

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE TRUJILLO ALTO
AUDITORIA 2002-2003
30 DE JUNIO DE 2003

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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Carl Hon - Foxe

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF TRUJILLO ALTO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF TRUJILLO ALTO

YEAR ENDED JUNE 30, 2003

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF TRUJILLO ALTO

YEAR ENDED JUNE 30, 2003

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López-Vega, CPA, PSC

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of Trujillo Alto
Trujillo Alto, Puerto Rico**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Trujillo Alto, Puerto Rico**, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Trujillo Alto, Puerto Rico**, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

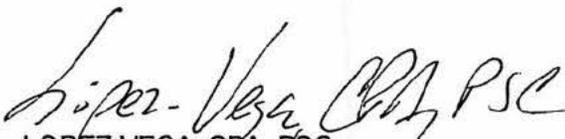
As described in Note 1, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for States and Local Governments*, and has adopted paragraphs six to eleven of GASB Statement No. 38, *Certain Financial Statements Note Disclosures*, as of June 30, 2003. In addition, the Municipality adopted a prospective reporting of its general infrastructure assets.

INDEPENDENT AUDITORS' REPORT (Continued)

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule-General Fund on page 38 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2003 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the **Municipality of Trujillo Alto, Puerto Rico** taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2003

Stamp No. 1942293
of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2003

The Municipality of Trujillo Alto (the Municipality) implemented the Statement No. 34 issued by the Governmental Accounting Standards Board (GASB - 34) for the presentation of its financial statements corresponding to fiscal ended on June 30, 2003. This Management Discussion and Analysis (MD & A) is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following mayor information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. asses management's ability to handle budgetary functions.

As indicated before, the effective implementation accounting treatment under GASB - 34 commenced in fiscal year 2003, no comparative basis is available for financial statements analysis purposes. For this reason, this MD & A comments are limited to information reflected in the financial statements as of the end of said fiscal year.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2003, constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserves special mention:

1. Total Net Assets of the Municipality amounted to \$53,764,189 which represents 62.2% of total assets.
2. This mayor achievement of solvency is mainly attributable to the recognition of \$55,596,412 in capital assets during fiscal year 2003 as a result of the implementation of GASB - 34.
3. As of June 30, 2003, the Municipality's General Fund balance amounted to \$2,856,215. It is pertinent to note that it is the municipal administration's contention that the importance of such figure should not be overestimated since it has adopted the policy to use internal generated resources to increase services to Municipality's community rather than let them unused in the accounted records.
4. In accordance with the aforementioned policy, during fiscal year 2003 the Municipality used more than \$3 million available in the General Fund Balance Account of previous years for further increases in capital assets and for the extension of several municipal services to Trujillo Alto's communities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL HIGHLIGHTS (continued)

5. The actual General Fund budgetary activities resulted in a favorable balance of \$1,504,074 which is indicative of full compliance with the balanced budget principle applicable to all municipalities of the Commonwealth Government of Puerto Rico as required by the Municipal Autonomous Act enacted in August 1991.
6. In response to the continued increments in the municipal operating revenues, the Municipal Legislature approved a revision to the General Fund Budget for fiscal year 2003 which amounted to \$500,333.
7. The Municipality has kept a positive track record of healthy levels of liquidity. Such level has made possible the investment of more than \$6 million in deposits with local commercial banks which produced interest income for the fiscal year 2003 amounting to \$ 198,688. Such figure represents a rate of annual return of 3.3% which was slightly higher than prevailing interest rate during the indicated fiscal year.
8. As reflected in the Statement of Activities, the municipal internally generated revenues contributed to the increase in the Net Assets Figure by \$3,588,268.
9. At the end of fiscal year 2003, total liabilities amounted to \$32,650,935. Out of said amount, \$27,052,044 corresponded to long-term liabilities of which \$22,834,740 represented the outstanding balance of bonds issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
10. The Municipality has initiated an aggressive capital improvement program. As of June 30, 2003, construction work in process included the new Trujillo Alto Municipal Government Center at a cost of more than \$10 million. Completion date for said project has been scheduled for the end of calendar year 2004.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2003. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a future comparable analysis of future years performance. Although such comparative analysis is not possible under actual circumstances, it is reasonable to anticipate that with this new management tool, future financial statements will be more meaningful and useful for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. In the particular case of the Municipality, as of June 30, 2003, such figure represented 64% of the total assets and constitutes a significant positive indicator of the local government financial position. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of Trujillo Alto constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net assets at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL STATEMENTS COMPONENTS (continued)

A brief review of The Statements of Activities of the Municipality at June 30, 2003, shows total expenses incurred to afford the cost of all functions and programs amounted to \$26,911,649. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$7,946,795 was derived from the following sources: \$539,295 charges for services; \$4,141,284 from grants and contributions; and \$3,266,216 from capital grants and contributions obtained from other sources. Current revenues for the year amounted to \$22,553,122. When such figure is added to the \$7,946,795 previously mentioned, total revenues available for the financing of activities amounted to \$30,499,917. There was an excess of revenues over expenses in the amount of \$3,588,268 which contributed to the figure of net assets attained at the end of the fiscal year.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

INFRASTRUCTURE ASSETS

Historically, a significant group of fixed assets such as land, buildings, furniture, machines, vehicles, equipment and infrastructure items such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. To comply with such requirement, during fiscal year 2003 the municipal administration has developed a broad and comprehensive identification and assessments project of all fixed assets owned by the local government. The first phase of the project was completed before the end of fiscal year 2003 and the second phase which includes the identification and assessments tasks of the major portion of the infrastructure assets, is expected to be completed prior to 2006. Based on the data gathered from the first stage of said project, effective in fiscal year 2003, the Municipality commenced the prospective reporting of the previously indicated assets.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Statement of Net Assets

The Statement of Net Assets serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Trujillo Alto, primary government assets exceeded total liabilities by \$53,764,189 as showed in the following condensed Statement of Net Assets of the Primary Government.

**Condensed Statement of Net Assets
As of June 30, 2003**

Current Assets	\$30,818,712
Capital Assets	<u>55,596,412</u>
Total Assets	<u>86,415,124</u>
Current Liabilities	6,897,756
Noncurrent Liabilities	<u>25,753,179</u>
Total Liabilities	<u>32,650,935</u>
Invested in Capital Assets, net of related debt	31,784,456
Restricted	22,479,881
Unrestricted	<u>(500,148)</u>
Total Net Assets	<u>\$53,764,189</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Statement of Activities

The following is a summary of the Statement of Activities of the Municipality for the year ended on June 30, 2003.

**Condensed Statement of Activities
For the Year Ended June 30, 2003**

Programs Revenues:

Charges for Services	\$ 539,295
Operating Grants and Contributions	4,141,284
Capital Grants and Contributions	3,266,216

General Revenues:

Property Taxes	10,697,356
Municipal License Tax	3,346,971
Other Local Taxes	2,479,582
Grants and Contributions not restricted to specific Programs	5,276,889
Interest and Investments Earnings	690,609
Miscellaneous	<u>61,715</u>

Total Revenues 30,499,917

Expenses:

General Government	8,713,383
Public Safety	1,520,528
Public Works	4,312,091
Culture and Recreation	1,089,193
Health and Welfare	8,261,080
Economic Development	1,185,703
Urban Development	3,971
Education	738,811
Interest on Long-term Debt	<u>1,086,889</u>

Total Expenses 26,911,649

Change in Net Assets 3,588,268

Net assets at the Beginning of Year 50,175,921

Net Assets, end of Year \$53,764,189

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

The above Statement of Activities reflects that for fiscal year 2003, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$3,588,258. As previously stated, such amount constituted a positive factor to the Municipality's net assets. It also shows municipal management's ability to maximize the return on assets for the benefit of the capital improvements program and to provide for current expenses on a sound budgetary basis.

GOVERNMENTAL FUNDS

By the end of fiscal year 2003, total assets of the Municipality's major funds amounted to \$31,342,589, while total liabilities attributable to such funds were \$6,122,768. The difference between both figures reflected fund balances in the amount of \$25,219,821. The General Fund experienced a fund balance of \$2,856,215.

FINAL COMMENTS

The Municipality is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality is a main component of the San Juan Metropolitan Area and with a population that exceeds 80,000 habitants, presents a continued and consistent potential growth in social and economic activity. Based on this reality, the municipal administration has adopted an ambitious program to promote and develop a capital improvement program which includes among other major projects, the new Municipal Government Center to be completed by the end of calendar year 2004 and a new First Instance Court. Both project's locations at the northern and southern poles of the Municipality main urban area, will generate substantial activity at the main town and surrounding residential and commercial sectors. Such efforts complemented by another aggressive program in the process of implementation towards increasing collections from property and municipal license taxes, should strengthen de financial position of the Municipality as well as the welfare of its people.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINAL COMMENTS (continued)

In order to finance its broad capital improvements program, the Municipality has raised funds from long term borrowings expedited thru the Government Development Bank for Puerto Rico acting as its Fiscal Agency. During August 2003, it issued a loan guaranteed by the Federal Housing Urban Development under Section 108 of the Housing Community Development Act of 1974 (42 USC 5308) in the amount of \$4 million. The proceeds of said loan, executed at a very reasonable interest rate will be used for the following activities:

1. Municipal Public Safety Complex;
2. Improvements to "Parque Familiar" facilities;
3. "Museo & Casa de la Cultura";
4. Puerto Rico Industrial Development Company (PRIDCO) - Building - State Government Services Center; and
5. Extensions to "Parque Kennedy's" facilities.

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. Such has been the case of the financial operation corresponding to fiscal year 2003. It further contemplates to maintain or improve its current levels of Net Assets as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 20,698,336
Cash with fiscal agent	7,396,821
Accounts receivable:	
Municipal license tax	2,605
Intergovernmental	2,272,127
Federal Grants	368,156
Rent	36,492
Interest	44,175
Capital assets:	
Land, improvements, and construction in progress	38,633,408
Other capital assets, net of depreciation	16,963,004
Total capital assets	55,596,412
Total assets	86,415,124
Liabilities	
Accounts payable and accrued liabilities	2,304,716
Due to other governmental entities	26,866
Deferred revenues:	
Municipal license tax	1,752,278
Federal grant revenues	1,515,031
Noncurrent liabilities:	
Due within one year	1,298,865
Due in more than one year	25,753,179
	32,650,935
Net Assets	
Invested in capital assets, net of related debt	31,784,456
Restricted for:	
Capital projects	16,338,208
Debt service	5,423,475
Other purposes	718,198
Unrestricted (deficit)	(500,148)
	\$ 53,764,189

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 8,713,383	\$ 260,988	\$ 429,746	\$ 300,000	\$ (7,722,649)
Public safety	1,520,528	3,520	41,988	116,887	(1,358,133)
Public works	4,312,091	464	2,000	278,458	(4,031,169)
Health and welfare	8,261,080	5,460	3,306,820		(4,948,800)
Culture and recreation	1,089,193		45,694	97,000	(946,499)
Community development	1,185,703		5,167	2,473,871	1,293,335
Urban development	3,971				(3,971)
Education	738,811	268,863	309,869		(160,079)
Interest on long-term debt	1,086,889				(1,086,889)
Total governmental activities	\$ 26,911,649	\$ 539,295	\$ 4,141,284	\$ 3,266,216	(18,964,854.00)
General revenues:					
Property taxes					10,697,356
Municipal license tax					3,346,971
Other local taxes					2,479,582
Grants and contributions not restricted to specific programs					5,276,889
Interest and investment earnings					690,609
Miscellaneous					61,715
Total general revenues					22,553,122
Change in net assets					3,588,268
Net assets - beginning					50,175,921
Net assets - ending					\$ 53,764,189

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Special Revenue Fund Federal Grants	Debt Service Fund	Capital Project Fund - Local, State and Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 2,712,369	\$ 1,706,195		\$ 10,231,413	\$ 624,884	\$ 15,274,861
Cash with fiscal agent	116,275		\$ 5,423,475	7,223,619	56,927	12,820,296
Accounts receivable:						
Municipal license tax	2,605					2,605
Intergovernmental	2,272,127					2,272,127
Federal Grants		368,156				368,156
Rent	36,492					36,492
Interest	44,175					44,175
Due from other funds	523,877					523,877
Total assets	\$ 5,707,920	\$ 2,074,351	\$ 5,423,475	\$ 17,455,032	\$ 681,811	\$ 31,342,589
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 1,072,561	\$ 214,138	\$ -	\$ 1,018,017	\$ -	\$ 2,304,716
Due to other governmental entities	26,866					26,866
Due to other funds		345,182		98,807	79,888	523,877
Deferred revenues:						
Municipal license tax	1,752,278					1,752,278
Federal grant revenues		1,515,031				1,515,031
Total liabilities	2,851,705	2,074,351	-	1,116,824	79,888	6,122,768
Fund balances:						
Reserved for:						
Encumbrances	858,216					858,216
Capital projects				16,338,208		16,338,208
Debt service fund			5,423,475			5,423,475
Other purposes	116,275					116,275
Reserved reported in nonmajor funds:						
Other purposes					601,923	601,923
Unreserved:						
Undesignated	1,881,724					1,881,724
Total fund balances	2,856,215	-	5,423,475	16,338,208	601,923	25,219,821
Total liabilities and fund balances	\$ 5,707,920	\$ 2,074,351	\$ 5,423,475	\$ 17,455,032	\$ 681,811	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	55,596,412
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(27,052,044)
Net assets of governmental activities	\$ 53,764,189

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Special Revenue Fund Federal Grants	Debt Service Fund	Capital Project Fund - Local, State and Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 8,891,026	\$ -	\$ 1,806,330	\$ -	\$ -	\$ 10,697,356
Municipal license taxes	3,346,971					3,346,971
Licenses, permits and other local taxes	2,480,786					2,480,786
Charges for services	269,327					269,327
Intergovernmental	5,498,123			695,458	378,857	6,572,438
Rent of property	259,784					259,784
Fines and forfeitures	3,520					3,520
Interest	690,609					690,609
Federal grants		5,767,083				5,767,083
Miscellaneous	61,180	20,695		364	10,797	93,036
Total revenues	21,501,326.00	5,787,778.00	1,806,330.00	695,822.00	389,654.00	30,180,910.00
Expenditures						
Current:						
General government	9,691,338			3,597,147	86,902	13,375,387
Public safety	1,109,351	335,975			32,500	1,477,826
Public works	3,696,980	31,890		1,771,770	127,551	5,628,191
Health and welfare	4,889,830	3,272,901			38,930	8,201,661
Culture and recreation	785,391			666,044	25,001	1,476,436
Community development	200,913	873,012		1,281,853		2,355,778
Urban development					3,971	3,971
Education	439,376				296,924	736,300
Debt service:						
Principal			624,870			624,870
Interest			1,086,889			1,086,889
Total expenditures	20,813,179	4,513,778	1,711,759	7,316,814	611,779	34,967,309
Excess (deficiency) of revenues over (under) expenditures	688,147	1,274,000	94,571	(6,620,992)	(222,125)	(4,786,399)
Other financing sources (uses)						
Transfers in	111,000	7,853	5,893	4,073,195	117,372	4,315,313
Transfers out	(2,922,460)	(1,281,853)			(111,000)	(4,315,313)
Long-term debt issued				6,040,000		6,040,000
Total other financing sources (uses)	(2,811,460)	(1,274,000)	5,893	10,113,195	6,372	6,040,000
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(2,123,313)		100,464	3,492,203	(215,753)	1,253,601
Fund balance, beginning as restated	4,979,528		5,323,011	12,846,005	817,676	23,966,220
Fund balance, ending	\$ 2,856,215	\$ -	\$ 5,423,475	\$ 16,338,208	\$ 601,923	\$ 25,219,821

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	1,253,601
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental Funds report capital outlays as expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period, excluding donated assets.</p>		9,502,398
<p>Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds</p>		(1,511,746)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore , are not reported as expenditures in Governmental Funds.</p>		(944,692)
<p>Some expenditures reported in the Governmental Funds require the use of current financial resources, but are not reported as expenses in the Statement of Activities.</p>		384,830
<p>Some revenues reported in the Statement of Activities do not provide current financial resources in Governmental Funds.</p>		319,007
<p>The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments.</p>		(5,415,130)
Change in Net Assets of Governmental Activities	\$	<u>3,588,268</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Trujillo Alto** (the Municipality) was founded on the year 1801. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen-member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2005.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in **Note 12**.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 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.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Special Revenue Fund - Federal Grants- is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund- is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

Capital Project Fund - Local, State and Federal Grants- is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, 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. Fund types are as follows:

General Fund- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

Capital Projects Funds - Local, State and Federal Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, rent, 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. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services 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.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. **Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
8. **Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:
 - a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:
 - a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
10. **Risk financing-** The Municipality carries commercial 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$375,870. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$434,654 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The detail of this reconciliation is as follows:

		<u>Total Net Assets - Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 55,596,412	
Deduct:		
Bonds Payable	(22,834,740)	
Notes Payable	(770,000)	
Notes Payable - Land Authority	<u>(207,216)</u>	\$ 31,784,456
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		16,338,208
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		5,423,475
<u>Net assets restricted for other purposes</u>		
General fund - fund balance restricted for other purposes	\$ 116,275	
Other governmental funds - fund balance restricted for other purposes	<u>601,923</u>	718,198
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	\$ 2,856,215	
Deduct:		
Fund balance reserved for other purposes	(116,275)	
Compensated absences debt	(2,512,621)	
Property tax debt - Treasury Department	(550,467)	
Claims and judgments debt	<u>(177,000)</u>	<u>(500,148)</u>
Total net assets - governmental activities		<u>\$ 53,764,189</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

2. DEPOSITS

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 Municipality's bank balances in commercial banks of approximately \$2,712,369, \$1,706,195, \$10,231,413 in the general fund, special revenue fund - federal grants, and capital project fund - local, state and federal grants, respectively, were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of approximately \$624,884 that were fully collateralized.

The deposits at GDB of approximately \$116,275, that is restricted for other purposes in the general fund, the \$7,723,619 that is restricted principally for capital projects in the capital project fund - local, state and federal grants, the \$5,423,475 in the debt service fund, and the \$56,927 that is restricted for other purposes in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax*- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

B. *Intergovernmental Receivables*- Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes, and the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from the excess of current year property tax collections over current year advances. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$ 1,647,970
Municipal Revenue Collection Center ("CRIM")	468,275
Department of Health	83,333
Department of Education	44,000
Consorcio Caguas-Guayama	<u>28,549</u>
Total	<u>\$ 2,272,127</u>

Intergovernmental receivable in the special revenue fund – federal grants represents expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivables:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant	\$ 188,169
Public Assistance Grant	134,569
Public Safety Partnerships and Community Policing Grants	22,469
Incentive Grant – Regional Community Program	15,940
Incentive Grant – Traffic Enforcement	<u>7,009</u>
Total	<u>\$ 368,156</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2003, and interfund transfers during the fiscal year ended at June 30, 2003, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Federal Grants	Reimbursable Expenditures	\$ 345,182
General Fund	Capital Project Fund - Local, State and Federal Grants	Reimbursable Expenditures	98,807
General Fund	Other Governmental Funds	Reimbursable Expenditures	<u>79,888</u>
Total			<u>\$ 523,877</u>

The balance of \$345,182 of general fund due from the special revenue fund - federal grants includes \$ 226,569 pending to be reimbursed by public assistance grant program. This amount will not expect to be repaid within a year of the Municipality's year end.

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Capital Project Fund - Local, State and Federal Grants	Capital Projects	\$ 2,791,342
General Fund	Special Revenue Fund - Federal Grants	Matching Share of Federal Grant	7,853
General Fund	Debt Service Fund	Debt Retirement	5,893
General Fund	Other Governmental Funds	Payment of Professional Services	117,372
Special Revenue Fund - Federal Grants	Capital Project Fund - Local, State and Federal Grants	Capital Projects	1,281,853
Other Governmental Funds	General Fund	To reverse Special Fund created in the Prior Fiscal Year	<u>111,000</u>
Total			<u>\$ 4,315,313</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 260,895
Public safety	139,589
Public works	652,405
Culture and recreation	278,800
Health and welfare	65,768
Community development	111,778
Education	<u>2,511</u>

Total depreciation expense-governmental activities \$ 1,511,746

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

On December 31, 1992 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2003, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$ 550,467 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 82,924
2005	82,924
2006	82,924
2007	82,924
2008	82,924
2009-2010	<u>135,847</u>
Total	<u>\$ 550,467</u>

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 Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

The annual tax rate is 8.33% for real property and 6.33% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.50% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. DEFERRED REVENUES

A. **Municipal License Tax-** The deferred revenues of approximately \$1,752,278 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. DEFERRED REVENUES (CONTINUED)

B. Federal Government- The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Voucher Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	\$ 975,009 310,231
Housing Opportunities for Persons with AIDS	113,480
Emergency Management Performance Grant	57,457
Special Program for Aging - Title III	27,477
Nutrition Program for the Elderly	23,411
Section 108 Loan Guarantee	5,911
Local Law Enforcement Block Grant	<u>2,055</u>
Total	<u>\$ 1,515,031</u>

8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 17,199,610	\$ 6,040,000	\$ 404,870	\$ 22,834,740	\$ 534,870
Notes Payable	990,000	-	220,000	770,000	240,000
Property Tax Debt - Treasury Department	633,391		82,924	550,467	82,923
Compensated Absences	1,834,451	857,692	179,522	2,512,621	195,000
Claims and judgments	143,312	97,000	63,312	177,000	177,000
Notes Payable - Land Authority	<u>276,288</u>	<u> </u>	<u>69,072</u>	<u>207,216</u>	<u>69,072</u>
Total	<u>\$ 21,077,052</u>	<u>\$ 6,994,692</u>	<u>\$ 1,019,700</u>	<u>\$ 27,052,044</u>	<u>\$1,298,865</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

1. **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 balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. 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 debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.
2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately \$6,040,000. Bonds payable outstanding at June 30, 2003 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2003</u>
2003 Series	7-1-27	\$ 5,430,000	5.000% to 6.500%	\$ 5,430,000
2003 Series	7-1-27	355,000	5.000% to 6.500%	355,000
2003 Series	7-1-27	255,000	5.000% to 6.500%	255,000
2002 Series	7-1-26	3,985,000	8.00%	3,935,000
1998 Series	7-1-22	11,230,000	4.865% to 6.710%	10,330,000
1994 Series	7-1-13	3,390,000	6.106% to 7.706%	2,520,000
1985 Series	7-1-05	97,400	8.00%	<u>9,740</u>
Total general obligation bonds				<u>\$ 22,834,740</u>

These bonds, except the 1985 Series bond, are payable from the ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 1985 Series bond is payable with General Fund resources.

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 534,870	\$ 1,312,545
2005	584,870	1,372,620
2006	625,000	1,337,306
2007	670,000	1,298,977
2008	725,000	1,256,904
2009-2013	4,565,000	5,502,340
2014-2018	5,040,000	3,946,935
2019-2023	6,800,000	2,159,172
2024-2028	<u>3,290,000</u>	<u>495,738</u>
Total	<u>\$ 22,834,740</u>	<u>\$ 18,682,537</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

- 3. Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2003</u>
1999 Series	7-1-05	\$ 1,560,000	4.865% to 6.310%	\$ 770,000
Land Authority	5-21-04	69,072	8.5%	69,072
Land Authority	5-21-05	69,072	8.5%	69,072
Land Authority	5-21-06	69,072	8.5%	<u>69,072</u>
Total note s payable				<u>\$ 977,216</u>

The 1999 Series note is payable from the ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Land Authority notes are payable with General Fund resources.

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 309,072	\$ 69,849
2005	324,072	62,748
2006	<u>344,072</u>	<u>54,422</u>
Total	<u>\$ 977,216</u>	<u>\$ 187,019</u>

- 4. Property Tax Debt-** This amount represent the balance owned to the Treasury Department at June 30, 2003 as described in Note 6, from property tax advances in excess of actual collections.
- 5. Compensated absences-** The government-wide statement of net assets includes approximately \$1,126,572 of accrued sick leave benefits, and approximately \$1,386,049 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- 6. Notes Payable - Land Authority -** These amounts represent the balance owned to the Land Authority of the Commonwealth of Puerto Rico, as part of a land acquisition transaction from prior years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN

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

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service 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, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately \$565,337 and \$633,656, respectively.

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation 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 1, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN (CONTINUED)

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. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

10. RISK MANAGEMENT

The Finance Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department Division compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department Division submits the data regarding the Municipality's properties to the Public Insurance Department 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.

11. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$177,000 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

11. CONTINGENCIES (CONTINUED)

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor or grantee. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

12. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$447,959 to properly present the previously reported fund balance at June 30, 2002. The restatement is mainly due to the reclassification of beginning cash balances, the recognition of interfund transactions pending at year end, and the elimination of liabilities.

The beginning Fund Balance for Special Revenue has been restated by approximately \$478,285 to properly present the previously reported fund balance at June 30, 2002. The restatement is mainly due to the reclassification of beginning cash balances, and elimination of interfund transactions.

The beginning Fund Balances for Debt Service Fund has been restated by approximately (\$486,465) to properly present the previously reported fund balances at June 30, 2002. The restatement is mainly due to the recognition of the amount due to CRIM related to Final Liquidation 2001-2002.

The beginning Fund Balances for Capital Projects Funds has been restated by approximately (\$135,677) to properly present the previously reported fund balances at June 30, 2002. The restatement is mainly due to the reclassification of beginning cash balances, and the recognition of intefund transactions.

13. SUBSEQUENT EVENTS

During August 2003, the Municipality issued a loan guaranteed by HUD under Section 108 of the Housing and Community Development Act of 1974 (42 USC 5308) for approximately \$4,000,000. The proceeds of the loan will be used for the following activities: (1) Municipal Public Safety Complex; (2) Improvement to "Parque Familiar"; (3) "Museo & Casa de la Cultura"; (4) PRIDCO Building-State Government Services Center; and (5) "Extensión Parque Kennedy".

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget</u>
			<u>(See Note 1)</u>	<u>Positive</u>
				<u>(Negative)</u>
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 6,655,922	\$ 6,655,922	\$ 6,740,191	\$ 84,269
Municipal license tax	3,170,000	3,170,000	3,354,778	184,778
Licenses, permits and other local taxes	3,190,000	3,190,000	2,479,582	(710,418)
Charges for service	220,000	220,000	264,000	44,000
Intergovernmental	4,595,201	4,595,201	4,659,645	64,444
Rent of property	100,000	100,000	143,177	43,177
Fines and forfeitures				
Interest	400,000	400,000	694,608	294,608
Miscellaneous	1,600,000	2,100,333	2,306,313	205,980
Operating transfer from other fund				
Total revenues and other financing sources before carryover	<u>19,931,123</u>	<u>20,431,456</u>	<u>20,642,294</u>	<u>210,838</u>
Budget carryover (1)		3,332,457	3,332,457	
Total revenues and other financing sources after carryover	<u>19,931,123</u>	<u>23,763,913</u>	<u>23,974,751</u>	<u>210,838</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	\$ 10,394,793	\$ 10,665,669	\$ 9,869,382	\$ 796,287
Public safety	1,355,795	1,249,171	1,124,521	124,650
Public works	2,694,030	3,622,000	3,501,541	120,459
Health and welfare	4,125,233	4,820,571	4,637,495	183,076
Culture and recreation	759,309	837,162	796,834	40,328
Economic development				
Community development	134,356	207,188	200,913	6,275
Urban development				
Education	461,607	464,555	442,502	22,053
Operating transfer to other fund	6,000	1,897,597	1,897,489	108
Total expenditures, encumbrances and other financing uses	<u>19,931,123</u>	<u>23,763,913</u>	<u>22,470,677</u>	<u>1,293,236</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>1,504,074</u>	<u>1,504,074</u>

(1) Represent fund balance carried over from prior year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)

YEAR ENDED JUNE 30, 2003

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	\$ 23,974,751
Differences-budget to GAAP:	
Budget carryover	(3,332,457)
Nonbudgeted revenues	859,032
Nonbudgeted transfer from other funds are inflows for GAAP reporting purposes but is not other financial sources for budgetary basis reporting purpose	<u>111,000</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 21,612,326</u>

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 22,470,677
Differences-budget to GAAP:	
Nonbudgeted expenditures	34,756
Nonbudgeted transfer to other funds are outflows for GAAP reporting purposes but is not other financial uses for budgetary basis reporting purpose	1,017,117
Prior year encumbrances recorded as current year expenditures for GAAP basis	819,029
Current year encumbrances recorded as expenditures for budgetary purposes	<u>(605,940)</u>
Total expenditures and other financial sources as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 23,735,639</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2003

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program:			
Community Development Block Grants - Entitlement Grants	14.218		\$2,154,863
Direct Program:			
Section 8 Housing Choice Voucher	14.871		1,995,079
Direct Program:			
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856		1,049,768
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>85,289</u>
Total U.S. Department of Housing and Urban Development:			<u>5,284,999</u>
U.S. DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710		181,224
Pass-through the Commonwealth of Puerto Rico - Department of Justice:			
Local Law Enforcement Grant Program	16.592	Not Available	<u>104,740</u>
Total U.S. Department of Justice			<u>285,964</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission:			
Incentive Grants	20.601		<u>79,449</u>
Total U.S. Department of Transportation			<u>79,449</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA):			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Emergency Management Performance Grant	83.552		<u>2,452</u>
Total U.S. FEMA			<u>2,452</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office):			
Special Program for Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Not Available	109,318
Special Program for Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.045	Not Available	<u>33,449</u>
Total U.S. Department of Health and Human Services			<u>142,767</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$5,795,631</u></u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Trujillo Alto and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund - Federal Grants and Capital Projects Fund – Local, State and Federal Grants in the Municipality’s fund financial statements. The reconciliation between the expenditures in the fund financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue	Capital Projects	Total
Per Schedule of Expenditures of Federal Awards	\$4,513,778	\$1,281,853	\$5,795,631
Non federal programs Expenditures	-	6,034,961	6,034,961
Total expenditures in the fund financial statements	<u>\$4,513,778</u>	<u>\$7,316,814</u>	<u>\$11,830,592</u>

3. SUBRECIPIENTS:

The Municipality of Trujillo Alto provided Federal Awards to sub-recipients as follow:

Program Title	Federal CFDA Number	Amount Provided
Community Development Block Grants/Entitlement Grants	14.218	<u>\$10,082</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' 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 the Municipal Legislature
Municipality of Trujillo Alto
Trujillo Alto, Puerto Rico

We have audited the general basic statements of the Municipality of Trujillo Alto as of and for the year ended June 30, 2003, and have issued our report thereon dated December 18, 2003, which was unqualified. 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.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Trujillo Alto's basic 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 basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality of Trujillo Alto's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Trujillo Alto's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs items 03-01 and 03-02.

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

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 basic 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Municipality of Trujillo Alto in a separate letter dated December 18, 2003.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2003

Stamp No. 1942294 of the Puerto Rico
Society of Certified Public Accountants
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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

Compliance

We have audited the compliance of the Municipality of Trujillo Alto 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, 2003. The Municipality of Trujillo Alto's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality of Trujillo Alto's management. Our responsibility is to express an opinion on the Municipality of Trujillo Alto's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB 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 the Municipality of Trujillo Alto'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 of Trujillo Alto's compliance with those requirements.

In our opinion, the Municipality of Trujillo Alto complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. 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 03-03 through 03-10.

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

Internal Control Over Compliance

The management of the Municipality of Trujillo Alto 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 of Trujillo Alto'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 of Trujillo Alto's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-03 through 03-10.

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 applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items 03-05, 03-07, and 03-08 to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the Municipality of Trujillo Alto in a separate letter dated March 26, 2004.



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

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 26, 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2003

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No X
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant - Entitlement Program
14.856	Lower Income Housing Assistance Program- Section 8 Moderate Rehabilitation
14.871	Section 8 Housing Choice Voucher Program

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes <input type="checkbox"/> No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-01
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds).
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response and Corrective Action	The Municipality's Management concurs with the finding. The Municipality's Finance Department personnel were instructed to strength control and procedures to assure that the accounting system will provide information regarding authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc..

Implementation Date: July 2005

Responsible Person: Mr. Bienvenido Agosto
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-02
Requirement	Payroll and Related Liabilities - Payroll Preparation and Timekeeping
Statement of Condition	We performed a payroll test for the payroll period ended June 30, 2002 and examined a sample of sixty (60) personnel files and related payroll documents. The following summarize the exception noted: a. In ten (10) cases the time assistance cards were not signed by the employees.
Criteria	The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files.
Cause of Condition	The Municipality's internal control procedures failed to assure that all of the employees time assistance cards were signed by them as evidence of their assistance.
Effect of Condition	The Municipality is not in compliance with Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend the Municipality to improve its control procedures to assure that all employees signed their time assistance cards as evidence of their assistance.
Questioned Costs	None
Management Response and Corrective Action	The Municipality Management concurs with the finding. The Municipality's Human Resources Department personnel were instructed to strength control and procedures to assure that all employees signed the time assistance cards as evidence of their assistance. Implementation Date: June 2004 Responsible Person: Mrs. Maribel Maeso Human Resources Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-03
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Rehabilitation
Statement of Condition	<p>During our examination of twenty-five (25) Housing Rehabilitation Activity Participant's files we noted the following conditions:</p> <ul style="list-style-type: none">a. In the twenty-five (25) examined files the contract signed between the Municipality and the participant did not include the participant's housing unit deficiencies to be corrected.b. Four (4) files did not contain evidence about the participant's housing unit ownership or authorization for rehabilitation work.c. In eight (8) examined files the applicant eligibility determination was not properly documented in the file; a statement showing the conclusion gathered by the program staff regarding the application approval was not observed as part of the file documents.d. In three (3) files the assistance authorized to the participants was for the construction of a new housing unit in progress at the time of assistance.e. Six (6) files contained evidence of follow-up visits or inspections performed by the program staff in order to verify if the rehabilitation work was carried out in accordance with the specifications, but the form completed as evidence of inspections were not dated and signed by the program staff who conducted the inspection. Also, eleven (11) files contained inspection forms signed by the program staff but without date.f. In six (6) examined files we observe that the program staff did not inspect promptly the rehabilitation work upon completion to assure that it is carried out in accordance with authorized rehabilitation works; more than ninety (90) days elapsed between the contract date and the inspection date.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-03 (continued)
Criteria	CFR 24, Section 570.506, states that when CDBG-Entitlement Grants funds are used for rehabilitation, the grantee must assure that the work is properly completed and appropriate documentation is maintained. The 2002-2003 approved Annual Action Plan main objective towards housing activities is to maintain the low income stock in a sound, sanitary and safe condition meeting the housing unit quality standards set forth by HUD.
Cause of Condition	The Municipality internal control procedures failed to assure that rehabilitations are duly completed as required by regulations and appropriate documentation is maintained for each assisted participant.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Section 570.506.
Recommendation	We recommend management to instruct program staff to follow procedures established through the Municipal Housing Regulation for the Housing Rehabilitation Section.
Questioned Costs	None
Management Response and Corrective Action	<p>The program staff was instructed to follow all of the internal control, procedures and forms established through the Municipal Housing Regulation for the Housing Rehabilitation Section prepared and used since October 2001. Also, we developed and implemented a monitoring system in order to detect and correct any condition observed.</p> <p>Implementation Date: March 2004</p> <p>Responsible Person: Mr. José Cruz Cruz, Housing Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-04
Program	Section 8 Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation (CFDA 14.856) U.S. Department of Housing and Urban Development
Requirement	Eligibility of Individuals
Statement of Condition	During our verification of twenty five (25) participant files we noted the following exceptions related to the Housing Assistance Payments: a. In one (1) participant file the program did not considered participant revenues amounting to approximately to \$9,800. As result the program paid Housing Assistance Payment of \$512 instead \$265. b. In two (2) participant files the Labor Department Certification (Evidence of Unemployment) was not available for examination.
Criteria	Code of Federal Regulations 24 CFR, Section 880.603 requires the PHA to reexamine family income and composition at least once every twelve months and adjust the tenant rent and housing assistance payment as necessary.
Cause of Condition	The Municipality's internal control and procedures failed to assure that the HAP calculation for these participants were calculated using the third party income evidence obtained or required.
Effect of Condition	The Municipality incurred in HAP in excess of amount recomputed by us which represent an unallowable cost.
Recommendation	We recommend management to give instructions to program staff in order to assure that all participants HAP were calculated using the evidence of income obtained from third parties.
Questioned Costs	None
Management Response and Corrective Action	The program staff was instructed to verify the income information and evidence from third parties. Also, is needed, to recomputed and adjust any excess or difference.

Implementation Date: June 2004

Responsible Person: Mr. José Cruz Cruz, Housing Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-05
Program	Section 8 Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation (CFDA 14.856) U.S. Department of Housing and Urban Development
Requirement	Eligibility for Individuals-Selection from Waiting List
Statement of Condition	During the Waiting List Test we noted that seventeen (17) participants admitted during the current year were not included in the waiting list.
Criteria	Code of Federal Regulations 24, Sections 880.603, 884.214 states that the Municipality must select participants from the waiting list in accordance with the admission policies in its administrative plan. In addition, the Municipality must maintain documentation which shows that, at the time of admission, the family actually met the preference criteria that determined the family's place on the waiting list.
Cause of Condition	The Municipality did not maintain control procedures to assure that Section 8 Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation new participants were selected from the program actualized waiting list.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 880.603 and 884.214.
Recommendation	We recommend the Municipality's management to follow admission procedures established in the administrative plan. Also, we recommend to the management to establish control procedures to maintain a waiting list with all information required by the Federal Regulation. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **03-05 (continued)**

**Management Response
and Corrective Action**

The Municipality maintains a waiting list since March 2002 for the voucher program. Some moderate program's participants are selected from this waiting list. To assure a correct procedure, since October 2003 we opened a waiting list for the moderate program. Also, in order to assure a correct action we are going to revise all the procedures of the waiting list.

Implementation Date: June 2004

Responsible Person: Mr. José Cruz Cruz, Housing Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-06
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of Individuals
Statement of Condition	<p>During our verification of twenty five (25) participant files we noted the following exceptions related to the Housing Assistance Payment Calculation:</p> <ol style="list-style-type: none">a. The Administrative Plan states that the Municipality will use the Fair Market Rent established in the Federal Register as the Payment Standard. However, we noted that in three (3) participant files the payment standard used to calculate the Housing Assistance Payment was below the actualized Fair Market Rent. As result the Municipality paid an incorrect Housing Assistance Payment to owner or an incorrect utility allowance to the participant.b. In one (1) participant file, the payment standard used to calculate the Housing Assistance Payment was over the Fair Market Rent established in the Federal Register. As result, the Municipality paid an incorrect Housing Assistance Payment to owner or an incorrect utility allowance to the participant.c. The Administrative Plan states that the Municipality minimum rent is cero (0). However, we noted that exist inconsistency in the Total Tenant Payment (TTP) used during the current year. We found that in six (6) participant files The Total Tenant Payment (TTP) used was cero (0), in five (5) participant files the Total Tenant Payment (TTP) used was twenty five (\$25), In one participant file the Total Tenant Payment (TTP) used was ten (\$10).d. In two (2) participant files the program used an incorrect utility allowance. As result, the Municipality paid an incorrect Housing Assistance Payment to owner or an incorrect utility allowance to the participant.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-06 (continued)
Criteria	Code of Federal Regulations 24 CFR, Section 982.503 establishes how the PHA must determine and use the payment standard. Code of Federal Regulations 24 CFR, Section 982.505 establishes the procedures to be followed to calculate the Housing Assistance Payment. The Housing Choice Voucher Guidebook, number 7420.10G, Chapter six (6) establishes procedures for the HAP calculations.
Cause of Condition	The Municipality internal control procedures failed to assure that the Payment Standard used in Housing Assistance Payment calculation were in accordance with the updated HUD Fair Market Rent tables and Housing Assistance Payment Calculation considered correct Total Tenant Payment (TTP) and the correct utility allowance.
Effect of Condition	The Municipality incurred in HAP in excess of amount recomputed by us which represent an unallowable cost.
Recommendation	We recommend the Municipality to give instructions to program staff in order to assure that the HAP calculation for the participants was calculated using actualize fair market rent tables, the correct TTP and the utilities established as per contract.
Questioned Costs	None
Management Response and Corrective Action	<p>The Fair Market Rent use in the exceptions, to calculate HAP was not actualized, but is between the range of 110%. The program staff was instructed to revise and use the FMR actualized, and to be sure to use the correct FMR, TTP and Utility Allowance.</p> <p>We are going to revise all the related procedures and to recomputed or adjust any excess or difference.</p> <p>Implementation Date: June 2004</p> <p>Responsible Person: Mr. José Cruz Cruz, Housing Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of individuals
Statement of Condition	<p>We performed an eligibility test of twenty five (25) participant files and found the following exceptions:</p> <ul style="list-style-type: none">a. Privacy Act Notice form did not provide for the signature of participants with eighteen years or older.b. In one (1) participant file the welfare assistance verification from the Family Department was not obtained at annual reexamination.
Criteria	<p>Code of Federal Regulations 24, Sections 5.230, 5.212 and 982.516 states that as a condition of admission or continued occupancy, the PHA must require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a federally prescribed general release form for employment information and a Privacy Act Notice.</p> <p>The Housing Choice Voucher Program Guidebook number 7420.10G, Chapter three (3) establish that each PHA is required to develop and maintain an administrative plan with local policies for program administration. The PHA is responsible to insure that the plan is kept up to date and that staff operate it under policies spelled out in the plan.</p>
Cause of Condition	<p>The Municipality internal control procedures failed to assure that third party verification from Family Department was included in the participant file and the program staff did not require to complete the Privacy Act Notice to participant with eighteen years or older.</p>
Effect of Condition	<p>Participant files examined not include all documentation required by the Federal Agency.</p>
Recommendation	<p>The municipality must give instructions to the program staff to assure that the participant files includes all documentation required by HUD.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **03-07 (continued)**

Questioned Costs **None**

**Management Response
and Corrective Action**

Immediately, the program staff was instructed to include in the participant files, the required documentation, to change and include in the Privacy Act Notice the signatures required of the participants with eighteen years or older. We revised and correct it. Also, we are in the process to complete all the signatures in each participant's files.

Implementation Date: March 2004

Responsible Person: Mr. José Cruz Cruz, Housing Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-08
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We performed a Cash Management Test and found that the Municipality requested funds that were not disbursed on a reasonable lapse of time and the programs maintained an excessive cash balance in books of approximately \$959,945. HUD deducted \$937,553 overpayment corresponding to the current year. We noted that for twelve (12) months the leasing rate was under 95% and a revised requisition (Form 52663) was not submitted to HUD to reduce the monthly advances.
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (7), which requires a cash management system, in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Federal Program Department did not maintain appropriate cash management procedures in order to request funds from federal agencies only for immediate needs.
Effect of Condition	The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).
Recommendation	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.
Questioned Costs	None
Management Response and Corrective Action	<p>We are going to revise the procedures to assure minimize the lapse of time between the transfer of funds from the federal agency and the disbursements made by the Municipality. Also, we are going to provide adequate training to the program staff.</p> <p>At February 29, 2004 our leasing rate was 129% on Voucher Program and 100% on Moderate Program, as reported in the Delinquency Report.</p> <p>Implementation Date: June 2004</p> <p>Responsible Person: Mr. José Cruz Cruz, Housing Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-09
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Reporting
Statement of Condition	During our reporting test, we noted that the program transfer a cash balance of \$156,870 from certificate program bank account to the Housing Choice Voucher bank account and by mistake the cash transfer was recognize as a Program Receipts Other Than Annual Contribution in the closing report. Such situation caused an overpayment due to HUD as of June 30, 2003 of \$937,553 instead of \$780,683.
Criteria	OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1), requires that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant. Also, Subpart C, 24 CFR 85.20 (b) (2), states that the grantee must maintain records, which adequately identify the source and application of funds, provided for financially assisted activities.
Cause of Condition	The Municipality did not provide adequate training to the program staff and did not maintain adequate monitoring procedures to assure that closing reports are properly prepared.
Effect of Condition	The Municipality is not in compliance with OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1) and 85.20 (b) (2).
Recommendation	We recommend the Municipality to provide adequate training to the program staff. Also, the supervisor should develop a monitoring system in order to detect and correct the deficiencies related to closing reports and accounting records.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-09 (continued)

**Management Response
And Corrective Action**

We are going to provide adequate training to the program staff and develop a monitoring system in order to detect and correct deficiencies related to closing reports and accounting records.

Implementation Date: June 2004

Responsible Person: Mr. José Cruz Cruz, Housing Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-10
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Selection from the Section 8 Waiting List
Statement of Condition	During our Waiting List Test we noted the following exceptions: a. Three (3) new participants admitted to the program during the fiscal year 02-03 were not selected from the waiting list actualized in March, 2002. Those participants were included in an old waiting list. b. We noted that after the waiting list was opened in March, 2002 some participant's waiting list turn numbers were cancelled. Later, the Municipality proceeded to activate those participant turns instead of giving them a new turn number. That situation affects the selection of participants from the top of the waiting list.
Criteria	Code of Federal Regulations 24, Sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family, whose names reaches the top of the waiting list, to come in to verify eligibility for admission.
Cause of Condition	The Municipality internal control procedures failed to assure that the waiting list include all information required by Federal Regulation and that the participants were selected from the top of the waiting list.
Effect of Condition	The Municipality noncompliance with 24 CFR sections 982.54 (d) and 982.201 through 982.207.
Recommendation	We recommend the Municipality to follow admission procedures established in the administrative plan. Also, we recommend management to establish control procedures to maintain a waiting list with all information required by the Federal Regulation. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-10 (continued)
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Selection from the Section 8 Waiting List
Questioned Costs	None
Management Response and Corrective Action	<p>We are going to revise and develop additional procedures or internal control for the waiting list's process in order to maintain a correct waiting list and to assure the selection from the top of the waiting list. The program staff was instructed to maintain evidence for the turns cancelled and to give a new turn number instead activated those participants cancelled. Also, we are going to provide adequate training to the program staff.</p> <p>Implementation Date: June 2004</p> <p>Responsible Person: Mr. José Cruz Cruz, Housing Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-06	14.218	<p><u>The Municipality should follow monitoring system procedures developed, including interviewing contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extent of violations, if any.</u></p> <p>Full corrective action has been taken.</p>
02-07	14.218	<p><u>The Municipality should perform a physical inventory in order to actualize the property ledger subsidiary. In addition, we recommend strengthen its internal control procedures in order to assure that the program maintains proper records and adequately safeguards for the equipment to comply with program requirements and regulations.</u></p> <p>Full corrective action has been taken.</p>
02-08	14.218	<p><u>The Municipality should include all contracts provisions required by the federal regulations before each contract execution.</u></p> <p>Full corrective action has been taken.</p>
02-09	14.218	<p><u>The Municipality should include all contracts provisions required by the federal regulations before each contract execution. Also, the Municipality should strengthen its monitoring procedures to assure that the sub-recipient comply with the requirements established in the contract before issuing any disbursement.</u></p> <p>Full corrective action has been taken.</p>
02-10	14.218	<p><u>The Municipality should establish the following procedures: ascertain that the participant housing unit deficiencies to be corrected are incorporated into the rehabilitation contract; perform pre-rehabilitation inspection describing the participant housing unit deficiencies to be corrected; assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contract specifications; assure that all participant files include all required documentation; ascertain eligibility determination and adequate evidence of family income.</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		Partially corrective action has been taken.
02-11	14.856	<p><u>The Municipality should establish monitoring procedures to assure that Housing Assistance Payments are performed as per Family Report Computation and the utility information is duly documented and updated in the participant file.</u></p> <p>Partial corrective action has been taken. The program director assigns an employee to perform monitoring procedures in the participant files and HAP calculation.</p>
02-12	14.856	<p><u>The Municipality should establish adequate monitoring procedures in order to assure that the participant files include all information from third parties as required by Federal Regulations. In addition, the Municipality must include adequate documentation explaining the reason why third party verification was not obtained.</u></p> <p>Partially corrective action has been taken. The program director assigns an employee to perform monitoring procedures in the participant files and HAP calculation.</p>
02-13	14.856	<p><u>The Municipality should strength it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.</u></p> <p>Partially corrective action has been taken. The program director establish procedures to assure that during fiscal year 2003-2004 the program comply with the 95% of utilization of the funds received from HUD for Housing Assistance Payment.</p>
02-14	14.856	<p><u>The Municipality should establish internal control procedures to assure that any transmission problem with the HUD system is corrected in a timely manner.</u></p> <p>Full corrective action has been taken.</p>
02-15	14.856	<p><u>The Municipality should follow admission procedures established in the administrative plan. Also, we recommend to the management to establish control procedures to maintain a waiting list with all</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>information required by the Federal Regulation. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.</u></p> <p>Partially corrective action has been taken. The program director gives instructions to the program staff to establish procedures during year 2003-2004 to assure the compliance with the waiting list requirement.</p>
02-16	14.856	<p><u>The Municipality should evaluate utility allowance rate each year as established in the Federal Regulations.</u></p> <p>Full corrective action has been taken.</p>
02-17	14.856	<p><u>The Municipality should improve monitoring procedures in order to assure that annual inspections are properly completed by the inspectors verifying the housing unit's compliance with all Housing Quality Standards Requirements.</u></p> <p>Full corrective action has been taken.</p>
02-18	14.871	<p><u>The Municipality should perform monitoring activities to assure that Housing Assistance Payments are duly computed as required by the Federal Regulations.</u></p> <p>Partially corrective action has been taken. The program director assigns an employee to perform monitoring procedures in the participant files and HAP calculation.</p>
02-19	14.871	<p><u>The Municipality should establish adequate monitoring procedures in order to assure that the participant files includes all documentation required by the Federal Agencies. In addition, the program must update the Administrative Plan in order to provide a useful guide to the staff of the program procedures and policies.</u></p> <p>Partially corrective action has been taken. The program director assigns an employee to perform monitoring procedures in the participant files.</p>
02-20	14.871	<p><u>The Municipality should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		Partially corrective action has been taken. The program director establish procedures to assure that during fiscal year 2003-2004 the program comply with the 95% of utilization of the funds received from HUD for Housing Assistance Payment.
02-21	14.871	<u>The Municipality should improve its monitoring procedures in order to assure the program compliance with federal regulations.</u> No longer valid.
02-22	14.871	<u>The Municipality should establish internal control procedures to assure that any transmission problem with the HUD system is corrected in a timely manner.</u> Full corrective action has been taken.
02-23	14.871	<u>The Municipality should follow admission procedures established in the administrative plan. Also, The municipality should establish control procedures to maintain a waiting list with all information required by the Federal Regulation. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.</u> Partially corrective action has been taken. The program director gives instructions to the program staff to improve documentation procedures of how participants are selected from the top of the waiting list in order to maintain adequate audit tracing of how participants are selected from the top of the waiting list.
02-24	14.871	<u>The Municipality should establish controls to assure appropriate documentation on the determination of reasonable rent and it's maintained in participant's files.</u> Full corrective action has been taken.
02-25	14.871	<u>The Municipality should evaluate utility allowance rate each year as established in the federal regulations.</u> Full corrective action has been taken.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-26	14.871	<u>The Municipality should establish monitoring procedures to assure that annual inspections are properly completed and documented in the participant files.</u> Full corrective action has been taken.
01-III-1	14.871 14.856 14.857	<u>Excess cash held in bank</u> Partially corrective action has been taken. The program director establish procedures to assure that during fiscal year 2003-2004 the program comply with the 95% of utilization of the funds received from HUD for Housing Assistance Payment.
01-III-2	14.871 14.856 14.857	<u>Failures with Special Test and Provisions requirements</u> Partially corrective action has been taken. The Municipality assign an employee to perform monitoring procedures in order to assure the program compliance with special test and provisions.
01-III-4	14.871 14.856 14.857 14.218	<u>Failures with the Equipment and Real Property Management requirement</u> Full corrective action has been taken.
01-III-5	16.710	<u>Failures with the Matching requirement</u> Full corrective action has been taken.
6/30/00 Section 8-1	14.871 14.856 14.857	<u>Failures with waiting list requirement</u> Partially corrective action has been taken. The program director gives instructions to the program staff to improve documentation procedures of how participants are selected from the top of the waiting list in order to maintain adequate audit tracing of how participants are selected from the top of the waiting list.
6/30/99 Section	14.871 14.856	<u>Failures with waiting list requirement</u> The program director gives instructions to the program staff to improve

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
8-1	14.857	documentation procedures of how participants are selected from the top of the waiting list in order to maintain adequate audit tracing of how participants are selected from the top of the waiting list. Partial corrective action has been taken.