

Single audit  
Fiscal 11/0 a/o



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Loaen  
71

09 MAR 31 PM 3:06  
REC-5020  
UNIDAD DE CORREO

*Alto, 1132*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO  
BASIC FINANCIAL STATEMENTS  
WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE SINGLE AUDIT ACT  
YEAR ENDED JUNE 30, 2008

*etc*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

BASIC FINANCIAL STATEMENTS  
WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2008

---

CONTENTS

	Page
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Independent Auditors' Report	1-2
Required Supplementary Information (Part 1) Management's Discussion and Analysis	3-13
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16
Statement of Revenues, Expenditures and Changes in Fund Balances	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Notes to Basic Financial Statements	19-43
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	44-45
Notes to Budgetary Comparison Schedule-General Fund	46
Schedule of expenditures of federal awards	47-48
Notes to the schedule of federal awards	49-50
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b>	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	51-52

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

BASIC FINANCIAL STATEMENTS  
WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2008

---

CONTENTS

	Page
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b> <b><u>(CONTINUED)</u></b>	
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	53-55
<b><u>FINDINGS AND QUESTIONED COSTS</u></b>	
Schedule of findings and questioned costs	56-59
Summary schedule of prior year audit findings	60-61



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**INDEPENDENT AUDITORS' REPORT**

Member of:

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

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, 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 respective 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, 2008, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2008, on our consideration of the **Municipality of Trujillo Alto's** internal control over compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages **3** through **13** and the Budgetary Comparison Schedule-General Fund on pages **44** and **45** are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Trujillo Alto's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular 133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Municipality. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
November 25, 2008

Stamp No. 2312231 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

---

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 mostly 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 others, construction and improvement of cultural and recreational facilities for the calendar year 2008. Such efforts complemented by another aggressive program in the process of implementation towards increasing collections from property, municipal license taxes, and the municipal and users' tax, should strengthen the financial position of the Municipality as well as the welfare of its people.

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, 2008. 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, 2008. 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 2007-2008 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**FINANCIAL HIGHLIGHTS**

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2008 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 2008 amounted to \$76,716,197, or sixty one percent (61%) of total assets.
2. The Municipality's total Net Assets increase by \$4,065,977 which represents a 6% increase when compared with prior fiscal year 2007, as restated. Such increase is mainly attributable to an increase in land and construction in progress classification by \$10,890,174 plus an increase in current liabilities of \$2,819,189.
3. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$20,729,284 or \$1,284,926 over the similar figure corresponding to the previous fiscal year 2006-2007, as restated.
4. As of the end of the fiscal year 2007-2008, the balance of the Municipality's General Fund amounted to \$992,656 or \$973,897 below the corresponding figure for previous fiscal year, as restated. 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 accounting records. Besides, current income for fiscal year 2008 was adversely affected as a result of the economic recession being faced by the Commonwealth of Puerto Rico in the last few years, especially in construction excise tax revenues.
5. In accordance with the aforementioned policy, during fiscal year 2008 the Municipality used \$1,144,321 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 \$264,940 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. This reflects a significant achievement for the Municipality if it is considered that revenues derived from the Commonwealth Government appropriations during fiscal year 2007-2008 were adversely affected due to substantial reductions approved by the Legislature Assembly in order to produce a balanced functional budget for said year and for fiscal year 2008-2009. In spite of this situation, the municipal government was able to reduce its operating costs, which in turn contributed to maintain a balanced budget in compliance with the Municipal Autonomous Act.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**FINANCIAL HIGHLIGHTS (CONTINUED)**

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 2008 which amounted to \$1,144,321, as a readjustment to fund balance.
8. At the end of fiscal year 2008, total liabilities amounted to \$50,041,511. Out of said amount, \$39,853,572 corresponded to long-term liabilities of which \$25,935,000 and \$7,965,000 represented the outstanding balance of bonds and notes issued, respectively. The Municipality continued to meet all debt service requirements, most of which were paid from self generated revenues.
9. The Municipality has maintained an aggressive capital improvement program. As of June 30, 2008, prior year construction work in process included the improvement of several recreational facilities, the Municipal Library extension (second phase), and construction of roads, sidewalks and pluvial infrastructure. Current year construction in progress includes 8.7 millions for improvements in various recreational facilities and infrastructure, including the Municipal Coliseum.

**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 2008. 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.

**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 on a consolidated basis and provides relevant information about its financial strength as reflected 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, 2008

---

**FINANCIAL STATEMENTS COMPONENTS (CONTINUED)**

Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets as previously mentioned. In the particular case of the **Municipality of Trujillo Alto**, as of June 30, 2008, such figure amounted to \$76,716,197 an increase of \$4,065,977 over previous year 2007, as restated, and represents sixty one percent (61%) of the total assets. Such figure 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, 2008, shows total expenses incurred to afford the cost of all functions and programs amounted to \$33,160,476. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$9,233,267 was derived from the following sources: \$414,153 charges for services; \$8,073,944 from operating grants and contributions; and \$745,170 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$27,993,186. When such figure is added to the \$9,233,267 previously mentioned, total revenues available for the financing of activities amounted to \$37,226,453. There was an excess of revenues over expenses in the amount of \$4,065,977.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**FINANCIAL STATEMENTS COMPONENTS (CONTINUED)**

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. During the previous fiscal years, the Municipality reported historical costs of infrastructure assets corresponding to years prior to July 1, 2002 amounting to \$16,665,805 including accumulated depreciation for \$9,243,172. This year, depreciation expense for this classification amounted to \$416,570. Net value of infrastructure assets as of fiscal year end 2008 corresponds to 7% of capital assets.

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

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets**

The Statement of Net Assets serves as an important 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 \$76,716,197 at the end of 2008, as compared with \$72,650,220, as restated which reflect an increase of \$4,065,977 over previous fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$4,065,977 increase reflected in the Net Assets figure.

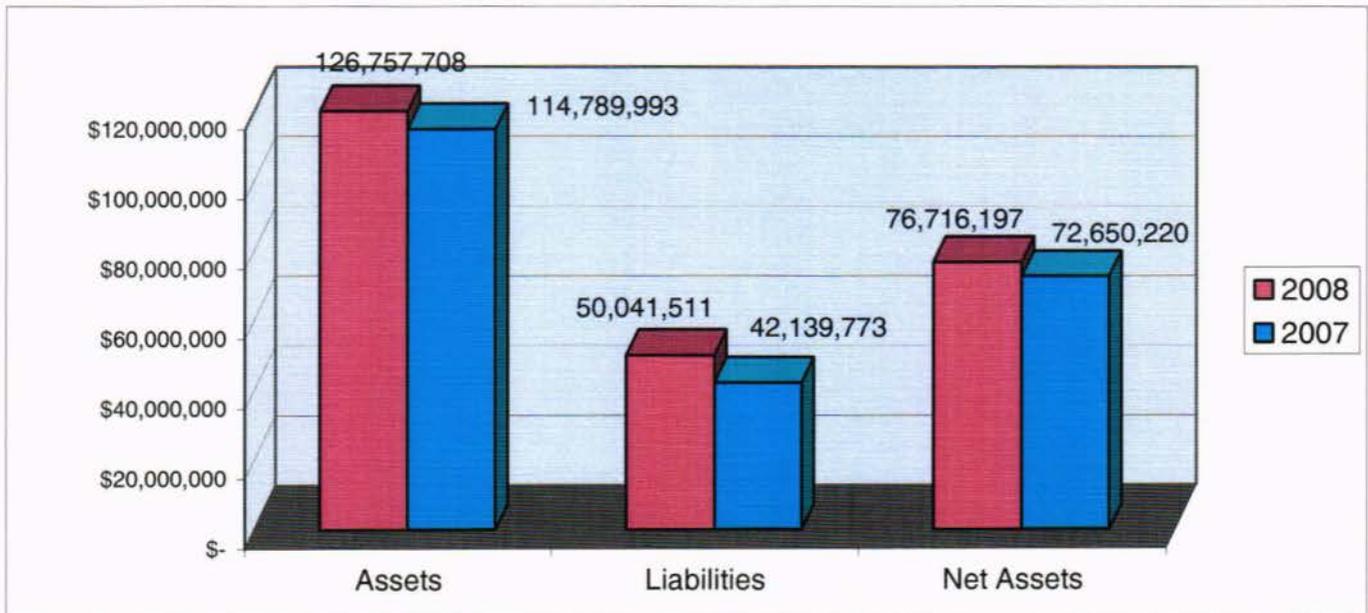
COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

<b>Condensed Statement of Net Assets</b>	<b>2008</b>	<b>2007</b>	<b>Change</b>	<b>%</b>
Current and other assets	\$ 28,098,653	\$ 25,402,452	\$ 2,696,201	11%
Capital assets	98,659,055	89,387,541	9,271,514	10%
<b>Total assets</b>	<b>126,757,708</b>	<b>114,789,993</b>	<b>11,967,715</b>	<b>10%</b>
Current and other liabilities	10,187,939	7,368,750	2,819,189	38%
Long-term liabilities	39,853,572	34,771,023	5,082,549	15%
<b>Total liabilities</b>	<b>50,041,511</b>	<b>42,139,773</b>	<b>7,901,738</b>	<b>19%</b>
Invested in capital assets, net of related debt	64,682,555	60,399,541	4,283,014	7%
Restricted	19,087,828	17,358,550	1,729,278	10%
Unrestricted deficit	(7,054,186)	(5,107,871)	(1,946,315)	38%
<b>Total net assets</b>	<b>\$ 76,716,197</b>	<b>\$ 72,650,220</b>	<b>\$ 4,065,977</b>	<b>6%</b>



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Statement of Activities reflects that for fiscal year 2008, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$4,065,977. As previously stated, such amount constituted an increase in the Municipality's net assets. Approximately forty eight percent (48%) of the Municipality's total revenue came from taxes, while forty percent (40%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%) and Interest and Investment earnings (3%) 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, 2007 and 2008. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

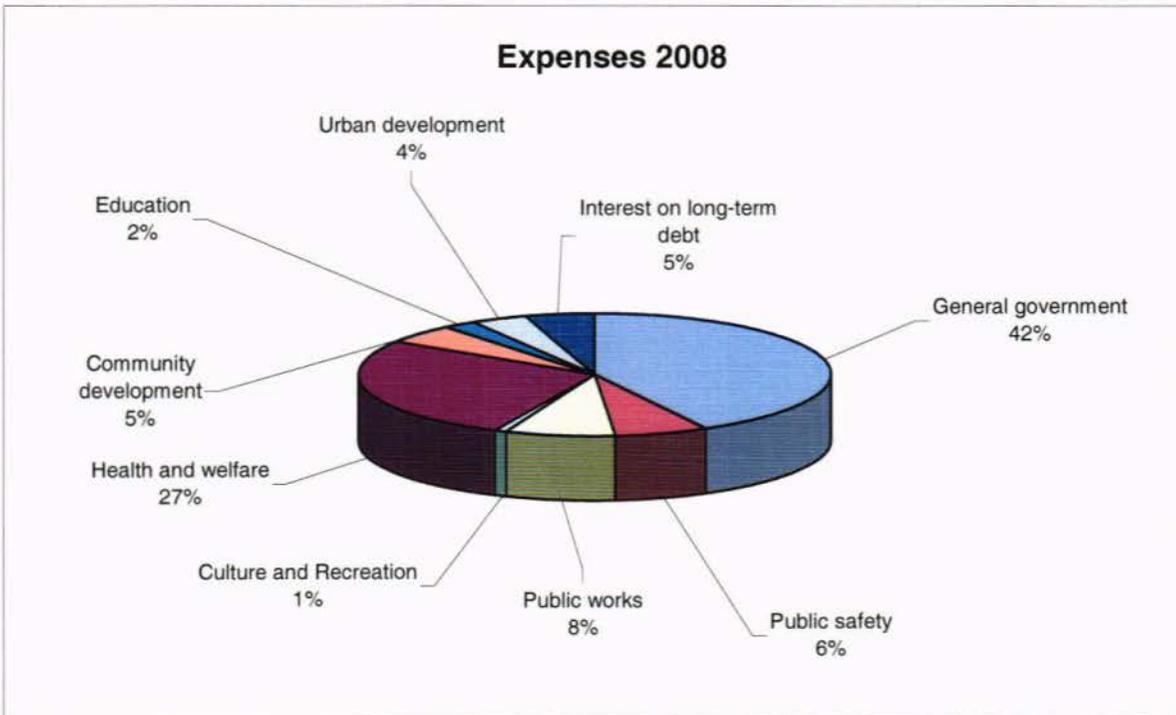
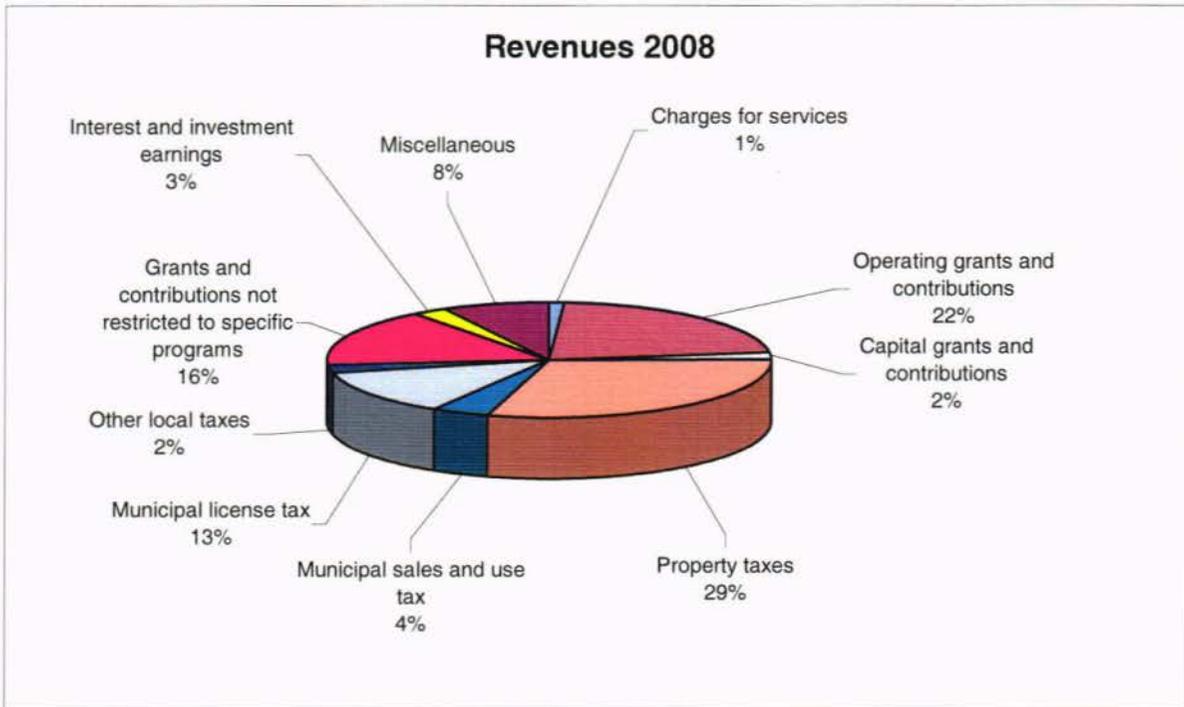
<b>Condensed Statement of Activities</b>	<b>2008</b>	<b>2007</b>	<b>Change</b>	<b>%</b>
Program revenues:				
Charges for services	\$ 414,153	\$ 588,858	\$ (174,705)	(30%)
Operating grants and contributions	8,073,944	6,642,978	1,430,966	22%
Capital grants and contributions	745,170	3,159,972	(2,414,802)	(76%)
General revenues:				
Property taxes	11,027,473	10,650,786	376,687	4%
Municipal sales and use tax	1,572,986	943,251	629,735	67%
Municipal license tax	4,777,748	4,246,365	531,383	13%
Other local taxes	841,262	998,663	(157,401)	(16%)
Grants and contributions not restricted to specific programs	5,906,179	5,936,034	(29,855)	(1%)
Interest and investment earnings	942,800	1,185,383	(242,583)	(20%)
Gain (loss) on retirement of capital assets	-	-	-	-
Miscellaneous	2,924,738	2,784,565	140,173	5%
<b>Total revenues</b>	<b>37,226,453</b>	<b>37,136,855</b>	<b>89,598</b>	<b>-</b>
Expenses:				
General government	14,011,257	11,630,028	2,381,229	20%
Public safety	2,121,941	1,967,321	154,620	8%
Public works	2,503,076	3,959,075	(1,455,999)	(37%)
Culture and recreation	265,274	94,707	170,567	180%
Health and welfare	9,015,778	9,544,131	(528,353)	(6%)
Community development	1,689,285	584,039	1,105,246	189%
Education	672,948	661,145	11,803	2%
Urban development	1,306,552	278,134	1,028,418	370%
Interest on long-term debt	1,574,365	1,590,134	(15,769)	(1%)
<b>Total expenses</b>	<b>33,160,476</b>	<b>30,308,714</b>	<b>2,851,762</b>	<b>9%</b>
Change in net assets	4,065,977	6,828,141	(2,762,164)	(40%)
Net assets, beginning of year (as restated)	\$ 72,650,220	\$ 65,822,079	6,828,141	10%
Net assets, end of year	\$ 76,716,197	\$ 72,650,220	\$ 4,065,977	6%

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**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 \$20,729,284, which represents an increase of \$1,284,926 when compared with the prior year. Out of the indicated balance, \$20,368,621 were reserved or committed for the following purposes: (1) \$557,527 to liquidate contracts and purchase orders corresponding to prior fiscal year; 2) \$3,942,914 for debt service payments; 3) \$14,306,370 to pay for capital projects; and 4) \$1,561,810 for other purposes.

As of June 30, 2008, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund balance of \$360,663.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During fiscal year 2007-2008, 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 as reflected in exhibit, Budgetary Comparison Schedule- General Fund attached hereto, budgetary analysis reflected an excess of \$264,940 of operating revenues over total current expenses.

Also, during fiscal year 2008 the Municipality used \$1,144,321 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, 2008, amounted to \$126,706,589 which upon deduction of accumulated depreciation in the amount of \$28,047,534 produced a net book value attributable to capital assets in the amount of \$98,659,055. 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, 2008

---

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately seven percent (7%) of net book value. Depreciation charges for the year totaled \$2,728,885.

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, 2008, the Municipality has \$9,143,863 of unexpended proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Capital Project Fund- Local, State and Federal Grants.

**Debt Administration**

The Puerto Rico Legislative Assembly 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 requires a Municipality must have 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, is 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 2007-2008.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**FINAL COMMENTS**

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.

On June 30, 2008, the Municipality transferred to the General Fund from the Debt Service Fund approximately \$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 Account, under the custody of the Government Development Bank, 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.

On September 26, 2008, the Legislature of the Municipality of Trujillo Alto approved the issuance of a special obligation bond for the amount of \$1,606,000, for the acquisition of the Diagnostic and Treatment Medical Center. Repayment of the bond is scheduled from July 2009 through July, 2021.

On September 29, 2008, the Legislature of the Municipality of Trujillo Alto approved an ordinance to accept from the Commonwealth of Puerto Rico's "Departamento de Recreación y Deportes" a transfer of funds amounting to \$2,000,000, for the reconstruction of Ruben Zayas Montañez Coliseum.

On October 23, 2008, the Legislature of the Municipality of Trujillo Alto approved the issuance of a general obligation bond for the amount of \$1,185,000, for the construction and improvement of the Old City Hall and several recreational facilities. Repayment of the bond is scheduled from July 2009 through July, 2020.

The Municipality's management is committed to a continued improvement in the confection of a budget that will respond 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 2008. 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 PO 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, 2008

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 13,911,403
Cash with fiscal agent	13,053,202
Accounts receivable:	
Municipal license tax	109,707
Intergovernmental	758,684
Interest	28,100
Others	237,557
Capital assets	
Land, improvements, and construction in progress	52,026,621
Other capital assets, net of depreciation	46,632,434
Total capital assets	98,659,055
<b>Total assets</b>	126,757,708
 <b>Liabilities</b>	
Accounts payable and accrued liabilities	5,669,079
Due to other governmental entities	268,843
Deferred revenues:	
Municipal license tax	2,791,299
Federal grant revenues	735,452
Interest payable	723,266
Noncurrent liabilities:	
Due within one year	2,239,565
Due in more than one year	37,614,007
<b>Total liabilities</b>	50,041,511
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	64,682,555
Restricted for:	
Capital projects	14,306,370
Debt service	3,219,648
Other purposes	1,561,810
Unrestricted (deficit)	(7,054,186)
<b>Total net assets</b>	\$ 76,716,197

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

Commonwealth of Puerto Rico  
Municipality of Trujillo Alto  
Statement of Activities  
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$14,011,257	\$ 288,100	\$ 299,297	\$ -	\$ (13,423,860)
Public safety	2,121,941	62,242	149,098		(1,910,601)
Public works	2,503,076	20,594	11,918	742,480	(1,728,084)
Health and welfare	9,015,778		7,378,560		(1,637,218)
Culture and recreation	265,274			2,690	(262,584)
Community development	1,689,285		3,132		(1,686,153)
Urban development	1,306,552		822		(1,305,730)
Education	672,948	43,217	231,117		(398,614)
Interest on long-term debt	1,574,365				(1,574,365)
<b>Total governmental activities</b>	<b>\$33,160,476</b>	<b>\$ 414,153</b>	<b>\$ 8,073,944</b>	<b>\$ 745,170</b>	<b>(23,927,209)</b>
General revenues:					
					11,027,473
Property taxes					1,572,986
Municipal sales and use tax					4,777,748
Municipal license tax					841,262
Other local taxes					5,906,179
Grants and contributions not restricted to specific programs					942,800
Interest and investment earnings					2,924,738
Miscellaneous					
<b>Total general revenues</b>					<b>27,993,186</b>
Change in net assets					4,065,977
Net assets - beginning, as restated					72,650,220
Net assets - ending					<b>\$ 76,716,197</b>

Commonwealth of Puerto Rico  
Municipality of Trujillo Alto  
Balance Sheet  
Governmental Funds  
June 30, 2008

	General Fund	Capital Projects Fund - Local & State Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 3,358,371	\$ 5,220,447	\$ 2,551,008	\$ -	\$ 2,781,577	\$ 13,911,403
Cash with fiscal agent	1,875	9,143,863		3,907,464		13,053,202
Accounts receivable:						
Municipal license tax	109,707					109,707
Intergovernmental	235,020			35,450	488,214	758,684
Interest	28,100					28,100
Others	237,557					237,557
Due from other funds	1,781,842	250,000				2,031,842
<b>Total assets</b>	<b>\$ 5,752,472</b>	<b>\$ 14,614,310</b>	<b>\$ 2,551,008</b>	<b>\$ 3,942,914</b>	<b>\$ 3,269,791</b>	<b>\$ 30,130,495</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities :</b>						
Accounts payable and accrued liabilities	\$ 1,449,674	\$ 823,115	\$ 1,182,158	\$ -	\$ 118,829	\$ 3,573,776
Due to other governmental entities	268,843					268,843
Due to other funds	250,000	853,676			928,166	2,031,842
Deferred revenues:						
Municipal license tax	2,791,299					2,791,299
Intergovernmental						-
Federal grant revenues					735,452	735,452
<b>Total liabilities</b>	<b>4,759,816</b>	<b>1,676,791</b>	<b>1,182,158</b>	<b>-</b>	<b>1,782,447</b>	<b>9,401,212</b>
<b>Fund balances:</b>						
<b>Reserved for:</b>						
Encumbrances	557,527					557,527
Capital projects		12,937,520	1,368,850			14,306,370
Debt service fund				3,942,914		3,942,914
Other purposes	74,466				1,487,344	1,561,810
<b>Reserved reported in nonmajor funds:</b>						
Other purposes						
<b>Unreserved:</b>						
Undesignated	360,663					360,663
<b>Total fund balances</b>	<b>992,656</b>	<b>12,937,520</b>	<b>1,368,850</b>	<b>3,942,914</b>	<b>1,487,344</b>	<b>20,729,284</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,752,472</b>	<b>\$ 14,614,311</b>	<b>\$ 2,551,008</b>	<b>\$ 3,942,914</b>	<b>\$ 3,269,791</b>	
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						98,659,055
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds						(42,672,142)
<b>Net assets of governmental activities</b>						<b>\$ 76,716,197</b>

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, 2008

	General Fund	Capital Projects Fund - Local & State Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 8,310,141	\$ -	\$ -	\$ 3,082,984	\$ -	\$ 11,393,125
Municipal sales and use tax	1,360,645			212,341		1,572,986
Municipal license taxes	4,777,748					4,777,748
Licenses, permits and other local taxes	1,079,275					1,079,275
Charges for services	9,220				195,464	204,684
Intergovernmental	6,205,475	742,480			630,969	7,578,924
Rent of property	297,746					297,746
Fines and forfeitures	62,242					62,242
Interest	753,080		189,721			942,801
Federal grants					6,892,740	6,892,740
Miscellaneous	388,701				141,087	529,788
<b>Total revenues</b>	<b>23,244,273</b>	<b>742,480</b>	<b>189,721</b>	<b>3,295,325</b>	<b>7,860,260</b>	<b>35,332,059</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government	13,922,204	292,842			20,268	14,235,314
Public safety	1,994,931				154,482	2,149,413
Public works	2,776,605	2,606,696			532,891	5,916,192
Health and welfare	3,776,165	197			5,282,204	9,058,566
Culture and recreation	903,874	1,524,280			89,952	2,518,106
Community development	349,163				1,349,099	1,698,262
Urban development				1,299,093	7,459	1,306,552
Education	313,726				357,640	671,366
<b>Debt service:</b>						
Principal				1,205,000		1,205,000
Interest				1,558,362		1,558,362
<b>Total expenditures</b>	<b>24,036,668</b>	<b>4,424,015</b>	<b>1,299,093</b>	<b>2,763,362</b>	<b>7,793,995</b>	<b>40,317,133</b>
Excess (deficiency) of revenues over (under) expenditures	(792,395)	(3,681,535)	(1,109,372)	531,963	66,265	(4,985,074)
<b>Other financing sources (uses)</b>						
Transfers in	290,324	468,642		379,963	5,122	1,144,051
Transfers out	(471,826)	(36,870)	(151,989)	(200,000)	(283,366)	(1,144,051)
Long term debt issued		6,270,000				6,270,000
<b>Total other financing sources (uses)</b>	<b>(181,502)</b>	<b>6,701,772</b>	<b>(151,989)</b>	<b>179,963</b>	<b>(278,244)</b>	<b>6,270,000</b>
<b>Net change in fund balances</b>	<b>(973,897)</b>	<b>3,020,237</b>	<b>(1,261,361)</b>	<b>711,926</b>	<b>(211,979)</b>	<b>1,284,926</b>
Fund balance, beginning, as restated	1,966,553	9,917,283	2,630,211	3,230,988	1,699,323	19,444,358
Fund balance (Deficit), ending	<b>\$ 992,656</b>	<b>\$ 12,937,520</b>	<b>\$ 1,368,850</b>	<b>\$ 3,942,914</b>	<b>\$ 1,487,344</b>	<b>\$ 20,729,284</b>

*CAOS  
5/1/09*

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, 2008

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 1,284,926</b>
 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.	9,747,394
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.	2,260,045
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.	(2,728,885)
Governmental Funds report capital assets sold as revenues. However, in the Government-Wide Statement of Activities and Changes in Net Assets, 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.	(7,040)
Prior Year Accounts Receivable reported in the Governmental Fund Financial Statements as revenues, but reversed in the Government-Wide Statement of Activities and Changes in Net Assets.	(365,651)
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.	(16,005)
Accounts payable change is reported in the Government-Wide Statement of Activities and Change in Net Assets but not reported as in the Governmental Funds because they do not require the use of current financial resources. This is the amount reported in the current period.	(1,026,257)
Bonds and notes proceeds provide 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.	(5,065,000)
Repayment of notes payables related to a land and building 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.	76,500
Retirement system administration payment plan, was reported in the Government-Wide Statement of Activities and Change in Net Assets. Repayment of long term payment plan 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. The following represented the change in Retirement system administration debt.	21,387
Property tax debt related to current year final liquidation and LIMS repayment plan, was reported in the Government-Wide Statement of Activities and Change in Net Assets. 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. The following represented the change in property tax debt.	212,898
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 represents the change in long-term compensated absences from prior year.	(571,647)
Long-term claims and judgments 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 represents the change in long-term claims and judgments from prior year.	<u>243,312</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 4,065,977</u></b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

---

**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 ("USGAAP") 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 elected to implement the retroactive capitalization of infrastructure assets in the year ended June 30, 2006.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**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, "Determining Whether Certain Organizations Are Components Units an amendment of GASB Statement 14". 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. Based on the above criteria the Municipality does not have component units to include within its reporting entity.

**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, 2008

---

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.

**Capital Projects Fund - Local and State Grants-** is the accounting entity in which revenues derived from local funds and state 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 state statutes.

**Capital Projects Fund - Federal Grants-** is the accounting entity in which revenues derived from 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 federal 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.

The other governmental funds of the Municipality account for grants and other resources whose use is restricted for a particular purpose.

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, 2008

---

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

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

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

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

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

**Special Revenue Fund - Section 8 Housing Choice Voucher** - Special Revenue Funds are used to account for revenues derived from Section 8 Housing Choice Voucher Program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund -Section 8 Moderate Rehabilitation Program** - Special Revenue Funds are used to account for revenues derived from Section 8 Moderate Rehabilitation Program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

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

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 ("USGAAP") 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.

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, other 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

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

D. Measurement focus, basis of accounting and financial presentation (Continued)

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.

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 service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

E. Assets, liabilities and net assets (Continued)

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 the balance due from the Municipal Revenue Collection Center (CRIM) resulting from the final liquidations of advances made by CRIM to the Municipality corresponding to collections from property taxes and legislative appropriations from the Commonwealth of Puerto Rico plus final liquidation of contributions in lieu of taxes payable by the Puerto Rico Electric Power Authority (PREPA) to the Municipality. Intergovernmental Receivables in the debt service fund represent the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. 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. The Municipal sales and use tax is collected on a contract basis with the Commonwealth of Puerto Rico Department of Treasury.

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

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

E. Assets, liabilities and net assets (Continued)

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.

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. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

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 when the liability is incurred.

8. **Reservations 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

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

**E. Assets, liabilities and net assets (Continued)**

- 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.

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, 2008 amounted to \$497,280. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$368,255 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:

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

12. Reconciliation of Government-wide and Fund Financial Statements (Continued)

		<u>Total Net Assets</u> <u>Governmental Activities</u>
<b><u>Net assets invested in capital assets, net of related debt</u></b>		
Capital assets, net of depreciation	\$ 98,659,055	
Deduct:		
Bonds Payable	(25,935,000)	
Notes Payable	<u>(8,041,500)</u>	\$ 64,682,555
<b><u>Net assets restricted for capital projects</u></b>		
Fund balance restricted for capital projects		14,306,370
<b><u>Net assets restricted for debt service</u></b>		
Fund balance restricted for debt service	\$ 3,942,914	
Deduct:		
Accrued Interests Payable	<u>(723,266)</u>	3,219,648
<b><u>Net assets restricted for other purposes</u></b>		
General fund - fund balance restricted for other purposes	\$ 74,466	
Other governmental funds - fund balance restricted for other purposes	<u>1,487,344</u>	1,561,810
<b><u>Net assets unrestricted</u></b>		
General fund - total fund balance:	\$ 992,656	
Deduct:		
Fund balance reserved for other purposes	(74,466)	
Accrual basis accounts payable	(2,095,304)	
Compensated absences debt	(3,679,766)	
LIMS repayment plan	(471,252)	
Property taxes debt	(1,357,759)	
Retirement System Administration payment plan	(192,487)	
Claims and judgments debt	<u>(175,808)</u>	<u>(7,054,186)</u>
<b>Total net assets - governmental activities</b>		<b><u>\$ 76,716,197</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**2. DEPOSITS**

Under Commonwealth of 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 \$3,358,371, \$5,220,447, \$2,551,008 in the general fund, capital project fund - local and state grants, and capital project fund - federal grants, respectively, were fully collateralized at June 30, 2008. In the other governmental funds there were deposits with commercial banks of approximately \$2,781,577 that were fully collateralized.

The deposits at GDB of approximately \$1,875 that is restricted for other purposes in the general fund, the \$9,143,863 that is restricted principally for capital projects in the capital project fund - local and state grants and \$3,907,464 in the debt service fund, 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, 2008, 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 of \$109,707 represents filed municipal license tax returns that were uncollected as of June 30, 2008, 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, 2008

3. RECEIVABLES (CONTINUED)

- B. *Intergovernmental*- Intergovernmental receivables in the general fund principally consist of the amounts due from the Municipal Revenue Collection Center (CRIM) at June 20, 2008 from the preliminar 2007-2008 fiscal year liquidation (\$125,228) and a subsidy from (CRIM) for an erroneous interpretation of the law (\$109,792). The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ 235,020
<b>Total</b>	<b>\$ 235,020</b>

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")	\$ 35,450
<b>Total</b>	<b>\$ 35,450</b>

Intergovernmental receivable in the other governmental funds represents expenditures incurred not yet reimbursed by local and federal government. Following is a detail of the federal grants receivables:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant	\$ 51,368
Public Assistance Grant	226,569
Homeland Security Program	138,749
Special Programs for the Aging NSIP	21,528
<b>Total</b>	<b>\$ 438,214</b>

Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Labor and Human Resources- Law 52 Grant	\$ 50,000
<b>Total</b>	<b>\$ 50,000</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2008, and interfund transfers during the fiscal year ended at June 30, 2008, are summarized as follows:

**a. Due from/to other fund and Advances from/to other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Project Fund	General Fund	Reimbursable Expenditures	\$ 250,000
General Fund	Capital Project Fund Local & State	Reimbursable Expenditures	853,676
General Fund	Other Governmental Funds (Law 52 Proposal, Section 8 Moderate Program and FEMA)	Reimbursable Expenditures	<u>928,166</u>
<b>Total</b>			<b><u>\$2,031,842</u></b>

**b. Transfer in/out to other fund**

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Capital Projects Fund - Local & State Grants	Capital Projects	\$ 466,704
Other Governmental Funds	Capital Projects Fund - Local & State Grants	Capital Projects	1,938
Other Governmental Funds	Debt Service Fund	Debt Retirement	227,974
Capital Projects Fund - Federal Grants	Debt Service Fund	Debt Retirement	151,989
General Fund	Other Governmental Funds	Capital Projects	5,122
Capital Projects Fund - Local & State Grants	General Fund	Capital Projects	36,870
Debt Service Fund	General Fund	Residual Equity Transfer	200,000
Other Governmental Funds	General Fund	Reimbursable expenditures	<u>53,454</u>
<b>Total</b>			<b><u>\$ 1,144,051</u></b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2008**

**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 2008, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<b>Governmental Activities:</b>	<b>Balance July 1, 2007</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2008</b>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 36,241,489	\$ 1,871,432	\$ -	\$ 38,112,921
Construction in progress	<u>10,832,338</u>	<u>9,018,742</u>	<u>(5,937,380)</u>	<u>13,913,700</u>
<b>Total capital assets not being depreciated</b>	<u>47,073,827</u>	<u>10,890,174</u>	<u>(5,937,380)</u>	<u>52,026,621</u>
<b>Capital assets, being depreciated:</b>				
Buildings	26,687,195	1,833,958		28,521,153
Buildings improvements	6,876,183	4,113,960		10,990,143
Infrastructure	17,328,173	18,615		17,346,788
Infrastructure improvements	6,676,122	599,588		7,275,710
Equipment	1,842,214	157,389	(39,525)	1,960,078
Furnishing	1,217,825	17,781	(43,971)	1,191,635
Computers	439,669	100,068	(26,114)	513,623
Vehicles	<u>6,667,553</u>	<u>213,286</u>	<u>(1)</u>	<u>6,880,838</u>
<b>Total capital assets being depreciated</b>	<u>67,734,934</u>	<u>7,054,645</u>	<u>(109,611)</u>	<u>74,679,968</u>
<b>Less accumulated depreciation for:</b>				
Buildings	(5,602,949)	(710,929)		(6,313,878)
Buildings improvements	(357,824)	(235,096)		(592,920)
Infrastructure	(10,130,189)	(433,387)		(10,563,576)
Infrastructure improvements	(1,491,529)	(512,876)		(2,004,405)
Equipment	(1,355,995)	(174,144)	33,501	(1,496,638)
Furnishing	(577,612)	(173,056)	43,269	(707,399)
Computers	(367,499)	(53,625)	25,800	(395,324)
Vehicles	<u>(5,537,623)</u>	<u>(435,772)</u>	<u>1</u>	<u>(5,973,394)</u>
<b>Total accumulated depreciation</b>	<u>(25,421,220)</u>	<u>(2,728,885)</u>	<u>102,571</u>	<u>(28,047,534)</u>
<b>Total capital assets being depreciated, net</b>	<u>42,313,714</u>	<u>4,325,760</u>	<u>(7,040)</u>	<u>46,632,434</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 89,387,541</u>	<u>\$ 15,215,934</u>	<u>\$ (5,944,420)</u>	<u>\$ 98,659,055</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**5. CAPITAL ASSETS (CONTINUED)**

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

Governmental activities:	Amount
General government	\$ 940,828
Public safety	140,994
Public works	941,912
Culture and recreation	447,853
Health and welfare	44,818
Community development	198,140
Education	<u>14,340</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$2,728,885</u></b>

**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 Legislation approved in 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 Independent Auditors. 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. The CRIM issued the preliminary settlement noting that the collections exceeded advances by \$125,228. In the governmental funds, the entire receivable has been recognized as revenue.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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, 2008, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$201,848 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	82,924
2010	<u>118,924</u>
<b>Total</b>	<b><u>\$ 201,848</u></b>

On June 26, 1997, Public Law No. 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 No. 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. During the first five years of the note, commenced in July 1, 2003, the Municipality shall pay only interest. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. As of June 30 2008, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$1,155,911.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**6. PROPERTY TAXES (CONTINUED)**

The annual tax rate, as amended in February 2007, is 8.83% for real property and 6.83% 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) 2.00% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

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.

**7. MUNICIPAL SALES AND USE TAX:**

On November 8, 2006, the Municipal Legislature approved Ordinance No. 10, Series 2006-2007, which imposes a Municipal Citizen's Contribution (sales and use tax) of 1.5%. The collection of said contribution began on November 15, 2006. The Municipality is responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Treasury Department is responsible to create, the Municipal Development Fund (.01%), the Municipal Redemption Fund (.03%), and the Municipal Improvement Fund (.01%) with the remaining 0.5%. The Municipality can transfer up to 50% of the Municipal Development Fund to the Municipal Redemption Fund. The Municipality collected \$1,360,645 during the year ended June 30, 2008. Also, \$212,341 from the Municipal Redemption Fund are included in the Debt Service Fund.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:**

Accounts payable and accrued liabilities at June 30, 2008 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Capital Projects Fund- Local &amp; State Grants</u>	<u>Capital Projects Fund- &amp; Federal Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts payable	\$ 510,968	\$ 823,115	\$ 1,182,158	\$ -	\$ 118,829	\$ 2,635,070
Accrued liabilities	<u>938,706</u>	-	-	-	-	<u>938,706</u>
<b>Total</b>	<b><u>\$ 1,449,674</u></b>	<b><u>\$ 823,115</u></b>	<b><u>\$ 1,182,158</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 118,829</u></b>	<b><u>\$ 3,573,776</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**9. 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>
General Services Administration	\$ 7,248
Department of Labor – Unemployment Program	6,845
Retirement System Administration	126,480
Workmen's compensation Administration	121,951
Puerto Rico Aqueduct and Sewer Authority	<u>6,319</u>
Total	<u>\$ 268,843</u>

**10. DEFERRED REVENUES**

**A. Municipal License Tax-** The deferred revenues of \$2,791,299 in the general fund relates to municipal license tax collected in fiscal year 2007-08 that will be earned in fiscal year 2008-09.

**B. Federal Government-** The deferred revenues presented in the 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>
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	\$ 444,184
Housing Opportunities for Persons with AIDS	78,037
Regional Community Program	113,525
Community Development Block Grant	24,447
Public Assistance Grant	52,035
Others	<u>23,224</u>
Total	<u>\$ 735,452</u>

**11. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2008, 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	\$24,170,000	\$ 2,565,000	\$ (800,000)	\$ 25,935,000	\$ 890,000
Notes Payable	4,665,000	3,705,000	(405,000)	7,965,000	415,000
Note Payable-PRIDCO	153,000	-	(76,500)	76,500	76,500
LIMS Repayment Plan	589,064	-	(117,812)	471,252	124,927
Property Tax Debt- Law 146	2,258,764	-	(1,102,853)	1,155,911	48,163
Property Tax Debt –Treasury	248,772	36,000	(82,924)	201,848	82,924
Claims and judgments	419,120	106,688	(350,000)	175,808	175,808
Retirement Adm.-Special Laws	213,874	-	(21,387)	192,487	96,243
Compensated Absences	<u>3,108,119</u>	<u>933,850</u>	<u>(362,203)</u>	<u>3,679,766</u>	<u>330,000</u>
Total	<u>\$35,825,713</u>	<u>\$ 7,346,538</u>	<u>\$(3,318,679)</u>	<u>\$ 39,853,572</u>	<u>\$ 2,239,565</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**11. LONG-TERM LIABILITIES (CONTINUED)**

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority 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, 2008 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2008
2008 Series	7-1-2033	\$ 2,565,000	3.93% to 7.05%	\$ 2,565,000
2005 Series	7-1-2030	3,820,000	4.17% to 5.02%	3,675,000
2004 Series	7-1-2027	5,430,000	4.17% to 5.02%	4,915,000
2004 Series	7-1-2027	355,000	4.17% to 5.02%	325,000
2004 Series	7-1-2027	255,000	4.17% to 5.02%	230,000
2002 Series	7-1-2026	3,985,000	3.54% to 5.60%	3,585,000
1998 Series	7-1-2022	11,230,000	5.69% to 6.56%	9,005,000
1994 Series	7-1-2013	3,390,000	7.61% to 7.71%	<u>1,635,000</u>
<b>Total general obligation bonds</b>				<b><u>\$ 25,935,000</u></b>

These bonds are payable from the ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 890,000	\$ 1,410,599
2010	975,000	1,435,986
2011	1,045,000	1,376,758
2012	1,125,000	1,312,278
2013	1,215,000	1,241,876
2014-2018	5,965,000	5,173,309
2019-2023	8,045,000	3,196,697
2024-2028	4,975,000	1,230,262
2029-2033	<u>1,700,000</u>	<u>244,111</u>
<b>Total</b>	<b><u>\$ 25,935,000</u></b>	<b><u>\$ 16,621,876</u></b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2008**

**11. LONG-TERM LIABILITIES (CONTINUED)**

**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, 2008</u>
Section 108 - Series 2003-A	8-01-23	\$ 4,000,000	Variable	\$ 3,370,000
PRIDCO - Real property acquisition	4-01-09	382,500	No interest	76,500
2005 Series	1-31-12	1,455,000	4.17% to 4.62%	890,000
2008 Series	7-01-32	3,705,000	7.50%	<u>3,705,000</u>
<b>Total notes payable</b>				<b><u>\$ 8,041,500</u></b>

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 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The PRIDCO note is payable with General Fund resources.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 491,500	\$ 305,226
2010	475,000	457,609
2011	495,000	435,419
2012	510,000	411,369
2013	275,000	391,582
2014-2018	1,500,000	1,714,358,
2019-2023	1,735,000	1,222,327
2024-2028	1,190,000	713,929
2029-2033	<u>1,370,000</u>	<u>268,875</u>
<b>Total</b>	<b><u>\$ 8,041,500</u></b>	<b><u>\$ 5,920,694</u></b>

**4. LIMS Repayment Plan-** During the fiscal year 2000-2001, the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System- LIMS, contracted by the CRIM. A total of \$1,126,859 is to be retained in a ten years period at an interest rate of 5.95% until November 28, 2011. At June 30, 2008, the outstanding debt balance is \$471,252. This amount is presented in the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**11. LONG-TERM LIABILITIES (CONTINUED)**

5. **Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2008 as described in Note 6.
6. **Retirement Administration Special Laws-Payment Plan-** This amount represents the amount owed by the Municipality to the Retirement System Administration for the increase in benefits to employees as per various laws approved between 2002 and 2007.
7. **Compensated absences-** The government-wide statement of net assets includes approximately \$1,911,290 of accrued sick leave benefits, and approximately \$1,768,476 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
8. **Operating leases-**The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality's financial statements.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008:

Year Ending <u>June 30,</u>	Governmental <u>Activities</u>
2009	99,562
2010	<u>8,062</u>
Total minimum payments required	<u>\$ 107,624</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**12. 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.

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 Municipality contributions during the year ended June 30, 2008 amounted to approximately \$703,415. This amount represented 100% of the required contribution.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**12. PENSION PLAN (CONTINUED)**

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, 2008, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940-2003.

**13. RISK MANAGEMENT**

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property 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. Settled claims have not exceeded commercial coverage in any of the past three (3) fiscal years.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**14. COMMITMENTS AND CONTINGENCIES**

**A. Federal Grants:**

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2008, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. 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, not to be material.

**B. Claims and lawsuits:**

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 \$175,808 for awarded or anticipated unfavorable judgments in the Government-Wide financial statements. 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.

**15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements that have effective dates after June 30, 2008:

- a. GASB Statement No.51, Accounting and Financial Reporting for Intangible Assets, which is effective for periods beginning after June 15, 2009.
- b. GASB Statement No.52, Land and Other Real Estate Held as Investments by Endowments, which is effective for periods beginning after June 15, 2008.

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**16. PRIOR PERIOD ADJUSTMENTS (CONTINUED)**

**A. GOVERNMENTAL FUND FINANCIAL STATEMENTS**

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Capital Projects Fund-Local & State Grants	Capital Projects Fund-Federal Grants	Debt Service Fund	Other Governmental Funds	Total
Fund balance beginning	\$ 1,453,013	\$ 10,430,823	\$ 2,630,211	\$ 3,230,988	\$ 1,699,323	\$ 19,444,358
To reclassify prior year fund balances	<u>513,540</u>	<u>(513,540)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning as restated	<u>\$ 1,966,553</u>	<u>\$ 9,917,283</u>	<u>\$ 2,630,211</u>	<u>\$ 3,230,988</u>	<u>\$ 1,699,323</u>	<u>\$ 19,444,358</u>

**B. GOVERNMENTAL-WIDE FINANCIAL STATEMENTS**

The following restatements have been made in the governmental-wide financial statements, which are reported as an adjustment to beginning net assets:

Description	Total
Net assets, beginning	\$ 71,595,530
To restate Law 146 debt as per CRIM debt confirmation.	<u>1,054,690</u>
Net assets, beginning as restated	<u>\$ 72,650,220</u>

**17. SUBSEQUENT EVENTS**

On September 26, 2008, the Municipal Legislature approved the issuance of a special obligation bond for the amount of \$1,606,000, for the acquisition of the Diagnostic and Treatment Medical Center. Repayment of the bond is scheduled from July 2009 through July, 2021.

On September 29, 2008, the Municipal Legislature approved an ordinance to accept from the Commonwealth of Puerto Rico's "Departamento de Recreación y Deportes" a transfer of funds amounting to \$2,000,000, for the reconstruction of Ruben Zayas Montañez Coliseum.

On October 23, 2008, the Municipal Legislature approved the issuance of a general obligation bond for the amount of \$1,185,000, for the construction and improvement of the Old City Hall and several recreational facilities. Repayment of the bond is scheduled from July 2009 through July, 2020.

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

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

**YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 7,774,783	\$ 7,774,783	\$ 8,440,772	\$ 665,989
Municipal sales and use tax	1,800,000	2,050,000	1,727,460	(322,540)
Municipal license tax	4,130,000	4,130,000	4,748,400	618,400
Licenses, permits and other local taxes	2,500,000	2,500,000	839,096	(1,660,904)
Charges for service	-	-	-	-
Intergovernmental	6,497,715	6,497,715	6,205,475	(292,240)
Rent of property	340,000	340,000	312,719	(27,281)
Interest	600,000	600,000	789,379	189,379
Fines and Penalties	-	-	-	-
Miscellaneous	<u>165,000</u>	<u>165,000</u>	<u>322,069</u>	<u>157,069</u>
<b>Total revenues before carryover</b>	<u>23,807,498</u>	<u>24,057,498</u>	<u>23,385,370</u>	<u>(672,128)</u>
<b>Budget carryover (1)</b>	<u>-</u>	<u>1,144,321</u>	<u>1,144,321</u>	<u>-</u>
<b>Total revenues, including budget carryover</b>	<u>23,807,498</u>	<u>25,201,819</u>	<u>24,529,691</u>	<u>(672,128)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	12,971,923	14,432,050	\$ 14,389,269	\$ 42,781
Public safety	2,193,793	2,034,643	1,998,570	36,073
Public works	2,854,091	2,927,261	2,761,134	166,127
Health and welfare	3,987,183	3,875,386	3,543,763	331,623
Culture and recreation	977,516	909,004	908,468	536
Community development	378,737	351,662	349,163	2,499
Education	444,255	346,813	314,384	32,429
Operating transfer to other fund	<u>-</u>	<u>325,000</u>	<u>-</u>	<u>325,000</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>23,807,498</u>	<u>25,201,819</u>	<u>24,264,751</u>	<u>937,068</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 264,940</u>	<u>\$ 264,940</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 24,529,691
Differences-budget to GAAP:				
Budget carryover				(1,144,321)
Nonbudgeted revenues				(431,421)
Nonbudgeted transfer-in				<u>290,324</u>
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 23,244,273</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

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

YEAR ENDED JUNE 30, 2008

---

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 24,264,751
Differences-budget to GAAP:	
Nonbudgeted expenditures- unrecorded account payables	340,909
Operating transfer out to other funds	(471,826)
Prior year encumbrances recorded as current year expenditures for GAAP basis	820,222
Current year encumbrances recorded as expenditures for budgetary purposes	<u>(917,388)</u>
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>	<b><u>\$ 24,036,668</u></b>

(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, 2008

---

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 USGAAP, 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 USGAAP 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, 2008 representing original budget. There were no supplemental appropriations for the year ended June 30, 2008.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FEDERAL EXPENDITURES AWARDS  
YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Program:			
Community Development Block Grants - Entitlement Grants	14.218		\$1,345,967
Direct Program:			
Home Investment Partnership Program	14.239		265,283
Direct Program:			
Community Development Block Grants - Section 108 Loan Guarantee	14.248		1,299,093
Direct Program:			
Section 8 Housing Choice Voucher	14.871		3,001,637
Direct Program:			
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856		1,248,784
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>56,581</u>
<b>Total U.S. Department of Housing and Urban Development:</b>			<u><b>7,217,345</b></u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission:			
Incentive Grants	20.600		<u>31,770</u>
<b>Total U.S. Department of Transportation</b>			<u><b>31,770</b></u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FEDERAL EXPENDITURES AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance	97.036		8,938
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Citizen Corps	97.053		3,260
Homeland Security Grant Program	97.067		117,060
<b>Total U.S. Department of Homeland Security</b>			<b>129,258</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
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	125,341
Special Program for Aging – Title III, Part C – Nutrition Services	93.045	Not Available	50,861
<b>Total U.S. Department of Health and Human Services</b>			<b>176,202</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$7,554,575</b>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES AWARDS

YEAR ENDED JUNE 30, 2008

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 Capital Projects Fund - Federal Grants and in Other Governmental Funds 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	Capital Projects Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$1,299,093	\$6,255,482	\$7,554,575
Non - federal programs Expenditures	-	1,538,513	1,538,513
Total expenditures in the fund financial statements	<b><u>\$1,299,093</u></b>	<b><u>\$7,793,995</u></b>	<b><u>\$9,093,088</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

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>\$57,504</u>



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the 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, 2008, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated November 25, 2008, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Trujillo Alto's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Trujillo Alto's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Trujillo Alto's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Municipality of Trujillo Alto's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Municipality of Trujillo Alto's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Trujillo Alto's** internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item **08-01**.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **Municipality of Trujillo Alto's** internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Trujillo Alto's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the **Municipality of Trujillo Alto** in a separate letter dated November 25, 2008.

The **Municipality of Trujillo Alto's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Trujillo Alto's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of 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  
November 25, 2008

Stamp No. 2312232 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



Certified Public Accountants / Management Advisors

López-Vega, CPA, PSC



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

**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, 2008. The **Municipality of Trujillo Alto's** major federal programs are identified in the summary of auditor's 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 of 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, 2008.

**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 the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Trujillo Alto's** internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiency in internal control over compliance that we consider to be material weaknesses, as defined above.

The **Municipality of Trujillo Alto's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Trujillo Alto's** response and, accordingly, we express no opinion on it.



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

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, 2009.

This report is intended solely for the information and use of 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, 2009

Stamp No. 2312233 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

Section I – Summary of Auditor's Results

**Financial Statements**

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes <b>X</b>	None reported
Noncompliance material to financial statements noted?	Yes	No <b>X</b>

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported <b>X</b>
Type of auditor's 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	No <b>X</b>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.248	Community Development Block Grant-Section 108 Loan Guarantees
14.871	Section 8 Housing Choice Voucher Program
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	Yes _____ No <b>X</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

Section II – Financial Statements Findings

<b>Finding Reference</b>	<b>08-01</b>
<b>Requirement</b>	<b>Financial Reporting – Accounting Records</b>
<b>Statement of Condition</b>	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).
<b>Criteria</b>	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
<b>Cause of Condition</b>	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.
<b>Effect of Condition</b>	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.
<b>Recommendation</b>	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.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	According to Article 19.002 of the Autonomous Municipalities Act of 1991, as amended, the Office of the Commissioner of Municipal Affairs [known as OACM], is responsible for the design and implementation of a computerized accounting system for the Municipalities. Such system was designed and partially implemented during the years 1990-1992, but since then it has never been updated nor finally implemented as it was originally contemplated. This situation resulted in a lack of an adequate accounting tool for the majority of the local governments of the island. Although the Legislature of the Commonwealth Government of Puerto Rico has appropriated funds for the design and implementation of a new system, no further action has been taken on this matter.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

---

**Section II - Financial Statements Findings**

Finding Reference      **08-01 (Continued)**

Management Response  
and Corrective Action  
(Continued)

The Municipality's Management concurs with the finding. Besides, it is management's intention to request from the Office of the Commissioner of Municipal Affairs immediate corrective action to solve the problems being encountered by local governments. In the meantime, management, always implement supplementary subsidiary records that help in support the prevailing accounting system in those mostly needed areas.

Implementation Date: July 2009

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, 2008

---

**Section III – Financial Statements Findings**

During our audit, we did not detect significant deficiencies, material weaknesses and instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with OMB Circular A-133.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2008

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
07-02	14.248	<p><u>The required contractor selection or rejection process was not documented in one (1) professional service contract for design and supervision of construction work. The contract amount totaled \$123,793.</u></p> <p>Corrective action was taken. In its Corrective Action Plan the Municipality established that the project had particular details that needed special consulting in this kind of design. The compensation agreed was based on the guides established by the Architects Association, meaning the costs of services will be the same for any other advisor. In February 11, 2009, HUD cleared the finding.</p>
07-03	14.248	<p><u>The approved Request for Release of Funds (RROF) for two (2) construction projects was not available for examination. The determination of whether HUD has approved the projects could not be reached.</u></p> <p>Corrective action was taken. The Municipality sent HUD a communication in which request a copy of the RROF mentioned in the finding. In February 11, 2009, HUD cleared the finding.</p>
07-04	14.871	<p><u>The program maintained an average cash balance per month of \$490,366, and in June 30, 2007 the cash balance in its bank account was \$660,824, exceeding the cash management requirements for the program. This situation was due to an average leasing rate of 91% instead a 95% as required, this means that the program did not use all vouchers approved to the Municipality.</u></p> <p>Corrective action was taken.</p>
06-02	14.871	<p><u>The program maintained an average cash balance per month of \$232,315, and in June 30, 2006 the cash balance in its bank account was \$577,244, exceeding the cash management requirements for the program. This situation was due to an average leasing rate of 92% instead a 95% as required, this means that the program did not use all vouchers approved to the Municipality.</u></p> <p>Corrective action was taken.</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
05-03	14.856 & 14.871	<p><u>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 \$209,131.63. At June 30, 2005, the cash balance in books was \$239,131.63; the operating reserve detailed as per revised closing report submitted to HUD present a balance of \$157,811 resulting with remaining balance of \$81,320.63. The program determined in the preliminary closing report an overpayment of \$71,224 which exceeded the total cash in bank for a total of \$10,096.63. In addition, we noted that the program maintained an average leasing rate of 92% instead a 95% as required, and a revised requisition (Form 52663) was not submitted to the federal agency to reduce the monthly advances. Also, 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 \$391,286.31. At June 30, 2005, the cash balance in books was \$443,157.90; the operating reserve detailed as per preliminary closing report submitted to HUD present a balance of \$265,248 resulting with remaining balance of \$177,909.90 which \$62,096 represent the overpayment determined as per preliminary closing report and a remaining difference of \$115,813.90 for which we could not determine its origin. In addition, we noted that the program maintained an average leasing rate of 89% instead a 95% as required, and a revised requisition (Form 52663) was not submitted to the federal agency to reduce the monthly advances.</u></p> <p><u>In addition, we noted that during the year the program collected move-in portability of \$3,334.78 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, 2005.</u></p> <p>Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.</p>