u></p> <p>The CDBG’s financial statements could be understated in terms of income, receivable and cash.</p>	-

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG	01-III-6	Program Income (Continuation)	

Recommendations

We recommend to the Municipality's Finance and department officials to implement a collecting control for those already identified federal projects, such as "Bellas Artes" and "Centro Comunal Las Lomas," so the monies can be properly deposited in the federal bank cash account. Also, the CDBG management should maintain proper accounting records to determine the account receivable from the general fund at year end.

Management Comments

The Municipality's Federal Agency has been taking the proper corrective action since November 2001 with the implementation of an accounting record for this purpose.

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO
 PRIOR YEAR FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2001

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
6/30/2000	HUD	1	<u>Accounting Records</u> The Municipality does not maintain separate accounting records for program income.	Situation still prevails.
	HUD	2	<u>Special Tests and Provisions</u> The Municipality failed to monitor adequately the CDBG funds used for the house rehabilitation program.	The Municipality has Implemented the correction action for 00-01 fiscal year.
	Section 8	1	<u>Special Tests and Provisions</u> The Municipality failed to follow the procedures of selecting program participant's from the waiting lists as required by federal program.	Situations still prevails.
6/30/1999	HUD	1	<u>Cash Management</u> Disbursements of CDBG funds after 6 and 15 days received.	Finding corrected in year 1999-2000.
	HUD	2	<u>Program Income</u> The Municipality does not maintain separate accounting records for program income.	Situation still prevails.
	HUD	3	<u>Special Tests and Provisions</u> The Municipality failed to monitor adequately the CDBG funds used for the house rehabilitation program.	Situation still prevails.

MUNICIPALITY OF TRUJILLO ALTO, PUERTO RICO
 PRIOR YEAR FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2001

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
6/30/1999	Section 8	1	<u>Special Tests and Provisions</u> The Municipality failed to follow the procedures of selecting program participants from the waiting list as required for the federal program.	Situation still prevails.