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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE TRUJILLO ALTO
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

Call No. 5-9606

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2004**

5/15/04

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2004

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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

**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, 2004, 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, 2004, 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.

The Management's Discussion and Analysis on pages 3 through 13 and the Budgetary Comparison Schedule-General Fund on page 41 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2004 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 23, 2004

Stamp No. 2019442 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'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

This discussion and analysis of the Municipality of Trujillo Alto (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2004. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2003, first year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments." This MD & A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2003-2004 compared with prior year results;
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.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2004 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total Net Assets of the Municipality as of the end of the indicated fiscal year amounted to \$56,477,093, or fifty eight percent (58%) of total assets.
2. The Municipality's total Net Assets increased by \$5,019,863, or a 10% from the prior fiscal year-end balance.
3. As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$24,633,567 or \$586,254 under the similar figure corresponding to the previous fiscal year 2002-2003.
4. As the end of the current fiscal year, the balance of the Municipality's General Fund amounted to \$2,025,456, or \$830,759 lower than the previous fiscal year. 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL HIGHLIGHTS (continued)

5. In accordance with the aforementioned policy, during fiscal year 2004 the Municipality used \$1,665,724 available in the General Fund Balance Account of previous year for further increases in capital assets and for the extension of several municipal services to Trujillo Alto's communities.
6. The actual General Fund budgetary activities resulted in a favorable balance of \$245,241 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.
7. 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 2004 which amounted to \$686,353.
8. As reflected in the Statement of Activities, the municipal internally generated revenues contributed to the increase in the Net Assets Figure by \$5,019,863.
9. At the end of fiscal year 2004, total liabilities amounted to \$39,386,230. Out of said amount, \$32,956,064 corresponded to long-term liabilities of which \$22,299,870 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 maintained an aggressive capital improvement program. As of June 30, 2004, construction work in process included the new Trujillo Alto Municipal Government Center at a cost of more than \$10 million and the acquisition and remodeling of the facilities to be occupied by the First Instance Court. Completion date for said projects is scheduled to be realized during calendar year 2005.

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 2004. 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 comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 of Trujillo Alto, as of June 30, 2004, such figure amounted to \$56,477,093 and represented fifty eight percent (58%) 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.

A brief review of The Statements of Activities of the Municipality at June 30, 2004, shows total expenses incurred to afford the cost of all functions and programs amounted to \$30,950,811. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$14,706,836 was derived from the following sources: \$765,535 charges for services; \$4,777,591 from operating grants and contributions; and \$9,163,710 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$21,263,838. When such figure is added to the \$14,706,836 previously mentioned, total revenues available for the financing of activities amounted to \$35,970,674. There was an excess of revenues over expenses in the amount of \$5,019,863 which contributed to the figure of net assets attained at the end of the fiscal year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENTS COMPONENTS (continued)

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.

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets 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. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets. The Municipality expects to retroactively report historical costs of infrastructure assets during the fiscal year beginning on July 1, 2006.

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'S DISCUSSION AND ANALYSIS - (CONTINUED)

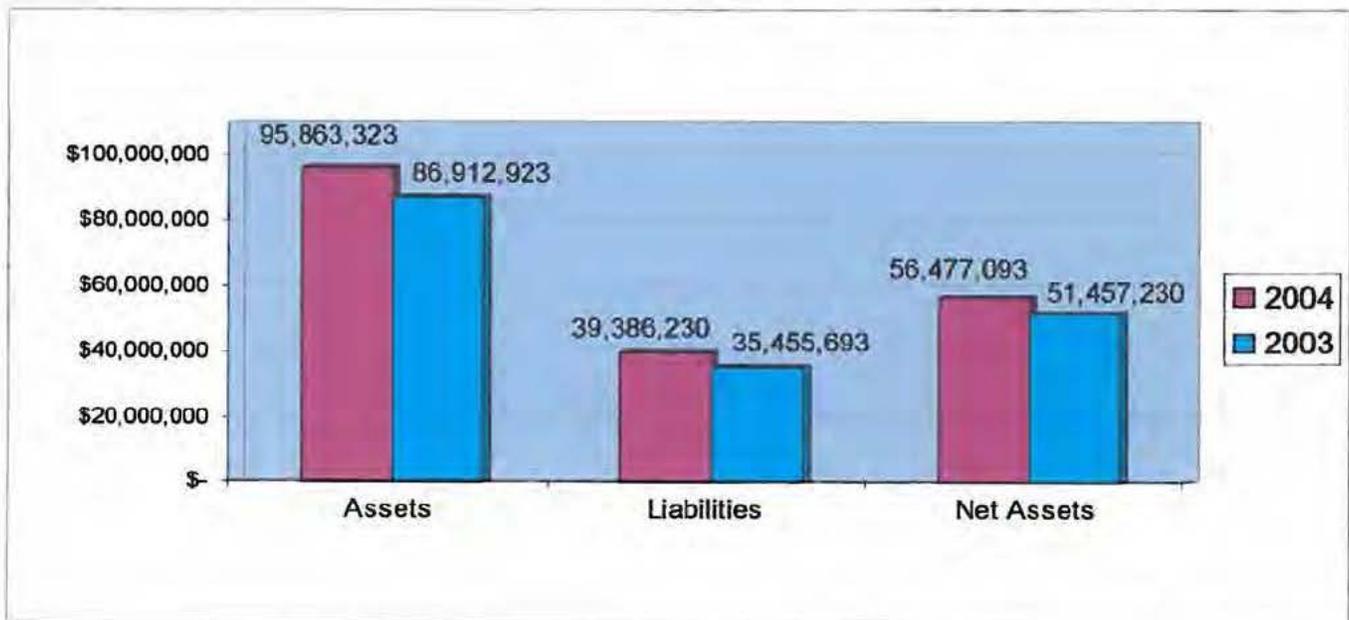
YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

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 \$56,477,093 at the end of 2004, as compared with \$51,457,230, or at the end of the previous year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$5,019,863 increment reflected in the Net Assets figure.

Condensed Statement of Net Assets	2004	2003	Change	%
Current and other assets	\$ 30,399,439	\$ 31,313,027	\$ (913,588)	(3%)
Capital assets	65,463,884	55,599,896	9,863,988	18%
Total assets	95,863,323	86,912,923	8,950,400	10%
Current and other liabilities	6,430,166	6,144,885	285,281	5%
Long-term liabilities	32,956,064	29,310,808	3,645,256	12%
Total liabilities	39,386,230	35,455,693	3,930,537	11%
Invested in capital assets, net of related debt	38,113,370	31,787,940	6,325,430	20%
Restricted	22,059,588	22,428,202	(368,614)	(2%)
Unrestricted deficit	(3,695,865)	(2,758,912)	(936,953)	34%
Total net assets	\$ 56,477,093	\$ 51,457,230	\$ 5,019,863	10%



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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2004, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$5,019,863. As previously stated, such amount constituted a positive factor to the Municipality's net assets. Approximately forty five percent (45%) of the Municipality's total revenue came from taxes, while fifty percent (50%) resulted from grants and contributions, including federal aid. Charges for Services provided two percent (2%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2003 and 2004. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

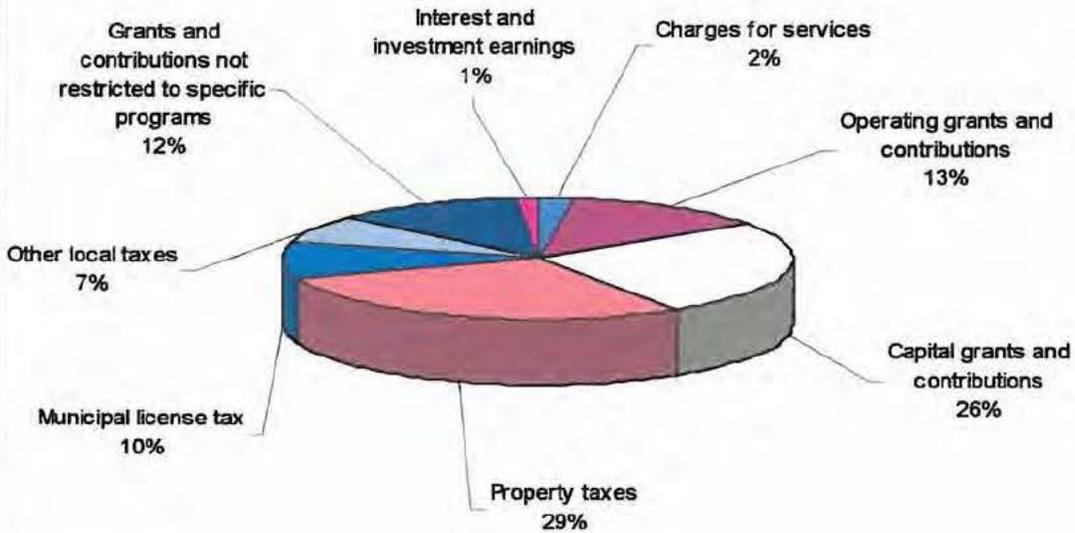
Condensed Statement of Activities	2004	2003	Change	%
Program revenues:				
Charges for services	\$ 765,535	\$ 539,295	\$ 226,240	42%
Operating grants and contributions	4,777,591	4,141,284	636,307	15%
Capital grants and contributions	9,163,710	3,266,216	5,897,494	181%
General revenues:				
Property taxes	10,225,151	11,187,298	(962,147)	(9%)
Municipal license tax	3,562,126	3,346,971	215,155	6%
Other local taxes	2,638,182	2,479,582	158,600	6%
Grants and contributions not restricted to specific programs	4,378,270	5,276,889	(898,619)	(17%)
Interest and investment earnings	457,223	694,982	(237,759)	(34%)
Gain (loss) on retirement of capital assets	(28,748)		(28,748)	100%
Miscellaneous	31,634	61,715	(30,081)	(49%)
Total revenues	35,970,674	30,994,232	4,976,442	16%
Expenses:				
General government	11,723,933	8,709,899	3,014,034	35%
Public safety	1,800,606	1,520,528	280,078	18%
Public works	3,116,420	4,312,091	(1,195,671)	(28%)
Culture and recreation	1,467,062	1,089,193	377,869	35%
Health and welfare	8,693,164	8,261,080	432,084	5%
Community development	2,037,732	1,185,703	852,029	72%
Education	649,473	738,811	(89,338)	(12%)
Urban development	43,995	3,971	40,024	1008%
Interest on long-term debt	1,418,426	1,086,889	331,537	31%
Total expenses	30,950,811	26,908,165	4,042,646	15%
Change in net assets	5,019,863	4,086,067	933,796	23%
Net assets, beginning of year	51,427,230	47,371,163	4,056,067	9%
Net assets, end of year	\$ 56,447,093	\$ 51,457,230	\$ 4,989,863	10%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

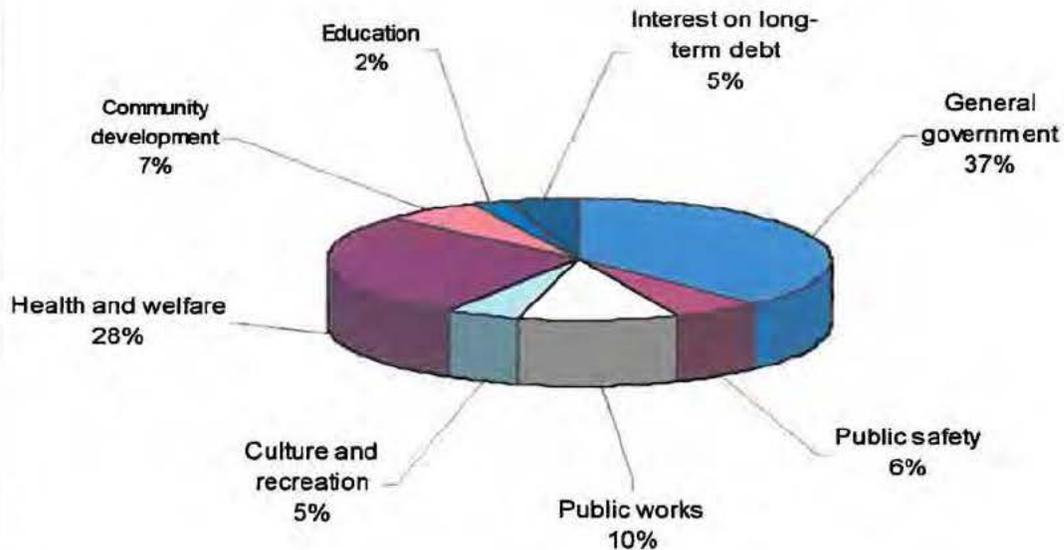
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Revenues 2004



Expenses 2004



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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$24,633,567, which represents a decrease of \$1,172,569 when compared with the prior year. Out of the indicated balance, \$23,535,830 were reserved or committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$811,948); 2) for debt service payments (\$5,224,950); 3) to pay for capital projects (\$16,476,250); and 4) for other purposes (\$1,022,682).

As of June 30, 2004, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund balance of \$1,097,737.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2003-2004, the Municipal Legislature approved revisions to the operational budget which resulted in further increases in revenues and current expenditures which represented transactions detected during the normal course of business. Despite these budgets readjustments and as previously stated, the Municipal administration of Trujillo Alto was able to maintain a balanced budget as required by law.

Also, during fiscal year 2004 the Municipality used \$1,665,724 available in the General Fund Balance Account of previous year for further increases in capital assets and for the extension of several municipal services to Trujillo Alto's communities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2004, amounted to \$76,120,495, which upon deduction of accumulated depreciation in the amount of \$10,656,611, produced a net book value attributable to capital assets of \$65,463,884. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately eighteen percent (18%) of net book value. Depreciation charges for the year totaled \$1,604,767.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2004, the Municipality has \$10,555,053 of unexpended proceeds mainly from bond and notes issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act establishes that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. In the particular case of the Municipality of Trujillo Alto, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2004-2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINAL COMMENTS

The Municipality of Trujillo Alto 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 and the First Instance Court both to be completed during calendar year 2005. 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.

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 December 2004, it issued a general obligation note in the amount of \$1,455,000. The proceeds of said loan, executed at a very reasonable interest rate will be used for purchase of equipment.

On July 13, 2004, the Municipality transferred to the General Fund from the Debt Service Fund approximately \$1,200,000. The amount transferred corresponded to balances in excess of the required amount in said to provide for debt service. Such transfer is perfectly appropriate since according to the Municipal Financing Act, any Municipality can retire excess funds from the Debt Service Fund, provided such funds are used to afford any legitimate purpose of the local government. It should be noted that the Municipal Administration has been very cautious and conservative in the use of the indicated monies. As a matter of fact, it is the first time that it uses this funding mechanism for the purpose of partially provide for expenses to be incurred in the waste disposal services.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINAL COMMENTS (continued)

On September 7, 2004, Public Law 255 was enacted to amend Section 22 of the Public Law 83 of May 2, 1941, as amended, known as the "Puerto Rico Electric Power Authority ("PREPA") Act". Said Law, among other things established a new formula to determine the contribution in lieu of taxes to be distributed by PREPA among all Municipalities of the Commonwealth of Puerto Rico. According to the Law which went into effect since the beginning of fiscal year 2002-2003, PREPA to distribute as contribution in lieu of taxes the greater of the following amounts: (1) twenty percent (20%) of its net revenues, as such term is defined in the Trust Agreement; and after deducting the amount of subsidies granted by PREPA; or an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities; and (3) an average of the contribution in lieu of taxes paid to each Municipality in the past five fiscal years.

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 2004. 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.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 1869, Trujillo Alto, PR 00977, or call (787) 761-0172.

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 16,125,762
Cash with fiscal agent	12,206,770
Accounts receivable:	
Municipal license tax	19,892
Intergovernmental	1,931,838
Interest	24,886
Others	90,291
Capital assets:	
Land, improvements, and construction in progress	46,126,733
Other capital assets, net of depreciation	19,337,151
Total capital assets	<u>65,463,884</u>
Total assets	<u>95,863,323</u>
 Liabilities	
Accounts payable and accrued liabilities	3,085,312
Due to other governmental entities	186,960
Deferred revenues:	
Municipal license tax	1,860,909
Federal grant revenues	632,691
Interest Payable	664,294
Noncurrent liabilities:	
Due within one year	1,578,366
Due in more than one year	<u>31,377,698</u>
Total liabilities	<u>39,386,230</u>
 Net Assets	
Invested in capital assets, net of related debt	38,113,370
Restricted for:	
Capital projects	16,476,250
Debt service	4,560,656
Other purposes	1,022,682
Unrestricted (deficit)	<u>(3,695,865)</u>
Total net assets	<u>\$ 56,477,093</u>

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Statement of Activities
For the Year Ended June 30, 2004

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	\$ 11,723,933	\$ 293,920	\$ 281,106	\$ 2,094,233	\$ (9,054,674)
Public safety	1,800,606	27,580	102,856	3,831,855	2,161,685
Public works	3,116,420	17,633	14,135	2,500	(3,082,152)
Health and welfare	8,693,164	125,937	3,954,364	951,500	(3,661,363)
Culture and recreation	1,467,062		12,300		(1,454,762)
Community development	2,037,732			2,283,622	245,890
Urban development	43,995		661		(43,334)
Education	649,473	300,465	412,169		63,161
Interest on long-term debt	1,418,426				(1,418,426)
Total governmental activities	\$ 30,950,811	\$ 765,535	\$ 4,777,591	\$ 9,163,710	(16,243,975.00)

General revenues:

Property taxes	10,225,151
Municipal license tax	3,562,126
Other local taxes	2,638,182
Grants and contributions not restricted to specific programs	4,378,270
Interest and investment earnings	457,223
Gain (loss) on sale/retirement of capital assets	(28,748)
Miscellaneous	31,634
Total general revenues	21,263,838
Change in net assets	5,019,863
Net assets - beginning, as restated	51,457,230
Net assets - ending	\$ 56,477,093

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Special Revenue Fund Federal Grants	Debt Service Fund	Capital Projects Fund - Local, State and Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 3,542,752	\$ 637,606	\$ -	\$ 10,967,393	\$ 978,011	\$ 16,125,762
Cash with fiscal agent	115,771		5,147,527	6,932,434	11,038	12,206,770
Accounts receivable:						
Municipal license tax	19,892					19,892
Intergovernmental	1,105,593	425,048	85,257	316,000		1,931,898
Interest	20,957		3,929			24,886
Other	90,291					90,291
Due from other funds	375,355					375,355
Total assets	\$ 5,270,551	\$ 1,062,654	\$ 5,236,713	\$ 18,215,827	\$ 989,049	\$ 30,774,794
Liabilities and Fund Balances						
Liabilities						
Accounts payable and accrued liabilities	\$ 1,197,226	\$ 143,970	\$ -	\$ 1,739,577	\$ 4,539	\$ 3,085,312
Due to other governmental entities	186,960					186,960
Due to other funds		285,593	11,763		77,599	375,355
Deferred revenues:						
Municipal license tax	1,860,909					1,860,909
Federal grant revenues		632,691				632,691
Total liabilities	3,245,095	1,062,654	11,763	1,739,577	82,138	6,141,227
Fund balances:						
Reserved for:						
Encumbrances	811,948					811,948
Capital projects				18,476,250		18,476,250
Debt service fund			5,224,950			5,224,950
Other purposes	115,771					115,771
Reserved reported in nonmajor funds:						
Other purposes					906,911	906,911
Unreserved:						
Undesignated	1,097,737					1,097,737
Total fund balances	2,025,456		5,224,950	18,476,250	906,911	24,633,567
Total liabilities and fund balances	\$ 5,270,551	\$ 1,062,654	\$ 5,238,713	\$ 18,215,827	\$ 989,049	

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	65,463,884
Long-term liabilities, including accrued interests, are not due and payable in the current period, and therefore, are not reported in the funds	(33,620,358)
Net assets of governmental activities	\$ 56,477,093

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, 2004

	General Fund	Special Revenue Fund Federal Grants	Debt Service Fund	Capital Projects Fund - Local, State and Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 8,044,366	\$ -	\$ 2,180,785	\$ -	\$ -	\$ 10,225,151
Municipal license taxes	3,562,126					3,562,126
Licenses, permits and other local taxes	2,736,264					2,736,264
Charges for services	300,465					300,465
Intergovernmental	4,673,511			3,369,458	708,830	8,751,799
Rent of property	213,471				124,677	338,148
Fines and forfeitures	27,580					27,580
Interest	455,616			36,212		491,828
Federal grants		6,238,801				6,238,801
Miscellaneous	14,039	26,296			19,528	59,863
Total revenues	20,027,438	6,265,097	2,180,785	3,405,670	853,035	32,732,025
Expenditures						
Current:						
General government	10,298,888			5,870,083	5,623	16,174,594
Public safety	1,619,772	13,974		17,040	4,718	1,655,504
Public works	2,995,596			669,651	83,727	3,748,974
Health and welfare	4,566,758	3,912,188		111,988	76,159	8,667,093
Culture and recreation	895,129	89,931		507,233	58,166	1,550,459
Community development	187,097	2,137,489		411,999		2,736,585
Urban development		23,647		339,574	5,578	368,799
Education	439,014				396,576	835,590
Debt service:						
Principal			774,870			774,870
Interest		87,868	1,304,258			1,392,126
Total expenditures	21,002,254	6,265,097	2,079,128	7,927,568	630,547	37,904,594
Excess (deficiency) of revenues over (under) expenditures	(974,816)		101,657	(4,521,898)	222,488	(5,172,569)
Other financing sources (uses)						
Transfers in	1,074,672		5,503	939,612	5,000	2,024,787
Transfers out	(930,615)		(800,000)	(279,672)	(14,500)	(2,024,787)
Long-term debt issued				4,000,000		4,000,000
Total other financing sources (uses)	144,057		(794,497)	4,659,940	(9,500)	4,000,000
Net change in fund balances	(830,759)		(692,840)	138,042	212,988	(1,172,569)
Fund balance, beginning as restated	2,856,215		5,917,790	16,338,208	693,923	25,806,136
Fund balance, ending	\$ 2,025,456	\$ -	\$ 5,224,950	\$ 16,476,250	\$ 906,911	\$ 24,633,567

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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (1,172,569)

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

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. 7,847,606

Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period. 3,267,397

Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change 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. (1,604,767)

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Assets. (28,748)

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represented the change in accrued interest from prior year. (26,300)

Bonds and notes proceeds provides current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments. (3,225,130)

Repayment of notes payable to the Land Authority related to a land acquisition in prior years is an expenditure in Governmental Funds, but the repayment reduces notes payable in the Government-Wide Statement of Net Assets. This is the amount paid in the current period. 69,072

Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long-term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period. 82,924

Long-term compensated absences are 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, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term compensated absences from prior year. (266,622)

Long-term claims and judgements are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represent the change in long-term claims and judgments from prior year. 77,000

Change in Net Assets of Governmental Activities \$ 5,019,863

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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 a full range of services for its citizens. These services include 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.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality has elected to delay the capitalization of infrastructure.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

The following is a summary of the significant accounting policies of the Municipality:

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, as amended by GASB Statement No. 39. 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, 2004

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 Projects 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, 2004

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 if 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 Fund 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 Fund 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 Fund - Debt Service Fund 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 Fund - Local, State and Federal Grants - Capital Projects Fund 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, 2004

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.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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 represents mostly contributions from the Puerto Rico Electric Power Authority (PREPA), which, pays the municipalities as contributions in lieu of taxes greater of the following amounts: (a) twenty percent (20%) of its net revenues as defined in the Trust Indenture signed with the Trustee as representative of the bondholders, adjusted by subsidies granted by the PREPA; (b) an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities during the current year; or (c) an average of the contribution in lieu of taxes paid by PREPA to each municipality during the past five fiscal years. The contribution in lieu of tax revenue and related receivable recorded in the General Fund for the current fiscal year was determined based on revenue estimates made by the PREPA and actual transactions during the current fiscal year, because the final contribution amount from the PREPA was not available at the date of release of the basic financial statements. Intergovernmental receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

3. **Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
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, 2004

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, 2004

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 Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2004 amounted to approximately \$377,321. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$536,809 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</u> <u>Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 65,463,884	
Deduct:		
Bonds Payable	(22,299,870)	
Notes Payable	<u>(5,050,644)</u>	\$ 38,113,370
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		16,476,250
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	\$ 5,224,950	
Deduct:		
Accrued Interests Payable	<u>(664,294)</u>	4,560,656
<u>Net assets restricted for other purposes</u>		
General fund - fund balance restricted for other purposes	\$ 115,771	
Other governmental funds - fund balance restricted for other purposes	<u>906,911</u>	1,022,682
<u>Net assets unrestricted</u>		
General fund - total fund balance:	\$ 2,025,456	
Deduct:		
Fund balance reserved for other purposes	(115,771)	
Compensated absences debt	(2,779,243)	
Property taxes debt	(2,726,307)	
Claims and judgments debt	<u>(100,000)</u>	<u>(3,695,865)</u>
Total net assets - governmental activities		<u>\$ 56,477,093</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 \$3,542,752, \$637,606, \$10,967,393 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, 2004. In the other governmental funds there were deposits with commercial banks of approximately \$978,011 that were fully collateralized.

The deposits at GDB of approximately \$115,771, that is restricted for other purposes in the general fund, the \$6,932,434 that is restricted principally for capital projects in the capital project fund - local, state and federal grants, the \$5,147,527 in the debt service fund, and the \$11,038 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, 2004, 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, 2004, 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, 2004

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 estimated revenues the Municipality is entitled to receive in lieu of payment of taxes over actual cost of electric power consumed by the Municipality during the current fiscal year, the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from property tax collections related to the amnesty granted through the Public Law 74, enacted on March 1, 2004, and the amount owned by the Department of Education of the Commonwealth of Puerto Rico resulting for transportation services rendered by the Municipality. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$ 680,017
Municipal Revenue Collection Center ("CRIM")	343,016
Department of Education	<u>82,500</u>
Total	<u>\$ 1,105,533</u>

On September 7, 2004, Act Num. 255 was enacted and a new formula as described in Note 1 (E) (2), was established for the calculation of the contribution in lieu of taxes to be paid to the municipalities by PREPA. Since the final liquidation following such formula was not available for fiscal year 2003-2004, an estimated amount was recognized, based on the estimate contributions in lieu of taxes determined by PREPA for the current fiscal year.

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 federal grants receivables:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant	\$ 158,429
Public Assistance Grant	226,569
Incentive Grant – Regional Community Program	29,582
Special Program for Aging – Title III	<u>10,468</u>
Total	<u>\$ 425,048</u>

Intergovernmental receivable in the debt service fund represents the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ 85,257
Total	<u>\$ 85,257</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in the capital project funds – local, state and federal grants represents the amounts due from the Office of the Commissioner of Municipal Affairs (OCAM) resulting expenditures incurred not yet reimbursed by the OCAM. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Office of the Commissioner of Municipal Affairs ("OCAM")	<u>\$ 316,000</u>
Total	<u>\$ 316,000</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2004, and interfund transfers during the fiscal year ended at June 30, 2004, 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	\$ 285,993
General Fund	Debt Service Fund	Interest Revenue	11,763
General Fund	Other Governmental Funds	Reimbursable Expenditures	<u>77,599</u>
Total			<u>\$ 375,355</u>

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	\$ 925,112
General Fund	Debt Service Fund	Debt Retirement	5,503
Capital Project Fund – Local, State and Federal Grants	General Fund	Residual Equity Transfer	274,672
Capital Project Fund – Local, State and Federal Grants	Other Governmental Funds	Residual Equity Transfer	5,000
Debt Service Fund	General Fund	Residual Equity Transfer	800,000
Other Governmental Funds	General Fund	Residual Equity Transfer	<u>14,500</u>
Total			<u>\$ 2,024,787</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2004, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2004</u>
Capital asset, not being depreciated:				
Land	\$ 32,346,284	\$ 3,435,968	\$ -	\$ 35,782,252
Construction in progress	<u>6,287,124</u>	<u>6,857,365</u>	<u>2,800,008</u>	<u>10,344,481</u>
Total capital assets not being depreciated	<u>38,633,408</u>	<u>10,293,333</u>	<u>2,800,008</u>	<u>46,126,733</u>
Capital assets, being depreciated:				
Buildings	15,435,303	340,000		15,775,303
Buildings improvements	4,740	1,559,683	560	1,563,863
Infrastructure	72,628	345,129		417,757
Infrastructure improvements	2,740,498	1,460,528		4,201,026
Equipment	1,141,588	74,374	20,843	1,195,119
Furnishing	440,287	28,273	16,996	451,564
Computers	371,475	35,787	23,568	383,694
Vehicles	<u>5,888,730</u>	<u>160,404</u>	<u>43,698</u>	<u>6,005,436</u>
Total capital assets being depreciated	<u>26,095,249</u>	<u>4,004,178</u>	<u>105,665</u>	<u>29,993,762</u>
Less accumulated depreciation for:				
Buildings	3,491,737	392,966		3,884,703
Buildings improvements	440	18,896	151	19,185
Infrastructure	11,584	2,735		14,319
Infrastructure improvements	147,666	240,881		388,547
Equipment	769,643	161,168	19,655	911,156
Furnishing	326,595	42,903	16,063	353,435
Computers	280,259	57,933	23,568	314,624
Vehicles	<u>4,100,837</u>	<u>687,285</u>	<u>17,480</u>	<u>4,770,642</u>
Total accumulated depreciation	<u>9,128,761</u>	<u>1,604,767</u>	<u>76,917</u>	<u>10,656,611</u>
Total capital assets being depreciated, net	<u>16,966,488</u>	<u>2,399,411</u>	<u>28,748</u>	<u>19,337,151</u>
Governmental activities capital assets, net	<u>\$ 55,599,896</u>	<u>\$ 12,692,744</u>	<u>\$ 2,828,756</u>	<u>\$ 65,463,884</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 165,581
Public safety	157,786
Public works	736,407
Culture and recreation	311,255
Health and welfare	83,161
Community development	130,390
Education	13,104
Urban Development	<u>7,083</u>

Total depreciation expense-governmental activities \$ 1,604,767

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 Municipal Revenue Collection Center ("CRIM"), a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Act 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, as modified by the quarterly revisions of estimates required by law. The CRIM is required by law to prepare a liquidation 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 preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Certified Public Accountants Firm. 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, 2004

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, 2004, the related unpaid property tax advances included in the statement of net assets amounted to \$467,543 and is payable as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2005	\$ 82,924
2006	82,924
2007	82,924
2008	82,924
2009	82,924
2010	<u>52,923</u>
Total	<u>\$ 467,543</u>

On June 26 1997, Public Law Num. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. As of June 30 2004, the related unpaid property tax advances included in the Statement of Net Assets amounted to approximately \$2,258,764.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

6. PROPERTY TAXES (CONTINUED)

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. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM) – Fiscal Year 2003-2004 Liquidation	\$ 155,279
General Services Administration	19,804
Department of Labor – Unemployment Program	6,171
Puerto Rico Aqueduct and Sewer Authority	<u>5,706</u>
Total	<u>\$ 186,960</u>

8. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$1,860,909 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

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	\$ 155,485
Lower Income Housing Assistance Program –	
Section 8 Moderate Rehabilitation	207,577
Housing Opportunities for Persons with AIDS	112,538
Emergency Management – State and Local	
Assistance	68,911
Homeland Security Grant Program	28,888
Community Development Block Grant	30,146
Nutrition Program for the Elderly	23,234
Section 108 Loan Guarantee	5,903
Others	<u>9</u>
Total	<u>\$ 632,691</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, 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	\$ 22,834,740	\$ -	\$ 534,870	\$ 22,299,870	\$ 584,870
Notes Payable	770,000	4,000,000	240,000	4,530,000	465,000
Notes Payable-Land Authority	207,216		69,072	138,144	69,072
Note Payable-PRIDCO		382,500		382,500	76,500
Property Tax Debt	2,809,231		82,924	2,726,307	82,924
Compensated Absences	2,512,621	467,698	201,076	2,779,243	200,000
Claims and judgments	<u>177,000</u>	<u>40,000</u>	<u>117,000</u>	<u>100,000</u>	<u>100,000</u>
Total	<u>\$ 29,310,808</u>	<u>\$ 4,890,198</u>	<u>\$ 1,244,942</u>	<u>\$ 32,956,064</u>	<u>\$ 1,578,366</u>

- 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 and to the PRIDCO), 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. Bonds payable outstanding at June 30, 2004 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, 2004</u>
2004 Series	7-1-27	\$ 5,430,000	5.000% to 6.500%	\$ 5,345,000
2004 Series	7-1-27	355,000	5.000% to 6.500%	350,000
2004 Series	7-1-27	255,000	5.000% to 6.500%	250,000
2002 Series	7-1-26	3,985,000	8.00%	3,875,000
1998 Series	7-1-22	11,230,000	4.865% to 6.710%	10,105,000
1994 Series	7-1-13	3,390,000	6.106% to 7.706%	2,370,000
1985 Series	7-1-05	97,400	8.00%	<u>4,870</u>
Total general obligation bonds				<u>\$ 22,299,870</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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>
2005	\$ 584,870	\$ 1,284,232
2006	625,000	1,337,306
2007	670,000	1,298,977
2008	725,000	1,256,904
2009	775,000	1,210,882
2010-2014	4,925,000	5,200,868
2015-2019	5,065,000	3,634,516
2020-2024	6,275,000	1,745,517
2025-2029	<u>2,655,000</u>	<u>312,400</u>
Total	<u>\$ 22,299,870</u>	<u>\$ 17,281,602</u>

3. **Notes Payable-** The proceeds of the issuance of notes payables were used principally to cover the expenditures of a special event, such as capital projects and real property acquisitions. 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, 2004</u>
Section 108 - Series 2003-A	8-1-23	\$ 4,000,000	Variable	\$ 4,000,000
1999 Series	7-1-05	1,560,000	4.865% to 6.310%	530,000
PRIDCO - Real property acquisition	4-1-09	382,500	No interest	382,500
Land Authority - Land acquisition	5-21-05	69,072	8.5%	69,072
Land Authority - Land acquisition	5-21-06	69,072	8.5%	<u>69,072</u>
Total notes payable				<u>\$ 5,050,644</u>

The Section 108 note is payable from Special Revenue Fund - Federal Grants funds. 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 and PRIDCO note are payable with General Fund resources.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 400,572	\$ 244,544
2006	630,572	234,391
2007	286,500	175,612
2008	286,500	169,963
2009	286,500	163,159
2010-2014	1,050,000	687,705
2015-2019	1,050,000	434,004
2020-2024	<u>1,060,000</u>	<u>149,993</u>
Total	<u>\$ 5,050,644</u>	<u>\$ 2,259,371</u>

4. **Property Taxes Debt-** This amount represents the balance owned to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2004 as described in Note 6.
5. **Compensated absences-** The government-wide statement of net assets includes approximately \$1,201,007 of accrued sick leave benefits, and approximately \$1,578,236 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

10. 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 Government of Puerto Rico'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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

10. PENSION PLAN (CONTINUED)

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, 2004 amounted to approximately \$607,157 and \$680,530, 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.

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, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940-2003.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

11. 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.

12. 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 \$100,000 for awarded or 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.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

13. BEGINNING FUND BALANCES AND NET ASSETS RESTATEMENT:

The beginning Fund Balance for Special Revenue – Local and State Grants has been restated by approximately \$92,000 to properly present the previously reported fund balance at June 30, 2003. The restatement is mainly due to the reclassification of deferred revenue.

The beginning Fund Balances for Debt Service Fund has been restated by approximately \$494,315 to properly present the previously reported fund balances at June 30, 2003. The restatement is mainly due to the recognition of the amount due from the Municipal Revenue Collection Center ("CRIM") related to final liquidation for the fiscal year 2002-2003.

The beginning Governmental Activities Net Assets has been restated by approximately \$2,306,959 to properly present the previously reported net assets at June 30, 2003. The restatement is mainly due to fund balances restatements described above, and the recognition of the amount due to the CRIM (a long-term debt liability) arising from the transaction of sale of property taxes receivables from taxpayers who owned property taxes from 1974 to 1996 to the Public Financing Corporation (a GDB Subsidiary), as described in Note 6.

14. SUBSEQUENT EVENTS

On July 13, 2004, the Municipality transferred to the General Fund approximately \$1,200,000 from the Debt Service Fund. The amount transferred will be used principally to cover the expenditures of solid waste disposal activities.

On December 2004, the Municipality issued a general obligation note for approximately \$1,455,000. The note proceeds was be used for purchase of equipment. The note repayment is scheduled from July 2005 through July 2011.

On September 7, 2004, Public Law 255 was enacted amending Public Law 83 of May 2, 1941, as amended. In addition to the new formula established for the calculation of the contribution in lieu of taxes as described in Note 1 (E) (2), applicable on fiscal year 2002-2003 and each subsequent fiscal year, the Law provides for quarterly revisions to be prepared by PREPA of its estimates corresponding to the contribution in lieu of taxes for the current fiscal year.

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

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

YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 6,838,735	\$ 7,525,088	\$ 7,540,412	\$ 15,324
Municipal license tax	3,250,000	3,250,000	3,541,806	291,806
Licenses, permits and other local taxes	4,784,886	4,784,886	2,638,182	(2,146,704)
Charges for service	275,000	275,000	275,000	-
Intergovernmental	4,652,582	4,652,582	4,659,376	6,794
Rent of property	100,000	100,000	213,071	113,071
Interest	500,000	500,000	446,422	(53,578)
Miscellaneous	<u>50,000</u>	<u>50,000</u>	<u>1,532,455</u>	<u>1,482,455</u>
Total revenues before carryover	<u>20,451,203</u>	<u>21,137,556</u>	<u>20,846,724</u>	<u>(290,832)</u>
Budget carryover (1)		1,665,724	1,665,724	
Total revenues, including budget carryover	<u>20,451,203</u>	<u>22,803,280</u>	<u>22,512,448</u>	<u>(290,832)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	10,042,778	10,777,910	10,552,735	\$ 225,175
Public safety	1,831,240	1,653,176	1,622,461	30,715
Public works	2,933,435	3,068,897	3,028,909	39,988
Health and welfare	3,926,106	4,739,984	4,602,984	137,000
Culture and recreation	903,601	915,413	901,858	13,555
Community development	280,220	239,857	194,396	45,461
Education	528,320	477,412	433,250	44,162
Operating transfer to other fund	<u>5,503</u>	<u>930,631</u>	<u>930,614</u>	<u>17</u>
Total expenditures, encumbrances and other financing uses	<u>20,451,203</u>	<u>22,803,280</u>	<u>22,267,207</u>	<u>536,073</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 245,241</u>	<u>\$ 245,241</u>

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	\$ 22,512,448
Differences-budget to GAAP:	
Budget carryover	(1,665,724)
Nonbudgeted revenues	<u>255,386</u>

Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances \$ 21,102,110

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 22,267,207
Differences-budget to GAAP:	
Nonbudgeted expenditures	(14,943)
Prior year encumbrances recorded as current year expenditures for GAAP basis	138,773
Current year encumbrances recorded as expenditures for budgetary purposes	<u>(458,168)</u>

Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances \$ 21,932,869

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

YEAR ENDED JUNE 30, 2004

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, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

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		\$2,249,004
Direct Program:			
Community Development Block Grants - Section 108 Loan Guarantee	14.248		411,999
Direct Program:			
Section 8 Housing Choice Voucher	14.871		2,506,810
Direct Program:			
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856		1,188,208
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>93,500</u>
Total U.S. Department of Housing and Urban Development:			<u>6,449,521</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Department of Justice:			
Local Law Enforcement Grant Program	16.592	Not Available	<u>2,048</u>
Total U.S. Department of Justice			<u>2,048</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission: Incentive Grants	20.601		<u>89,930</u>
Total U.S. Department of Transportation			<u>89,930</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency: Emergency Management Performance Grant	83.552		3,226
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency: Homeland Security Grant Program	97.067		<u>8,700</u>
Total U.S. Department of Homeland Security			<u>11,926</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	93,060
Special Program for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	<u>30,611</u>
Total U.S. Department of Health and Human Services			<u>123,671</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$6,677,096</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, 2004

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 Fund -Federal Grants	Capital Projects, Local, State and Federal Grants	Total
Per Schedule of Expenditures of Federal Awards	\$6,265,097	\$ 411,999	\$6,677,096
Non federal programs Expenditures	-	7,515,569	7,515,569
Total expenditures in the fund financial statements	<u>\$6,265,097</u>	<u>\$7,927,568</u>	<u>\$14,192,665</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>\$70,122</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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**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, 2004, and have issued our report thereon dated December 23, 2004, 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 **04-01**.

**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 23, 2004.

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 23, 2004

Stamp No. 2019443 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

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**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, 2004. 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, 2004. 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 04-02 through 04-06.

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 04-02 through 04-06.

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, we believe that reportable conditions described above are not 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 11, 2005.



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 11, 2005

Stamp No. 2019444 of the Puerto Rico
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was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

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	No X
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
14.248	Community Development Block Grant-Section 108 Loan Guarantee
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 _____ No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II - Financial Statements Findings

Finding Reference	04-01
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 strengthen its 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 Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-02
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 fifteen (15) Housing Rehabilitation Activity Participant's files we noted the following conditions:</p> <ul style="list-style-type: none">a. In four (4) files the fund assignments approved to the participants were for the construction of a new housing unit in progress at the time of assistance, not for rehabilitation of existing housing units.b. In fifteen (15) 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.
Criteria	<p>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 2003-2004 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.</p>
Cause of Condition	<p>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.</p>
Effect of Condition	<p>The Municipality is not in compliance with 24 CFR, Section 570.506.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-02 (Continued)**

Recommendation We recommend management to instruct program staff to follow procedures established through the Municipal Housing Regulation for the Housing Rehabilitation Section. In addition, we consider that additional staff must be contracted for this area in order to correct the situation in the future.

Questioned Costs None

Management Response and Corrective Action 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.

In addition, we are working with all the follow-up inspections to complete each rehabilitation file. At the present we are a bit behind in our follow-up inspections. We request another inspector for this area to help us in the process.

Implementation Date: March 2005

Responsible Person: Mr. José Cruz Cruz - Housing Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-03
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Procurement and Debarment
Statement of Condition	The required contractor selection or rejection process was not documented in eight (8) professional services contracts for design and supervision of construction work.
Criteria	Common Rule Subpart C _36 (9) states that grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following; rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
Cause of Condition	The Municipality internal control procedures failed to assure that proper documentation detailing procurement and contractor selection or rejection process is maintained for each project.
Effect of Condition	The Municipality is not in compliance with Common Rule Subpart C _36 (9).
Recommendation	We recommend management to maintain detailed files documenting the public notice requesting professional services, the quotations received for each project and the subsequent analysis to select or reject a contractor.
Questioned Costs	None
Management Response and Corrective Action	The Municipality Management concurs with the finding. The program staff will be instructed to maintain detailed files documenting the public notice requesting professional services, the quotations received for each project and the subsequent analysis to select or reject a contractor.

Implementation Date: March, 2005

Responsible Person: Mr. Wilfrido Ortíz Santiago - Community Development Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-04
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 was not signed by twelve (12) participants with eighteen years or older.b. The birth certificate of five (5) participants, the Social Security copy of four (4) participants and the good behavior certificate of two (2) participants were not available for examination.
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>
Cause of Condition	<p>The Municipality internal control procedures failed to assure that all required documentation is included in the participant file and that the Privacy Act Notice is completed for participant with eighteen years or older.</p>
Effect of Condition	<p>Participant files examined did not include all documentation required by the Federal Agency and Privacy Act Notice was not signed by participants with eighteen years or older.</p>
Recommendation	<p>The program must improve its monitoring procedures to assure that the participant files includes all documentation required by the federal agency at the initial or at annual reexamination.,</p>

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-04 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

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. The effect of the control and monitoring procedures established will be reflected in fiscal year 2004-2005.

Implementation Date: March 2004

Responsible Person: Mr. José Cruz Cruz - Housing Department Director

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-05

Program Section 8 Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation (CFDA 14.856) U.S. Department of Housing and Urban Development

Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development

Requirement Cash Management

Statement of Condition We realized Cash Management Test for for Section 8 Lower Income Housing Assistance Program and after our procedures we found that the Municipality maintained during the current fiscal year average cash balance in books of approximately \$234,400.22. At June 30, 2004, the cash balance in books was \$212,887.59; the operating reserve detailed as per preliminary closing report submitted to HUD present a balance of \$141,583 resulting with remaining balance of \$71,304.59. The program determined in the preliminary closing report an overpayment of \$100,329 which exceed the total cash in bank for a total of \$29,024.41. In addition, we noted that the program maintained an average leasing rate of 91% instead a 95% as required, and a revised requisition (Form 52663) was not submitted to the federal agency to reduce the monthly advances.

We realized Cash Management Test for Section 8 Housing Choice Voucher Program and after our procedures we found that the Municipality maintained during the current fiscal year average cash balance in books of approximately \$551,347.90. At June 30, 2004, the cash balance in books was \$158,313.37; the operating reserve detailed as per preliminary closing report submitted to HUD present a balance of \$23,428.25 resulting with remaining balance of \$134,885.12 which \$119,174 represent the overpayment determined as per preliminary closing report and a remaining difference of \$15,711.12 for which we could not determine its origin.

In addition, we noted that during the year the program collected move-in portability of \$25,354.49 and the administrative fee income related to that portability's administered by the Municipality was not reported in the operating receipts section of the HUD-52681 Vouchers for Payment of Annual Contributions and Operating Statement for the year ended June 30, 2004.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-05 (Continued)**

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 cash management procedures failed to assure that funds requested and received from the federal agency are only for immediate needs and that no overpayment to HUD must be determined at year end. In addition, the condition could be cause by cumulative effect of accounting errors in the past years and current years; errors such as reporting portability's administered by the program as HAP expenditures in the year end settlements, non recognition of portability's administrative fee earned in the year end settlements, non recognitions of recoveries from tenants and owners in the year end settlements, non recognition of interest earned on operation reserve in the year end settlement, etc.

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. In the case that the program identify a possible overpayment at year end, the program staff must consider submitting a revised requisition (Form-52663) to the federal agency to reduce the monthly advances received. In addition, the management must instruct the program accountant to review the accounting records and related transactions supporting documents for the current and past years in order to identify the cash balance respect to its origin, and later, to make any necessary adjusting journal entries to correct accounting records. Also, the management should instruct the accountant to follow financial management procedures established in the Voucher Program Guidebook (7420.10G), Chapter 20, Financial Management.

Questioned Costs None

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-05 (Continued)**

**Management Response
and Corrective Action**

We are going to revise the procedures to 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.

Implementation Date: June 2005

Responsible Person: Mr. José Cruz Cruz - Housing Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-06
Program	Section 8 Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation (CFDA 14.856) U.S. Department of Housing and Urban Development 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 for Section 8 Lower Income Housing Assistance Program we examined eleven new admissions files and noted that seven (7) new participants admitted to the program were not included in the waiting list maintained by the program. Those participants were admitted to be located in the Voucher project "Los Claveles" Tower II. During our Waiting List Test for Section 8 Housing Choice Voucher Program we examined eleven new admissions files and noted that six (6) new participants admitted to the program were not included in the waiting list maintained by the program. Those participants were admitted to be located in the Voucher project "Los Claveles" Tower I.
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.

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **04-06 (Continued)**

Recommendation We recommend to 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.

Questioned Costs None

Management Response and Corrective Action We revised 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 of activating those cancelled participants. Also, we will provide adequate training to the program staff.

An additional waiting list was established for the Housing Project "Los Claveles" Towers I and II, with the intention to fill vacancies in these two (2) towers. We have included the new procedures in our Administrative Plan. The effect of the control and monitoring procedures established will be reflected in fiscal year 2004-2005.

Implementation Date: June 2004

Responsible Person: Mr. José Cruz Cruz - Housing Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-03	14.218	<p><u>In the twenty-five (25) examined files the contract signed between the Municipality and the housing rehabilitation activity participant did not include the participant's housing unit deficiencies to be corrected. Four (4) files did not contain evidence about the participant's housing unit ownership or authorization for rehabilitation work. 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. 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. 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. 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.</u></p> <p>Partially corrective action has been taken. 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. In addition, we are working with all the follow-up inspections to complete each rehabilitation file. At the present we are a bit behind in our follow-up inspections. We request another inspector for this area to help us in the process. The auditors reissued the finding in the current year. See Finding Reference 04-02.</p>
03-04	14.856	<p><u>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. In two (2) participant files the Labor Department Certification (Evidence of Unemployment) was not available for examination.</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
Corrective action has been taken.		
03-05	14.856	<u>During the Waiting List Test we noted that seventeen (17) participants admitted during the current year were not included in the waiting list.</u> Partially corrective action has been taken. We 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 provide adequate training to the program staff. An additional waiting list was established for the Housing Project "Los Claveles". This additional waiting list is with the intention to fill vacancies in these two (2) towers. We have included the new procedures in our Administrative Plan. The effect of the control and monitoring procedures established will be reflected in fiscal year 2004-2005. The auditors reissued the finding in the current year. See Finding Reference 04-06.
03-06	14.871	<u>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. 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. 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). 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</u>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<u>participant.</u>
		Corrective action has been taken.
03-07	14.871	<u>Privacy Act Notice form did not provide for the signature of participants with eighteen years or older. In one (1) participant file the welfare assistance verification from the Family Department was not obtained at annual reexamination.</u>
		Partially corrective action has been taken. 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. The effect of the control and monitoring procedures established will be reflected in fiscal year 2004-2005. The auditors reissued the finding in the current year. See Finding Reference 04-04.
03-08	14.871	<u>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.</u>
		Partially corrective action has been taken. We 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. The auditors reissued the finding in the current year. See Finding Reference 04-05.
03-09	14.871	<u>The program transfers 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 recognizing 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.</u>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
Corrective action was taken.		
03-10	14.871	<u>Three (3) new participants admitted to the program during the fiscal year 02-03 were not selected from the updated waiting list in March, 2002. Those participants were included in an old waiting list. 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.</u>
Partially corrective action has been taken. We 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 provide adequate training to the program staff. An additional waiting list was established for the Housing Project "Los Claveles". This additional waiting list is with the intention to fill vacancies in these two (2) towers. We have included the new procedures in our Administrative Plan. The effect of the control and monitoring procedures established will be reflected in fiscal year 2004-2005. The auditors reissued the finding in the current year. See Finding Reference 04-06.		
02-10	14.218	<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>
Partially corrective action has been taken. 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		

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		developed and implemented a monitoring system in order to detect and correct any condition observed. In addition, we are working with all the follow-up inspections to complete each rehabilitation file. At the present we are a bit behind in our follow-up inspections. We request another inspector for this area to help us in the process. The auditors reissued the finding in the current year. See Finding Reference 04-02.
02-11	14.856	<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> Corrective action has been taken.
02-12	14.856	<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> Corrective action has been taken.
02-13	14.856	<u>The Municipality should strengthen its procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.</u> Partially corrective action has been taken. We 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. The auditors reissued the finding in the current year. See Finding Reference 04-05.
02-15	14.856	<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 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>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

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. We 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 provide adequate training to the program staff. An additional waiting list was established for the Housing Project "Los Claveles". This additional waiting list is with the intention to fill vacancies in these two (2) towers. We have included the new procedures in our Administrative Plan. The effect of the control and monitoring procedures established will be reflected in fiscal year 2004-2005. The auditors reissued the finding in the current year. See Finding Reference 04-06.
02-18	14.871	<u>The Municipality should perform monitoring activities to assure that Housing Assistance Payments are duly computed as required by the Federal Regulations.</u> Corrective action has been taken.
02-19	14.871	<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> Partially corrective action has been taken. 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. The effect of the control and monitoring procedures established will be reflected in fiscal year 2004-2005. The auditors reissued the finding in the current year. See Finding Reference 04-06.
02-20	14.871	<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> Partial corrective action has been taken. We revise the procedures to

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		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. The auditors reissued the finding in the current year. See Finding Reference 04-05.
02-23	14.871	<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 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. We 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 provide adequate training to the program staff. An additional waiting list was established for the Housing Project "Los Claveles". This additional waiting list is with the intention to fill vacancies in these two (2) towers. We have included the new procedures in our Administrative Plan. The effect of the control and monitoring procedures established will be reflected in fiscal year 2004-2005. The auditors reissued the finding in the current year. See Finding Reference 04-06.</p>
01-III-1	14.871 14.856 14.857	<p><u>Excess cash held in bank</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-III-2	14.871 14.856 14.857	<p><u>Failures with Special Test and Provisions requirements</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
6/30/00	14.871	<u>Failures with waiting list requirement</u>
Section	14.856	
8-1	14.857	The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
6/30/99	14.871	<u>Failures with waiting list requirement</u>
Section	14.856	
8-1	14.857	The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.