

Inujillo Atto



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Certified Public Accountants / Management Advisors

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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, 2009

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, 2009

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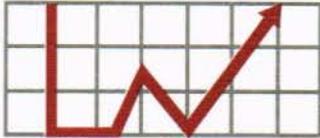
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YEAR ENDED JUNE 30, 2009

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Trujillo Alto, Puerto Rico**, as of and for the year ended June 30, 2009, 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2009, 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 20, 2009, 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 **14** and the Budgetary Comparison Schedule-General Fund on pages **47** and **48** are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 20, 2009

Stamp No. 2407044 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, 2009

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 2009. 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, 2009. 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 2008-2009 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, 2009

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2009 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 2009 amounted to \$88,183,415, or sixty two percent (62%) of total assets.
2. The Municipality's total Net Assets increased by \$11,017,824 which represents a 14% increase when compared with prior fiscal year 2008, as restated. Such increase is mainly attributable to an increase in land and construction in progress classification by \$20,461,670.
3. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$15,609,031 or \$5,569,647 under the similar figure corresponding to the previous fiscal year 2007-2008, as restated.
4. As of the end of the fiscal year 2008-2009, the balance of the Municipality's General Fund amounted to \$765,841 or \$241,049 below the corresponding figure for previous fiscal year, as restated.
5. During fiscal year 2009 the Municipality used \$360,663 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 \$126,712 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 2008-2009 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 2009-2010. 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.
7. In response to the continued increments in the municipal operating expenditures, the Municipal Legislature approved a revision to the General Fund Budget for fiscal year 2009 which amounted to \$360,663. This readjustment to fund balance was possible due to a positive cash balance as of ending fiscal year 2008.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

8. At the end of fiscal year 2009, total liabilities amounted to \$53,103,384. Out of said amount, \$42,365,305 corresponded to long-term liabilities of which \$27,836,000 and \$7,626,500 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, 2009, prior year construction work in process included the improvement of several recreational facilities, and construction of roads, sidewalks and pluvial infrastructure. Current year construction in progress includes 17.5 millions for improvements in various recreational facilities and infrastructure, including the Municipal Coliseum.
10. During the year 2004, the Legislative Assembly of Puerto Rico approved Act Number 255. Said Act establishes among other things, a specific formula for the calculation of the annual Contribution in Lieu of Taxes (PILOT) that the Puerto Rico Electric Power Authority (PREPA) must pay to the Municipalities. Such payment, although had been mandatory since the creation of the PREPA, had reflected an erratic trend for many years and got to a point which caused the Municipalities to take legal action against PREPA. The controversy was finally resolved in the year 2004. Part of the agreement provided for the approval of the aforementioned Act. The formula provides for a deferred payment in those cases in which the annual net revenues of PREPA are not sufficient to make the full payment to the Municipalities. In a letter dated May 2009, PREPA's Director of Finance informed the **Municipality of Trujillo Alto** that PREPA would not be able to make PILOT full payment because of insufficient revenues for the year 2008. However, they recognized an account payable in the amount of \$540,000 which they expect to liquidate during subsequent fiscal years. The municipal administration of the **Municipality of Trujillo Alto** feels that the position taken by PREPA is in violation of Act 255 of 2004 and has decided to join the remaining municipalities thru the Puerto Rico Majors Association that are planning to take another legal action against PREPA.

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 2009. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

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.

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, 2009, such figure amounted to \$88,183,415 an increase of \$11,017,824 over previous year 2008, as restated, and represents sixty two percent (62%) 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, 2009, shows total expenses incurred to afford the cost of all functions and programs amounted to \$30,305,569. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$13,845,590 was derived from the following sources: \$752,106 charges for services; \$8,766,911 from operating grants and contributions; and \$4,326,573 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$27,477,803. When such figure is added to the \$13,845,590 previously mentioned, total revenues available for the financing of activities amounted to \$41,323,393. There was an excess of revenues over expenses in the amount of \$11,017,824.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

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

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets. 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 \$416,571. Net value of infrastructure assets as of fiscal year end 2009 corresponds to 5% 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 \$88,183,415 at the end of 2009, as compared with \$77,165,591, as restated which reflect an increase of \$11,017,824 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 \$11,017,824 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, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets	2009	2008	Change	%
Current and other assets	\$ 21,618,252	\$ 28,098,653	\$(6,480,401)	(23%)
Capital assets	119,668,547	98,659,055	21,009,492	21%
Total assets	141,286,799	126,757,708	14,529,091	11%
Current and other liabilities	10,738,079	9,738,545	999,534	10%
Long-term liabilities	42,365,305	39,853,572	2,511,733	6%
Total liabilities	53,103,384	49,592,117	3,511,267	7%
Invested in capital assets, net of related debt	84,206,047	64,682,555	19,523,492	30%
Restricted	14,170,525	19,087,828	(4,917,303)	(26%)
Unrestricted deficit	(10,193,157)	(6,604,792)	(3,588,365)	54%
Total net assets	\$ 88,183,415	\$ 77,165,591	\$11,017,824	14%



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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2009, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$11,017,824. As previously stated, such amount constituted an increase in the Municipality's net assets. Approximately forty five percent (45%) of the Municipality's total revenue came from taxes, while forty five percent (45%) resulted from grants and contributions, including federal aid. Charges for Services provided two percent (2%) and Interest and Investment earnings (1%) 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, 2008 and 2009. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2009	2008	Change	%
Program revenues:				
Charges for services	\$ 752,106	\$ 414,153	\$ 337,953	82%
Operating grants and contributions	8,766,911	8,073,944	692,967	9%
Capital grants and contributions	4,326,573	745,170	3,581,403	481%
General revenues:				
Property taxes	11,116,758	11,027,473	439,285	4%
Municipal sales and use tax	1,939,652	1,572,986	366,666	23%
Municipal license tax	4,758,056	4,777,748	(19,692)	-
Other local taxes	826,819	841,262	(14,443)	(2%)
Grants and contributions not restricted to specific programs	5,607,625	5,906,179	(298,554)	(5%)
Interest and investment earnings	611,004	942,800	(331,796)	(35%)
Miscellaneous	2,617,889	3,374,132	(1,106,243)	(33%)
Total revenues	41,323,393	37,675,847	3,647,546	10%
Expenses:				
General government	8,105,186	14,011,257	(5,906,071)	(42%)
Public safety	1,581,025	2,121,941	(540,916)	(25%)
Public works	2,938,740	2,503,076	435,664	17%
Culture and recreation	1,083,355	265,274	818,081	308%
Health and welfare	12,834,321	9,015,778	3,818,543	42%
Community development	1,252,197	1,689,285	(437,088)	(26%)
Education	651,100	672,948	(21,848)	(3%)
Urban development	91,989	1,306,552	(1,214,563)	(93%)
Interest on long-term debt	1,767,656	1,574,365	193,291	12%
Total expenses	30,305,569	33,160,476	(2,854,907)	(9%)
Change in net assets	11,017,824	4,515,371	6,502,453	144%
Net assets, beginning of year (as restated)	\$77,165,591	\$ 72,650,220	4,515,371	6%
Net assets, end of year	\$ 88,183,415	\$ 77,165,591	\$ 11,017,824	14%

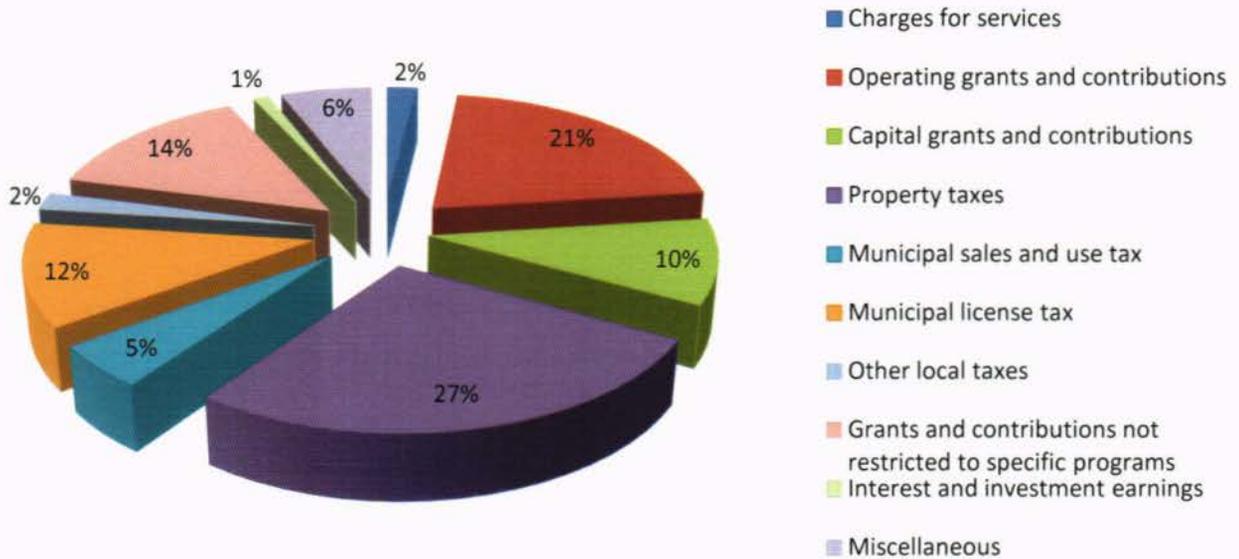
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

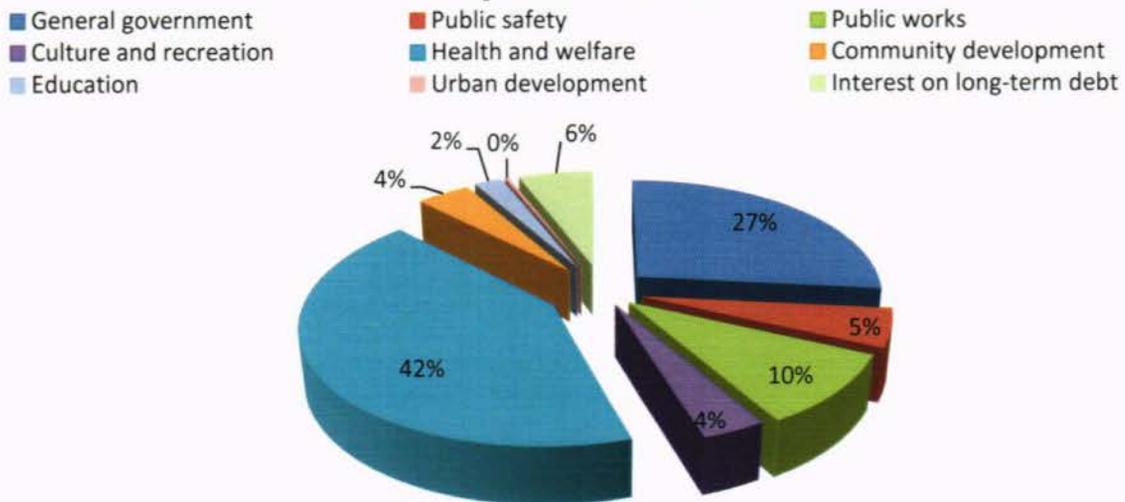
YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2009



Expenses 2009



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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

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 \$15,609,031, which represents a decrease of \$5,569,647 when compared with the prior year. Out of the indicated balance, \$15,311,676 were reserved or committed for the following purposes: (1) \$394,020 to liquidate contracts and purchase orders corresponding to prior fiscal year; 2) \$4,045,328 for debt service payments; 3) \$10,172,067 to pay for capital projects; and 4) \$700,261 for other purposes.

As of June 30, 2009, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund balance of \$297,355.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2008-2009, 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 the Budgetary Comparison Schedule- General Fund, attached hereto, budgetary analysis reflected an excess of \$126,712 of total operating revenues over current expenses.

Also, during fiscal year 2009 the Municipality used \$360,663 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, 2009, amounted to \$149,986,450 which upon deduction of accumulated depreciation in the amount of \$30,317,903 produced a net book value attributable to capital assets in the amount of \$119,668,547. 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, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately twenty one percent (21%) of net book value. This increase was due to an aggressive construction and improvement of public facilities plan and the acquisition of the Diagnostic and Treatment Center for the amount of \$ 4,144,000. Depreciation charges for the year totaled \$2,961,881.

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, 2009, the Municipality has \$4,710,535 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 of July 3, 1996 also known as Financing Municipal Act. Such Act requires a Municipality must has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

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 2008-2009.

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 millions in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Trujillo Alto** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA. As of September 2009, a project through the State Housing Administration for \$8,265,582 was initiated. The Municipality expects additional projects and funding to be awarded and expended in the following fiscal year 2009-2010.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objectives of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the **Municipality of Trujillo Alto** amounts to \$1,578,947 for the first phase of the (PINI) Plan. In the first phase, the municipalities can use the funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts with General Services Administration, Governmental Development Bank, and the Retirement System Administration. The Municipality assigned \$1,138,000 for infrastructure projects, and \$441,941.26 for debts to the aforementioned agencies. Those debts were paid in August 2009.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

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 August 11, 2009, the Municipal Legislature approved the issuance of a special obligation note for the amount of \$305,000, for the acquisition of equipment for the Diagnostic and Treatment Medical Center. Repayment of the bond is scheduled from July 2010 through July, 2013.

On October 7, 2009 the Municipal Legislature approved the issuance of a rent bond for the amount of \$5,090,000, for the refinancing of rent bond outstanding of \$1,706,375, and improvement and operational capital of the Medical Treatment and Diagnostic Center for \$3,360,000. Repayment of the bond is scheduled from July 2010 through July, 2013.

On May 5, 2009, the Municipal Legislature approved Ordinance No. 21, Series 2008-2009, repealing Ordinance 10, Series 2006-2007, which imposed a Municipal Citizen's Contribution (sales and use tax) of 1.5%. This new Ordinance states that the Municipality is responsible to collect 1% of the corresponding tax without the same exemptions and limitations that the portion collected by the Treasury Department. The Municipality will apply the tax over processed foods and its ingredients. 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'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 2009. 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, 2009

		Governmental Activities
Assets		
Cash and cash equivalents	\$	11,980,633
Cash with fiscal agent		8,413,886
Accounts receivable:		
Municipal license tax		8,339
Intergovernmental		1,152,589
Interest		26,828
Others		35,977
Capital assets		
Land, improvements, and construction in progress		66,339,998
Other capital assets, net of depreciation		53,328,549
Total capital assets		<u>119,668,547</u>
Total assets		<u>141,286,799</u>
Liabilities		
Accounts payable and accrued liabilities		6,161,178
Due to other governmental entities		150,284
Deferred revenues:		
Municipal license tax		2,766,821
Federal grant revenues		912,665
Interest payable		747,131
Noncurrent liabilities:		
Due within one year		2,778,802
Due in more than one year		39,586,503
Total liabilities		<u>53,103,384</u>
Net Assets		
Invested in capital assets, net of related debt		84,206,047
Restricted for:		
Capital projects		10,172,067
Debt service		3,298,197
Other purposes		700,261
Unrestricted (deficit)		<u>(10,193,157)</u>
Total net assets	\$	<u><u>88,183,415</u></u>

**Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Statement of Activities
For the Year Ended June 30, 2009**

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	\$ 8,105,186	\$ 559,334	\$ 299,758	\$ -	\$ (7,246,094)
Public safety	1,581,025	109,498	364,941		(1,106,586)
Public works	2,938,740	17,213		4,326,523	1,404,996
Health and welfare	12,834,321		7,921,511		(4,912,810)
Culture and recreation	1,083,355	13,108		50	(1,070,197)
Community development	1,252,197		23,252		(1,228,945)
Urban development	91,989		7,287		(84,702)
Education	651,100	52,953	150,162		(447,985)
Interest on long-term debt	1,767,656				(1,767,656)
Total governmental activities	\$30,305,569	\$ 752,106	\$ 8,766,911	\$ 4,326,573	(16,459,979)
General revenues:					
					11,116,758
Property taxes					1,939,652
Municipal sales and use tax					4,758,056
Municipal license tax					826,819
Other local taxes					5,607,625
Grants and contributions not restricted to specific programs					611,004
Interest and investment earnings					2,617,889
Miscellaneous					
Total general revenues					27,477,803
Change in net assets					11,017,824
Net assets - beginning, as restated					77,165,591
Net assets - ending					\$ 88,183,415

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - Local, State & Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 3,496,917	\$ 386,006	\$ 6,258,342	\$ -	\$ 1,839,368	\$ 11,980,633
Cash with fiscal agent	1,875		4,708,660	3,703,351		8,413,886
Accounts receivable:						
Municipal license tax	8,339					8,339
Intergovernmental	458,416	250,196		341,977	30,000	1,080,589
Interest	26,828					26,828
Others	35,977				72,000	107,977
Due from other funds	794,214					794,214
Total assets	\$ 4,822,566	\$ 636,202	\$ 10,967,002	\$ 4,045,328	\$ 1,941,368	\$ 22,412,466
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 1,139,620	\$ 232,892	\$ 621,559	\$ -	\$ 185,380	\$ 2,179,451
Due to other governmental entities	150,284					150,284
Due to other funds		2,216	173,376		618,622	794,214
Deferred revenues:						
Municipal license tax	2,766,821					2,766,821
Federal grant revenues		401,094			511,571	912,665
Total liabilities	4,056,725	636,202	794,935	-	1,315,573	6,803,435
Fund balances:						
Reserved for:						
Encumbrances	394,020					394,020
Capital projects			10,172,067			10,172,067
Debt service fund				4,045,328		4,045,328
Other purposes	74,466				625,795	700,261
Reserved reported in nonmajor funds:						
Other purposes						
Unreserved:						
Undesignated	297,355					297,355
Total fund balances	765,841	-	10,172,067	4,045,328	625,795	15,609,031
Total liabilities and fund balances	\$ 4,822,566	\$ 636,202	\$ 10,967,002	\$ 4,045,328	\$ 1,941,368	

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	119,668,547
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds	(47,094,163)
Net assets of governmental activities	\$ 88,183,415

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, 2009

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - Local, State & Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 8,754,999	\$ -	\$ -	\$ 2,361,759	\$ -	\$ 11,116,758
Municipal sales and use tax	1,523,365			416,287		<u>1,939,652</u>
Municipal license taxes	4,758,056					4,758,056
Licenses, permits and other local taxes	1,125,171					1,125,171
Charges for services	21,938				436,892	458,830
Intergovernmental	5,907,384		4,326,523		295,513	10,529,420
Rent of property	564,144				13,108	577,252
Fines and forfeitures	109,498					109,498
Interest	577,921		33,083			611,004
Federal grants		3,005,639			4,573,844	7,579,483
Miscellaneous	423,498				217,124	640,622
Total revenues	<u>23,765,974</u>	<u>3,005,639</u>	<u>4,359,606</u>	<u>2,778,046</u>	<u>5,536,481</u>	<u>39,445,746</u>
Expenditures						
Current:						
General government	13,511,121		521,660		9,462	14,042,243
Public safety	2,043,951	234,256			148,667	2,426,874
Public works	3,028,653		7,893,348		7,438	10,929,439
Health and welfare	4,030,312	1,045,848	1,617,896		6,111,860	12,805,916
Culture and recreation	1,111,574		617,627		159,180	1,888,381
Community development	421,153	1,490,280	9,000			1,920,433
Urban development			90,723		1,267	91,990
Education	380,455				271,871	652,326
Debt service:						
Principal				1,305,000		1,305,000
Interest				1,743,791		1,743,791
Total expenditures	<u>24,527,219</u>	<u>2,770,384</u>	<u>10,750,254</u>	<u>3,048,791</u>	<u>6,709,745</u>	<u>47,806,393</u>
Excess (deficiency) of revenues over (under) expenditures	(761,245)	235,255	(6,390,648)	(270,745)	(1,173,264)	(8,360,647)
Other financing sources (uses)						
Transfers in	968,269		285,892	373,159	189,164	1,816,484
Transfers out	(448,073)	(235,255)	(1,059,674)		(73,482)	(1,816,484)
Long term debt issued			2,791,000			2,791,000
Total other financing sources (uses)	<u>520,196</u>	<u>(235,255)</u>	<u>2,017,218</u>	<u>373,159</u>	<u>115,682</u>	<u>2,791,000</u>
Net change in fund balances	(241,049)	-	(4,373,430)	102,414	(1,057,582)	(5,569,647)
Fund balance, beginning, as restated	1,006,890	-	14,545,497	3,942,914	1,683,377	21,178,678
Fund balance (Deficit), ending	<u>\$ 765,841</u>	<u>\$ -</u>	<u>\$ 10,172,067</u>	<u>\$ 4,045,328</u>	<u>\$ 625,795</u>	<u>\$ 15,609,031</u>

O. A. Lopez
of Trujillo Alto

**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, 2009**

Net Change in Fund Balances - Total Governmental Funds **\$ (5,569,647)**

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. 22,096,892

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. 1,877,649

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. (2,961,881)

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. (3,168)

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. (23,865)

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. (1,886,423)

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. (1,486,000)

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. 96,244

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. (680,148)

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. (140,136)

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. (301,693)

Change in Net Assets of Governmental Activities **\$ 11,017,824**

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

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.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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.

Special Revenue Fund - Other 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.

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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

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.

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

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

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

E. Assets, liabilities and net assets

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

Cash with fiscal agent in the debt 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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

E. Assets, liabilities and net assets (Continued)

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

E. Assets, liabilities and net assets (Continued)

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.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Accounting for Pension Costs-** For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

E. Assets, liabilities and net assets (Continued)

10. 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.

11. 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, 2009 amounted to \$458,049. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$482,430 for workers compensation insurance covering all municipal employees.

12. 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, 2009

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

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

		<u>Total Net Assets</u> <u>Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 119,668,547	
Deduct:		
Bonds Payable	(27,836,000)	
Notes Payable	<u>(7,626,500)</u>	\$ 84,206,047
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		10,172,067
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	\$ 4,045,328	
Deduct:		
Accrued Interests Payable	<u>(747,131)</u>	3,298,197
<u>Net assets restricted for other purposes</u>		
General fund - fund balance restricted for other purposes	\$ 74,466	
Other governmental funds - fund balance restricted for other purposes	<u>625,795</u>	700,261
<u>Net assets unrestricted</u>		
General fund - total fund balance:	\$ 765,841	
Deduct:		
Fund balance reserved for other purposes	(74,466)	
Accrual basis accounts payable	(3,981,727)	
Compensated absences debt	(3,819,902)	
LIMS repayment plan	(346,325)	
Property taxes debt	(2,162,834)	
Retirement System Administration payment plan	(96,243)	
Claims and judgments debt	<u>(477,501)</u>	<u>(10,193,157)</u>
Total net assets - governmental activities		<u>\$ 88,183,415</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk -In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk - The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

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 \$3,496,917, \$386,006, \$6,258,342 in the general fund, special revenue fund - other federal grants, and capital project fund - local, state and federal grants, respectively, were fully collateralized at June 30, 2009. Out of the amount in capital project fund, \$1.7 million refer to cash balance from loan proceed that will be refinanced with debt issuance in the next year. In the other governmental funds there were deposits with commercial banks of approximately \$1,839,368 that were fully collateralized.

The deposits at GDB of approximately \$1,875 that is restricted for other purposes in the general fund, the \$4,708,660 that is restricted principally for capital projects in the capital project fund - local, state and federal grants and \$3,703,351 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, 2009, the tax rates were as follows:

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

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 \$8,339 represents filed municipal license tax returns that were uncollected as of June 30, 2009, 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.

- B. Intergovernmental-** Intergovernmental receivables in the general fund principally consist of the amounts due from the Municipal Revenue Collection Center (CRIM) at June 20, 2009 from a subsidy from (CRIM) for an insufficiency in the final 2007-2008 Liquidation (\$410,406). Also, an amount is due from the Commonwealth of Puerto Rico Treasury Department corresponding to fines (\$48,010). The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Treasury Department	\$ 48,010
Municipal Revenue Collection Center ("CRIM")	<u>410,406</u>
Total	<u>\$ 458,416</u>

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

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant	\$ 118,799
Continue traffic Enforcement	8,885
Home Program	98,011
Homeland Security Program	21,162
Special Programs for the Aging NSIP	<u>3,339</u>
Total	<u>\$ 250,196</u>

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

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ <u>341,977</u>
Total	<u>\$ 341,977</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

Following is a detail of the intergovernmental receivable in the other governmental funds:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Labor and Human Resources- Law 52 Grant	\$ 30,000
Total	\$ 30,000

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2009, and interfund transfers during the fiscal year ended at June 30, 2009, 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>
General Fund	Capital Project Fund Local, State, and Federal Grants	Reimbursable Expenditures	\$ 173,376
General Fund	Special Revenue Fund- Other Federal Grants	Reimbursable Expenditures	2,216
General Fund	Other Governmental Funds (Law 52 Proposal, Housing Voucher Program, and Section 8 Moderate Program)	Reimbursable Expenditures	<u>618,622</u>
Total			<u>\$794,214</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Special Revenue Fund - Other Federal Grants	General Fund	Reimbursable expenditures	\$ 894
General Fund	Capital Projects Fund - Local, State & Federal Grants	Capital Projects	272,640
Capital Projects Fund - Local, State & Federal Grants	Other Governmental Funds	Capital Projects	13,731
Special Revenue Fund - Other Federal Grants	Debt Service Fund	Debt Retirement	234,361
Capital Projects Fund - Local, State & Federal Grants	Debt Service Fund	Debt Retirement	138,798
General Fund	Other Governmental Funds	Capital Projects	175,433
Capital Projects Fund - Local, State & Federal Grants	General Fund	Capital Projects	907,145
Other Governmental Funds	Capital Projects Fund - Local, State & Federal Grants	Capital Projects	13,252
Other Governmental Funds	General Fund	Reimbursable expenditures	<u>60,230</u>
Total			<u>\$ 1,816,484</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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:

Governmental Activities:	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
Capital asset, not being depreciated:				
Land	\$ 38,112,921	\$ 2,961,667	\$ -	\$ 41,074,588
Construction in progress	<u>13,913,700</u>	<u>17,500,003</u>	<u>(6,148,293)</u>	<u>25,265,410</u>
Total capital assets not being depreciated	<u>52,026,621</u>	<u>20,461,670</u>	<u>(6,148,293)</u>	<u>66,339,998</u>
Capital assets, being depreciated:				
Buildings	28,521,153	4,982,210		33,503,363
Buildings improvements	10,990,143	3,090,557		14,080,700
Infrastructure	17,346,788	215,872		17,562,660
Infrastructure improvements	7,275,710	923,108		8,198,818
Equipment	1,960,078	247,195	(91,837)	2,115,436
Furnishing	1,191,635	27,526	(12,445)	1,206,716
Computers	513,623	39,142	(31,480)	521,285
Vehicles	<u>6,880,838</u>	<u>135,554</u>	<u>(558,918)</u>	<u>6,457,474</u>
Total capital assets being depreciated	<u>74,679,968</u>	<u>9,661,164</u>	<u>(694,680)</u>	<u>83,646,452</u>
Less accumulated depreciation for:				
Buildings	(6,313,878)	(766,393)		(7,080,271)
Buildings improvements	(592,920)	(347,982)		(940,902)
Infrastructure	(10,563,576)	(436,766)		(11,000,342)
Infrastructure improvements	(2,004,405)	(565,552)		(2,569,957)
Equipment	(1,496,638)	(208,266)	89,969	(1,614,935)
Furnishing	(707,399)	(172,328)	11,259	(868,468)
Computers	(395,324)	(68,018)	31,366	(431,976)
Vehicles	<u>(5,973,394)</u>	<u>(396,576)</u>	<u>558,918</u>	<u>(5,811,052)</u>
Total accumulated depreciation	<u>(28,047,534)</u>	<u>(2,961,881)</u>	<u>691,512</u>	<u>(30,317,903)</u>
Total capital assets being depreciated, net	<u>46,632,434</u>	<u>6,699,283</u>	<u>(3,168)</u>	<u>53,328,549</u>
Governmental activities capital assets, net	<u>\$ 98,659,055</u>	<u>\$ 27,160,953</u>	<u>\$ (6,151,461)</u>	<u>\$ 119,668,547</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	<u>Amount</u>
General government	\$ 1,062,523
Public safety	159,354
Public works	926,422
Culture and recreation	549,619
Health and welfare	53,878
Community development	198,876
Education	<u>11,209</u>
Total depreciation expense-governmental activities	<u>\$2,961,881</u>

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 liquidation noting that the advances exceeded collections by \$972,161 on an alleged inadequate procedure for the estimate of revenues applicable to the CRIM liquidation. In the government-wide financial statements, the entire amount has been recognized as long term debt.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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, 2009, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$82,924 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	<u>\$82,924</u>
Total	<u>\$ 82,924</u>

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 2009, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$1,107,749.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. PROPERTY TAXES (CONTINUED)

The annual tax rate, as amended in April 2009, is 10.08% for real property and 8.08% 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) 3.25% 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 \$1,523,365 during the year ended June 30, 2009. Also, \$416,288 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, 2009 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund- Other Federal Grants</u>	<u>Capital Projects Fund- Local & State Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts payable	\$ 339,512	\$ 232,892	\$ 621,559	\$ -	\$ 185,380	\$ 1,379,343
Accrued liabilities	<u>800,108</u>	-	-	-	-	<u>800,108</u>
Total	<u>\$ 1,139,620</u>	<u>\$ 232,892</u>	<u>\$ 621,559</u>	<u>\$ -</u>	<u>\$ 185,380</u>	<u>\$ 2,179,451</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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	\$ 10,291
Department of Labor - Unemployment Program	5,228
Retirement System Administration	126,481
Puerto Rico Aqueduct and Sewer Authority	<u>8,284</u>
Total	<u>\$ 150,284</u>

10. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$2,766,821 in the general fund relates to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

B. Federal Government- The deferred revenues presented in the special revenue funds- other federal funds and in the other governmental funds represent 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	\$ 509,155
Housing Opportunities for Persons with AIDS	77,125
Regional Community Program	133,693
Title III	53,700
Public Assistance Grant	128,798
Others	<u>10,194</u>
Total	<u>\$ 912,665</u>

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, 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	\$25,935,000	\$ 2,791,000	\$ (890,000)	\$ 27,836,000	\$ 990,000
Notes Payable	7,965,000	-	(415,000)	7,550,000	475,000
Note Payable-PRIDCO	76,500	-	-	76,500	76,500
LIMS Repayment Plan	471,252	-	(124,927)	346,325	132,471
Property Tax Debt- Law 146	1,155,911	-	(48,162)	1,107,749	48,163
Property Tax Debt - Treasury	201,848	-	(118,924)	82,924	82,924
Property Tax Debt - Advances	-	972,161	-	972,161	-
Claims and judgments	175,808	304,693	(3,000)	477,501	477,501
Retirement Adm.-Special Laws	192,487	-	(96,244)	96,243	96,243
Compensated Absences	<u>3,679,766</u>	<u>657,769</u>	<u>(517,633)</u>	<u>3,819,902</u>	<u>400,000</u>
Total	<u>\$39,853,572</u>	<u>\$ 4,725,623</u>	<u>\$(2,213,890)</u>	<u>\$ 42,365,305</u>	<u>\$ 2,778,802</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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, 2009 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2009
2009 Series	7-1-2034	\$ 1,606,000	6.25%	\$ 1,606,000
2009 Series	7-1-2034	\$ 1,185,000	2.43% to 7.50%	1,185,000
2008 Series	7-1-2033	\$ 2,565,000	2.43% to 7.50%	2,530,000
2005 Series	7-1-2030	3,820,000	4.38% to 5.02%	3,595,000
2004 Series	7-1-2027	5,430,000	4.38% to 5.02%	4,790,000
2004 Series	7-1-2027	355,000	4.38% to 5.02%	315,000
2004 Series	7-1-2027	255,000	4.17% to 5.02%	225,000
2002 Series	7-1-2026	3,985,000	4.10% to 5.60%	3,500,000
1998 Series	7-1-2022	11,230,000	5.78% to 6.56%	8,675,000
1994 Series	7-1-2013	3,390,000	7.71%	<u>1,415,000</u>
Total general obligation bonds				<u>\$ 27,836,000</u>

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:

Year Ending June 30,	Principal	Interest
2010	\$ 990,000	\$ 1,432,254
2011	1,065,000	1,680,679
2012	1,178,000	1,497,122
2013	1,270,000	1,423,095
2014	1,362,000	1,343,277
2015-2019	6,416,000	5,646,720
2020-2024	8,109,000	3,403,071
2025-2029	5,163,000	1,429,921
2030-2034	<u>2,283,000</u>	<u>323,919</u>
Total	<u>\$ 27,836,000</u>	<u>\$ 18,180,058</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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, 2009</u>
Section 108 - Series 2003-A	8-01-23	\$ 4,000,000	Variable	\$ 3,160,000
PRIDCO - Real property acquisition	4-01-09	382,500	No interest	76,500
2005 Series	1-31-12	1,455,000	4.38% to 4.62%	685,000
2008 Series	7-01-32	3,705,000	7.50%	<u>3,705,000</u>
Total notes payable				<u>\$ 7,626,500</u>

The Section 108 note is payable from Special Revenue Fund – Federal Grants funds. The 1999 Series note is payable from the ad valorem property tax of 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, and the final payment was made in August 2009. The Series 2008, amounting 3,705,000, is payable with the revenues generated from the collection of the .03% of the municipal sales and use taxes imposed by the Municipality and collected by the Puerto Rico Treasury Department.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 551,500	\$ 365,812
2011	495,000	435,420
2012	510,000	411,369
2013	275,000	391,582
2014	280,000	376,555
2015-2019	1,550,000	1,626,130
2020-2024	1,785,000	1,110,929
2025-2029	1,050,000	631,875
2030-2034	<u>1,130,000</u>	<u>175,125</u>
Total	<u>\$ 7,626,500</u>	<u>\$ 5,524,797</u>

- 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, 2009, the outstanding debt balance is \$346,325. 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, 2009

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, 2009 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 2009.
7. **Compensated absences-** The government-wide statement of net assets includes approximately \$2,051,276 of accrued sick leave benefits, and approximately \$1,768,626 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, 2009:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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, 2009 amounted to approximately **\$790,497**. This amount represented 100% of the required contribution.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. PENSION PLAN (CONTINUED)

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

Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, PO 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.

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, 2009, 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

14. COMMITMENTS AND CONTINGENCIES

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 \$477,501 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, 2009:

- a. GASB Statement No.51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- b. GASB Statement No.53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods beginning after June 15, 2010.
- d. GASB Concepts Statement No. 5, *Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2*. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2.

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, 2009

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	\$ 992,656	\$ 12,937,520	\$ 1,368,850	\$ 3,942,914	\$ 1,487,344	\$ 20,729,284
To adjust the due to other governmental entities	14,234					14,234
To reclassify prior year fund balances	-	125,949	113,178	-	196,033	435,160
Fund balance, beginning as restated	<u>\$ 1,006,890</u>	<u>\$ 13,063,469</u>	<u>\$ 1,482,028</u>	<u>\$ 3,942,914</u>	<u>\$ 1,683,377</u>	<u>\$ 21,178,678</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:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 76,716,197
To adjust the due to other governmental entities	14,234
To reclassify prior year fund balances	<u>435,160</u>
Net assets, beginning as restated	<u>\$ 77,165,591</u>

17. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 millions in grants and is eligible to obtain additional funding through other competitive federal programs.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

17. SUBSEQUENT EVENTS (CONTINUED)

As part of this plan, the **Municipality of Trujillo Alto** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA. As of September 2009, a project through the State Housing Administration for \$8,265,582 was initiated. The Municipality expects additional projects and funding to be awarded and expended in the following fiscal year 2009-2010.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objectives of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the **Municipality of Trujillo Alto** amounts to \$1,578,947 for the first phase of the (PINI) Plan. In the first phase, the municipalities can use the funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts with General Services Administration, Governmental Development Bank, and the Retirement System Administration. The Municipality assigned \$1,138,000 for infrastructure projects, and \$441,941.26 for debts to agencies. Those debts were paid in August 2009.

On May 5, 2009, the Municipal Legislature approved Ordinance No. 21, Series 2008-2009, repealing Ordinance 10, Series 2006-2007, which imposed a Municipal Citizen's Contribution (sales and use tax) of 1.5%. This new Ordinance states that the Municipality is responsible to collect 1% of the corresponding tax without the same exemptions and limitations that the portion collected by the Treasury Department. The Municipality will apply the tax over processed foods and its ingredients. 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%.

On August 11, 2009, the Municipal Legislature approved the issuance of a special obligation note for the amount of \$305,000, for the acquisition of equipment for the Medical Treatment and Diagnostic Center. Repayment of the bond is scheduled from July 2010 through July, 2013.

On October 7, 2009, the Municipal Legislature approved the issuance of a rent bond for the amount of \$5,090,000, for the refinancing of rent bond outstanding of \$1,706,375, and improvement and operational capital of the Medical Treatment and Diagnostic Center for \$3,360,000. Repayment of the bond is scheduled from July 2010 through July, 2013.

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

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

YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 8,375,900	\$ 8,375,900	\$ 8,375,900	\$ -
Municipal sales and use tax	1,740,000	1,740,000	1,765,737	25,737
Municipal license tax	4,625,000	4,625,000	4,778,710	153,710
Licenses, permits and other local taxes	2,154,200	2,154,200	863,111	(1,291,089)
Intergovernmental	5,954,825	5,954,825	5,907,384	(47,441)
Rent of property	513,000	513,000	542,545	29,545
Interest	425,000	425,000	565,330	140,330
Miscellaneous	<u>625,000</u>	<u>625,000</u>	<u>513,795</u>	<u>(111,205)</u>
Total revenues before carryover	24,412,925	24,412,925	23,312,512	(1,100,413)
Budget carryover (1)	<u>-</u>	<u>360,663</u>	<u>360,663</u>	<u>-</u>
Total revenues, including budget carryover	<u>24,412,925</u>	<u>24,773,588</u>	<u>23,673,175</u>	<u>(1,100,413)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	13,330,900	13,289,260	\$ 12,797,877	\$ 491,383
Public safety	2,243,667	2,092,667	2,057,289	35,378
Public works	2,853,304	3,000,323	2,688,274	312,049
Health and welfare	3,970,655	4,171,161	4,093,548	77,613
Culture and recreation	1,159,554	1,148,472	1,114,362	34,110
Community development	450,159	424,853	423,053	1,800
Education	404,686	376,189	372,060	4,129
Operating transfer to other fund	<u>-</u>	<u>270,663</u>	<u>-</u>	<u>270,663</u>
Total expenditures, encumbrances and other financing uses	<u>24,412,925</u>	<u>24,773,588</u>	<u>23,546,463</u>	<u>1,227,125</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,712</u>	<u>\$ 126,712</u>
Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 23,673,175
Differences-budget to GAAP:				
Budget carryover				(360,663)
Nonbudgeted revenues				453,462
Nonbudgeted transfer-in				<u>968,269</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 24,734,243</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

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

YEAR ENDED JUNE 30, 2009

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 23,546,463
Differences-budget to GAAP:	
Nonbudgeted expenditures	10,935
Operating transfer out to other funds	448,073
Prior year encumbrances recorded as current year expenditures for GAAP basis	1,363,841
Current year encumbrances recorded as expenditures for budgetary purposes	<u>(394,020)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 24,975,292</u>

(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, 2009

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, 2009 representing original budget. There were no supplemental appropriations for the year ended June 30, 2009.

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

SCHEDULE OF FEDERAL EXPENDITURES AWARDS

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program:			
Community Development Block Grants - Entitlement Grants	14.218		\$1,467,042
Direct Program:			
Home Investment Partnership Program	14.239		802,348
Direct Program:			
Community Development Block Grants - Section 108 Loan Guarantee	14.248		90,723
Direct Program:			
Section 8 Housing Choice Voucher	14.871		3,607,777
Direct Program:			
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856		1,367,836
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	30,054
Total U.S. Department of Housing and Urban Development:			7,365,780
U.S DEPARTMENT OF JUSTICE:			
Pass-through the Puerto Rico Department of Justice:			
Local Law Enforcement Block Grant	16.592	Not Available	36,717
Total U.S. Department of Justice			36,717

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

SCHEDULE OF FEDERAL EXPENDITURES AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF TRANSPORTATION			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission:			
Incentive Grants	20.600		<u>29,197</u>
Total U.S. Department of Transportation			<u>29,197</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Homeland Security Grant Program	97.067		<u>181,052</u>
Total U.S. Department of Homeland Security			<u>181,052</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office): Special Program for Aging - Title III, Part B - Grants for Supportive Services and Senior Centers			
	93.044	Not Available	81,116
Nutrition Services Incentives Program	93.053	Not Available	<u>99,698</u>
Total U.S. Department of Health and Human Services			<u>180,814</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$7,793,560</u>

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, 2009

1. BASIS OF PRESENTATION:

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

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund - Other Federal Grants, the Capital Projects Fund - Local & 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	Special Revenue Fund-Other Federal Grants	Capital Projects-Local & Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$2,727,224	90,723	\$4,975,613	\$7,793,560
Non - federal programs Expenditures	43,160	\$10,659,531	1,734,132	12,466,822
Total expenditures in the fund financial statements	<u>\$2,770,384</u>	<u>\$10,750,254</u>	<u>\$6,709,745</u>	<u>\$20,260,382</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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>\$30,096</u>



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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, 2009, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated November 20, 2009, 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 **09-01**.

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.

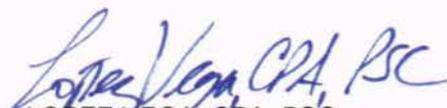
Compliance and Other Matters

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 20, 2009.

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

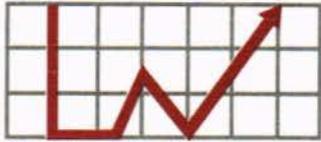
San Juan, Puerto Rico
November 20, 2009

Stamp No. 2407045 of the Puerto Rico
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was affixed to the record copy of this report.



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**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, 2009. 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, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **09-02** thru **09-03**.

**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.

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 as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **09-02** thru **09-03** to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item **09-03** to be a material weakness.

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.



López-Vega, CPA, PSC

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**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 February 26, 2010.

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
February 26, 2010

Stamp No. 2407073 of the Puerto Rico
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was affixed to the record copy of this report.



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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

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 <input checked="" type="checkbox"/>
Significant deficiencies identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes	No <input checked="" type="checkbox"/>

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Significant deficiencies identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
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 <input checked="" type="checkbox"/>	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant-Entitlement Grant
14.239	HOME Investment Partnership Program
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference **09-01**

Requirement **Financial Reporting – Accounting Records**

Statement of Condition During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds). As of the date of our examination no action has been taken by the Office of the Commissioner of Municipal Affairs [known as OACM].

Criteria Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.

Cause of Condition The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.

Effect of Condition The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.

Recommendation We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

Questioned Costs None

Management Response and Corrective Action 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, 2009

Section II - Financial Statements Findings

Finding Reference **09-01 (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: Once the Office of the Commissioner of Municipal Affairs [known as OACM] takes action updating the system.

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, 2009

Section III – Federal Award Findings and Questioned Costs

Finding Reference	09-02
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Report – Performance Reporting
Statement of Condition	HUD-60002, <i>Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons</i> , (OMB No. 2529-0043) was not submitted for the fiscal year ended June 30, 2009.
Criteria	24 CFR sections 135.3 (a), 135.90, and 570.607. Section 135.3 (a) states that Section 3 applies to training, employment, contracting and other economic opportunities arising in connection with the expenditure of housing assistance and community development assistance that is used for the following projects: Housing rehabilitation, housing construction, and other public construction. Section 135.90, states that each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit an annual report for the purpose of determining the effectiveness of Section 3. Where the program providing the Section 3 assistance requires submission of an annual performance report, the Section 3 report will be submitted with the annual performance report. If the program does not require an annual performance report the report shall be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier. Section 570.607 states regulations for employment and contracting opportunities for low and very low income persons.
Cause of Condition	The Municipality did not comply with the established regulation as prescribed by HUD.
Effect of Condition	The Municipality could lose federal programs funds for the noncompliance with HUD requirements stated in 24 CFR 135.3 (a), 135.90, and 570.607..
Recommendation	Procedures should be implemented to ascertain that the Municipality complies with the established Federal Regulation, as prescribed by HUD.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 09-02 (Continued)

Questioned Costs None

**Management Response
And Corrective Action**

The Municipality's management concurs with the finding. The program will ask for technical support of HUD San Juan Office to complete the form and will give directions to personnel so that the situation will not repeat in the future.

Responsible Person: Mr. Javier Rosado -Director Municipal
Development Department

Implementation date: For the year ending June 30, 2010

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Mayor Federal Program Award Findings and Questioned Costs

Finding Reference	09-03
Program	Home Investment Partnership Program (CFDA. No. 14.239); U.S. Department of Housing and Urban Development
Requirement	Reporting and Financial Administration – Standard for Financial Management System
Statement of Condition	<p>During our examination of reporting requirements we noted the following exceptions:</p> <ul style="list-style-type: none">a. The Federal Cash Transaction Reports (SF 272) for the year ended June 30, 2009 were not available for our examination. The program is in the process of reviewing and correcting prior year reports, before issuing the amended SF-272 reports.b. There is no adequate information to support balances and the transactions are not recorded in the applicable accounting period. The programs' accounting does not provide information to reconcile the program accounts with the Integrated Disbursement and Information System (IDIS). This situation causes that the Form SF-272 from prior periods, although submitted timely, contained balances inconsistent with the program accounting books and bank statements.
Criteria	<p>24 CFR 85.20(b) and 92.505(a) states that the grantee must maintain accounting records which adequately identify the source of funds and application of the funds. Also, according to 24 CFR, Section 85.41(c) (1) (4) to meet the reporting requirements, the Municipality should submit the Standard Form 272, Federal Cash Transactions Report, submit to HUD the Cash Transaction Reports no later than fifteen (15) working following the end of each quarter. These reports will be used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees.</p>
Cause of Condition	<p>The Municipality has not established adequate internal control procedures to assure the correctness of the reports and the timely submission to HUD.</p>
Effect of Condition	<p>The Municipality did not comply with 24 CFR Section 85.20 (b), 92.505 (a), and Section 85.41 (c) (1).</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **09-03 (continued)**

Recommendation We recommend management that the reports be prepared accurately and including all the required information and submitted in a timely manner. If the deadline is not achievable, a request for an extension should be obtained from the Federal Agency.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. The Program reviewed and reissued the forms SF-272. Also, the Program updated the accounting books and are waiting for HUD San Juan Office for the clearance of the finding.

Implementation Date: March, 2010

Responsible Person: Mrs. Sonia Pastrana - Housing Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2009

Prior year audit findings for the Single Audit of the **Municipality of Trujillo Alto** were cleared in the report issued in the year ended June 30, 2008. No prior year audit findings remained un-cleared as of the date of our report.