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Juizelle *Atto*
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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, 2010

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, 2010

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
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YEAR ENDED JUNE 30, 2010

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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, 2010, 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 the *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, 2010, 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.

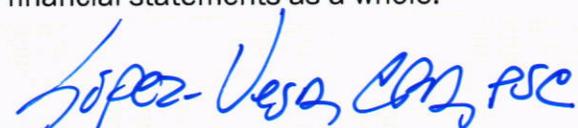
In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2011, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 47 through 48, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Trujillo Alto's** financial statements, as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements.

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 28, 2010

Stamp No. 2575457 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, 2010

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, sales and use tax, 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, recreational, and security and health facilities for the calendar year 2010. 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, 2010. 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, 2009. 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 2009-2010 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's services, construction programs and other 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, 2010

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2010 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 2010 amounted to \$80,893,843, or fifty eight percent (58%) of total assets.
2. The Municipality's total Net Assets increased by \$1,647,823 which represents a 2% increment when compared with prior fiscal year 2009, as restated. Such increase is mainly attributable to an increase in the amount of \$4,335,853 reflected in land and construction work in progress classification.
3. As of the end of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$23,000,331, in the Balance Sheet, or \$7,271,607 under the similar figure corresponding to the previous fiscal year 2008-2009, as restated.
4. As of the end of the fiscal year 2009-2010, the balance of the Municipality's General Fund amounted to \$612,643 or \$153,198 below the corresponding figure for previous fiscal year, as restated. Such balance is satisfactory considering the negative scenarios being faced by Puerto Rico's economy during the last 5 years.
5. During fiscal year 2010 the Municipality used \$103,000 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 an unfavorable balance of (\$840,368).
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 2010 which amounted to \$103,000. This readjustment to fund balance was possible due to a positive cash balance as of ending fiscal year 2009.
8. At the end of fiscal year 2010, total liabilities amounted to \$59,550,124. Out of said amount, \$50,894,736 corresponded to long-term liabilities of which \$36,260,000 and \$9,100,000 represented the outstanding balance of bonds and notes issued, respectively. The Municipality continued to meet all debt service requirements, most of which were paid from self generated revenues.
9. The Municipality has maintained an aggressive capital improvement program. As of June 30, 2010, 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 14 millions for improvements in various recreational facilities and infrastructure, including the Municipal Coliseum.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS (CONTINUED)

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, among other things, 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. A joint effort with other Municipalities might surge to file a legal action against the treatment used by PREPA for the payment of PILOT.

Management feels satisfied with the financial condition and results of operations reflected by the audited financial statements prepared as of June 30, 2010. It is its contention that in spite of the more than five year recession that has adversely affected Puerto Rico's economic environment, the municipal administration has been able to meet all current obligations, has continued an ambitious construction program, keep and expand public essential services to its constituents and close with a balanced operating budget. However, management is aware also that such performance might change in the future, if such negative economic environment reflects a continued deterioration.

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 2010. 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, 2010

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, 2010, such figure amounted to \$80,893,843 an increase of \$1,647,823 over previous year 2009, as restated, and represents fifty eight percent (58%) 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, 2010, shows total expenses incurred to afford the cost of all functions and programs amounted to \$36,466,277. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$10,230,556 was derived from the following sources: \$562,442 charges for services; \$7,936,759 from operating grants and contributions; and \$1,731,355 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$27,883,544. When such figure is added to the \$10,230,556 previously mentioned, total revenues available for the financing of activities amounted to \$38,114,100. There was an excess of revenues over expenses in the amount of \$1,647,823.

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, 2010

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 \$17,562,660 including accumulated depreciation for \$11,000,342. This year, depreciation expense for this classification amounted to \$439,181. Net value of infrastructure assets as of fiscal year end 2010 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 \$80,893,843 at the end of 2010, as compared with \$79,246,020, as restated, which reflect an increase of \$1,647,823 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 \$1,647,823 increase reflected in the Net Assets figure.

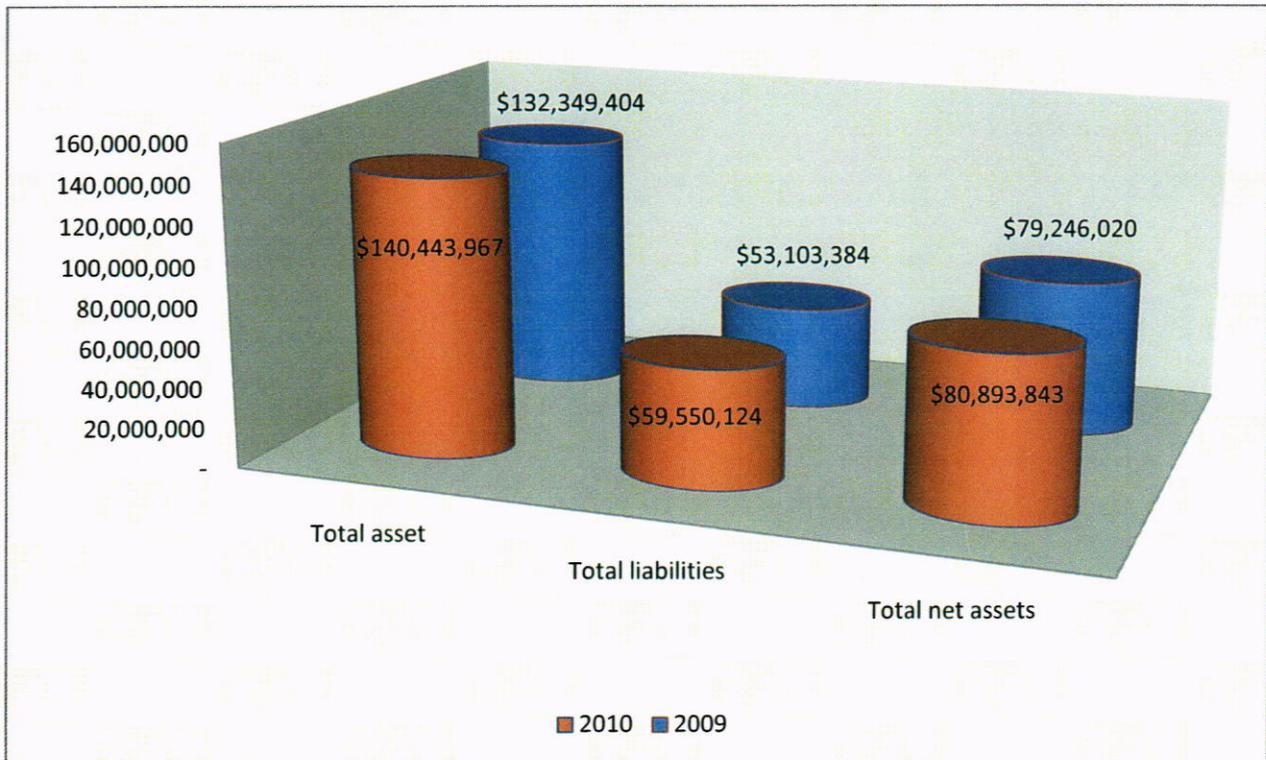
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets	2010	2009	Change	%
Current and other assets	\$ 28,134,304	\$ 21,737,946	\$ 6,396,358	29%
Capital assets	112,309,663	110,611,458	1,698,205	2%
Total assets	140,443,967	132,349,404	8,094,563	6%
Current and other liabilities	8,655,388	10,738,079	(2,082,691)	(19%)
Long-term liabilities	50,894,736	42,365,305	8,529,431	20%
Total liabilities	59,550,124	53,103,384	6,446,740	12%
Invested in capital assets, net of related debt	66,949,663	75,148,958	(8,199,295)	(11%)
Restricted	21,774,506	14,290,219	7,484,287	52%
Unrestricted deficit	(7,830,326)	(10,193,157)	2,362,831	23%
Total net assets	\$ 80,893,843	\$ 79,246,020	\$1,647,823	2%



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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2010, the net effect of the revenues derived from several programs plus current operating expenses, amounted to \$1,647,823. As previously stated, such amount constituted an increase in the Municipality's net assets. Approximately fifty six percent (56%) of the Municipality's total revenue came from taxes, while forty percent (40%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%) and Interest and Investment earnings one percent (1%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development, public safety, and waste disposal. 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, 2010 and 2009. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

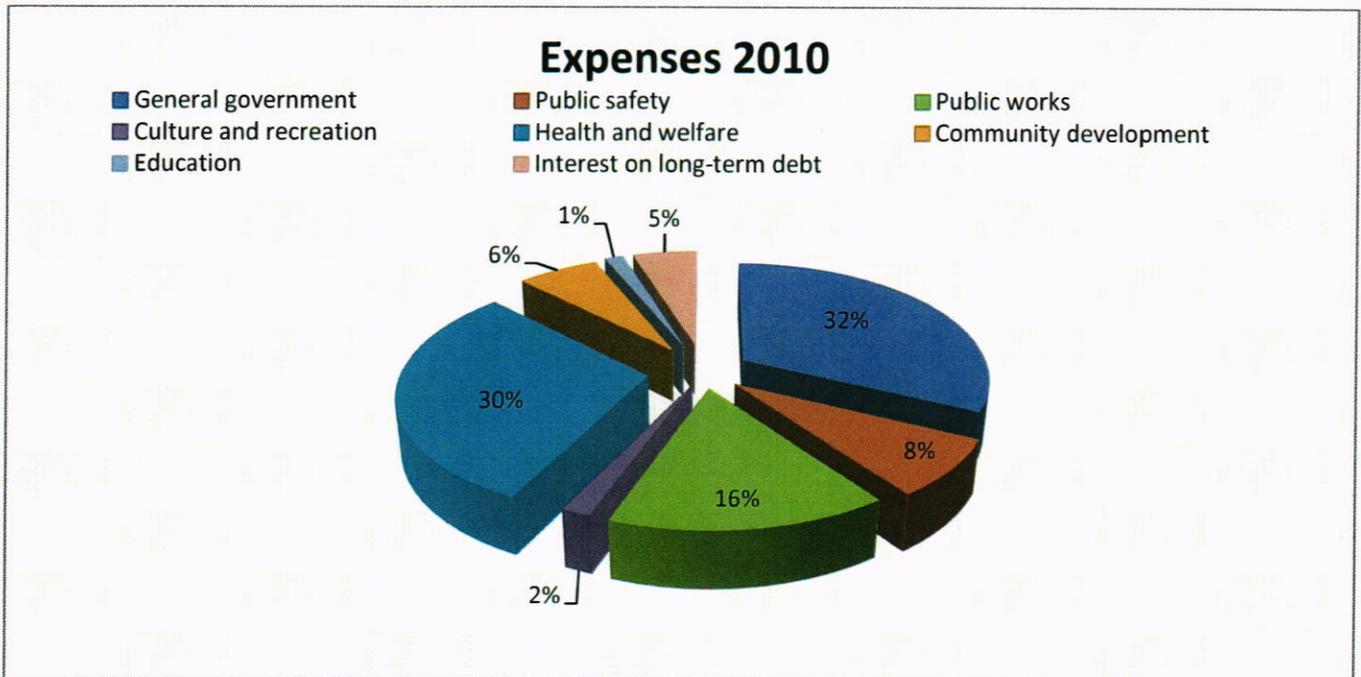
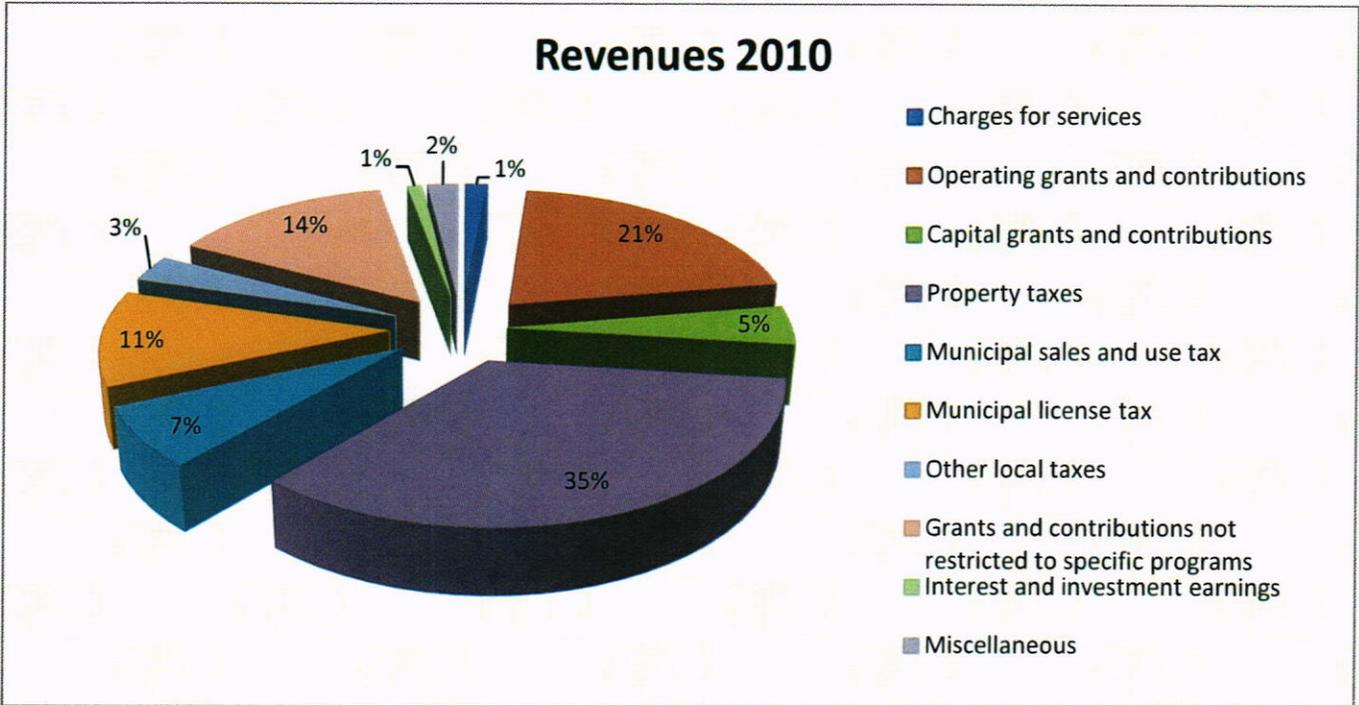
Condensed Statement of Activities	2010	2009	Change	%
Program revenues:				
Charges for services	\$ 562,442	\$ 752,106	\$ (189,664)	(25%)
Operating grants and contributions	7,936,759	8,886,605	(949,846)	(11%)
Capital grants and contributions	1,731,355	4,326,573	(2,595,218)	(60%)
General revenues:				
Property taxes	13,184,603	11,116,758	2,067,845	19%
Municipal sales and use tax	2,681,184	1,939,652	741,532	38%
Municipal license tax	4,238,342	4,758,056	(519,714)	(11%)
Other local taxes	1,178,145	826,819	351,326	42%
Grants and contributions not restricted to specific programs	5,473,016	5,607,625	(134,609)	(2%)
Interest and investment earnings	360,157	611,004	(250,847)	(41%)
Miscellaneous	768,097	2,617,889	(1,849,792)	(71%)
Total revenues	38,114,100	41,443,087	(3,328,987)	(8%)
Expenses:				
General government	11,746,411	8,105,186	(3,641,225)	45%
Public safety	2,904,829	1,581,025	(1,323,804)	84%
Public works	5,694,119	11,995,829	6,301,710	(53%)
Culture and recreation	615,841	1,083,355	467,514	(43%)
Health and welfare	11,047,423	12,834,321	1,786,898	(14%)
Community development	2,295,702	1,252,197	(1,043,505)	83%
Education	524,903	651,100	126,197	(19%)
Urban development	1,021	91,989	90,968	(99%)
Interest on long-term debt	1,636,028	1,767,656	131,628	(7%)
Total expenses	36,466,277	39,362,658	2,896,381	(7%)
Change in net assets	1,647,823	2,080,429	(432,606)	(21%)
Net assets, beginning of year (as restated)	\$79,246,020	\$77,165,591	2,080,429	3%
Net assets, end of year	<u>\$ 80,893,843</u>	<u>\$ 79,246,020</u>	<u>\$ 1,647,823</u>	2%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 \$23,000,331, which represents an increase of \$7,271,607 when compared with the prior year, as restated. Out of the indicated balance, \$22,982,418 were reserved or committed for the following purposes: (1) \$520,264 to liquidate contracts and purchase orders corresponding to prior fiscal year; 2) \$4,519,070 for debt service payments; 3) \$17,804,838 to pay for capital projects; and 4) \$138,246 for other purposes.

As of June 30, 2010, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund balance of \$17,913.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2009-2010, 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 a deficiency of \$840,368 of total operating revenues over current expenses.

Also, during fiscal year 2010 the Municipality used \$103,000 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, 2010, amounted to \$145,670,090 which upon deduction of accumulated depreciation in the amount of \$33,360,427 produced a net book value attributable to capital assets in the amount of \$112,309,663. Said investment includes land, construction work 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, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately two percent (2%) of net book value. This increase was due to an aggressive construction and improvement of public facilities plan. Depreciation charges for the year totaled \$3,178,966.

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, 2010, the Municipality has \$14,013,421 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, 2010

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 not generally exceeding ten 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 2010-2011.

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 September 21, 2010, the Municipal Legislature approved the issuance of a special obligation note for the amount of \$441,000, for the acquisition of waste disposal trucks. Repayment of the bond is scheduled from July 2011 through July, 2017.

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 2010. 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.

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 2010-2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 9,071,297
Cash with fiscal agent	18,578,723
Accounts receivable:	
Municipal license tax	31,837
Intergovernmental	427,003
Interest	3,191
Others	22,253
Capital assets	
Land, improvements, and construction in progress	55,557,375
Other capital assets, net of depreciation	56,752,288
Total capital assets	<u>112,309,663</u>
Total assets	<u>140,443,967</u>
Liabilities	
Accounts payable and accrued liabilities	4,366,725
Due to other governmental entities	13,036
Deferred revenues:	
Municipal license tax	2,717,038
Federal grant revenues	870,941
Interest payable	687,648
Noncurrent liabilities:	
Due within one year	2,847,926
Due in more than one year	48,046,810
Total liabilities	<u>59,550,124</u>
Net Assets	
Invested in capital assets, net of related debt	66,949,663
Restricted for:	
Capital projects	17,804,838
Debt service	3,831,422
Other purposes	138,246
Unrestricted (deficit)	<u>(7,830,326)</u>
Total net assets	<u>\$ 80,893,843</u>

**Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Statement of Activities
For the Year Ended June 30, 2010**

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	\$11,746,411	\$ 306,004	\$ 5,405	\$ -	\$ (11,435,002)
Public safety	2,904,829	116,606	55,754		(2,732,469)
Public works	5,694,119	16,781		1,730,005	(3,947,333)
Health and welfare	11,047,423		7,719,214		(3,328,209)
Culture and recreation	615,841	7,603		1,350	(606,888)
Community development	2,295,702		33,373		(2,262,329)
Urban development	1,021		556		(465)
Education	524,903	115,448	122,457		(286,998)
Interest on long-term debt	1,636,028				(1,636,028)
Total governmental activities	\$36,466,277	\$ 562,442	\$ 7,936,759	\$ 1,731,355	(26,235,721)
General revenues:					
Property taxes					13,184,603
Municipal sales and use tax					2,681,184
Municipal license tax					4,238,342
Other local taxes					1,178,145
Grants and contributions not restricted to specific programs					5,473,016
Interest and investment earnings					360,157
Miscellaneous					768,097
Total general revenues					27,883,544
Change in net assets					1,647,823
Net assets - beginning, as restated					79,246,020
Net assets - ending					\$ 80,893,843

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Capital Projects Fund - Local, State & Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 3,404,781	\$ 4,153,660	\$ -	\$ 1,512,856	\$ 9,071,297
Cash with fiscal agent	1,875	13,849,855	4,467,077	259,916	18,578,723
Accounts receivable:					
Municipal license tax	31,837				31,837
Intergovernmental	226,376		51,993	148,634	427,003
Interest	3,191				3,191
Others	22,253				22,253
Due from other funds	706,572			5,415	711,987
Total assets	\$ 4,396,885	\$ 18,003,515	\$ 4,519,070	\$ 1,926,821	\$ 28,846,291
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 1,054,168	\$ 31,102	\$ -	\$ 447,688	\$ 1,532,958
Due to other governmental entities	13,036				13,036
Due to other funds		167,575		544,412	711,987
Deferred revenues:					
Municipal license tax	2,717,038				2,717,038
Federal grant revenues				870,941	870,941
Total liabilities	3,784,242	198,677	-	1,863,041	5,845,960
Fund balances:					
Reserved for:					
Encumbrances	520,264				520,264
Capital projects		17,804,838			17,804,838
Debt service fund			4,519,070		4,519,070
Other purposes	74,466			63,780	138,246
Unreserved:					
Undesignated	17,913				17,913
Total fund balances	612,643	17,804,838	4,519,070	63,780	23,000,331
Total liabilities and fund balances	\$ 4,396,885	\$ 18,003,515	\$ 4,519,070	\$ 1,926,821	\$ 28,846,291

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, 2010

	General Fund	Capital Projects Fund - Local, State & Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 9,925,119	\$ -	\$ 3,259,484	\$ -	\$ 13,184,603
Municipal sales and use tax	2,209,311		471,873		2,681,184
Municipal license taxes	4,238,342				4,238,342
Licenses, permits and other local taxes	1,261,650				1,261,650
Charges for services	83,607			119,272	202,879
Intergovernmental	5,473,016	1,651,925		412,302	7,537,243
Rent of property	352,577			7,603	360,180
Fines and forfeitures	116,606				116,606
Interest	350,283	9,874			360,157
Federal grants				7,527,685	7,527,685
Miscellaneous	219,184	1,317		108,108	328,609
Total revenues	24,229,695	1,663,116	3,731,357	8,174,970	37,799,138
Expenditures					
Current:					
General government	13,891,932			13,420	13,905,352
Public safety	2,171,157			60,101	2,231,258
Public works	3,127,314	5,122,402			8,249,716
Health and welfare	4,240,896	1,381,779		7,154,053	12,776,728
Culture and recreation	1,243,717	52,989		10,702	1,307,408
Community development	424,322			948,612	1,372,934
Urban development		825		196	1,021
Education	414,250			153,354	567,604
Debt service:					
Principal			1,730,000		1,730,000
Interest			1,695,510		1,695,510
Total expenditures	25,513,588	6,557,995	3,425,510	8,340,438	43,837,531
Excess (deficiency) of revenues over (under) expenditures	(1,283,893)	(4,894,879)	305,847	(165,468)	(6,038,393)
Other financing sources (uses)					
Transfers in	1,229,445	162,650	652,895	2,635	2,047,625
Transfers out	(98,750)	(639,999)	(485,000)	(823,876)	(2,047,625)
Long term debt issued		13,005,000		305,000	13,310,000
Total other financing sources (uses)	1,130,695	12,527,651	167,895	(516,241)	13,310,000
Net change in fund balances	(153,198)	7,632,772	473,742	(681,709)	7,271,607
Fund balance, beginning, as restated	765,841	10,172,066	4,045,328	745,489	15,728,724
Fund balance (Deficit), ending	<u>\$ 612,643</u>	<u>\$ 17,804,838</u>	<u>\$ 4,519,070</u>	<u>\$ 63,780</u>	<u>\$ 23,000,331</u>

Commonwealth of Puerto Rico
Municipality of Trujillo Alto
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
For the Year Ended June 30, 2010

Total Fund Balances - Governmental Funds \$ 23,000,331

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. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 55,557,375	
Depreciable Capital Assets, net of depreciation	<u>56,752,288</u>	
Total Capital Assets		112,309,663

Account payables related to Construction in Progress are not due and payable in the current period and, therefore, are not reported in the funds. (2,833,767)

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds (687,648)

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General bonds and notes payable	45,360,000	
LIMS repayment plan	213,854	
Property taxes debt	1,059,586	
Compensated absences	3,912,003	
Claims and judgment	<u>349,293</u>	
Total Long-Term Liabilities		<u>(50,894,736)</u>

Total Net Assets of Governmental Activities \$ 80,893,843

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, 2010

Net Change in Fund Balances - Total Governmental Funds \$ 7,271,607

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. 4,567,865

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. 314,961

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. (3,178,966)

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. (5,655)

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. 59,482

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. 1,147,960

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. (9,974,000)

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. 96,243

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. 1,235,719

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. (92,101)

Long-term claims and judgments and other notes payables 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. 204,708

Change in Net Assets of Governmental Activities \$ 1,647,823

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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 allows 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, 2010

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, 2010

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

Capital Projects Fund – Local, Federal, and State Grants- is the accounting entity in which revenues derived from local funds, federal, 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.

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, 2010

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, 2010

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, 2010

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. During the beginning of fiscal year 2008-2009, the Municipality resolved the contract signed with the Secretary of the Treasury to collect and distribute the revenues produced by the sales and use tax. As part of the new organizational chart implemented for the Finance Directorate, a new unit was created under such directorate which has been responsible to manage this function at the Municipality's level. Such decision has been beneficial for the Municipality in its search for additional increases in current revenues derived from such tax.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

E. Assets, liabilities and net assets (Continued)

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 4. Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

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

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

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

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, 2010

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. **Net Assets-**In the government-wide statements, net assets are segregated into three categories:
 - a. Invested in capital assets, net of related debt: Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
 - b. Restricted net assets: Represent net assets that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

E. Assets, liabilities and net assets (Continued)

- c. Unrestricted net assets: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

10. 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.

11. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

E. Assets, liabilities and net assets (Continued)

12. 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. Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans being provided to the municipal employees. As of the date of this report, the municipal administration has taken initial steps toward assuming such responsibility under the municipal employee's health plan.

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, 2010 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.

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, 2010.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2010, (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, 2010, 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, 2010, 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.

In addition, public funds deposited in commercial banks are fully collateralized under 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, 2010. Therefore, the Municipality's management has concluded that at June 30, 2010 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, 2010.

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 \$3,404,781, \$4,153,660 in the general fund, and capital project fund – local, state and federal grants, respectively, were fully collateralized at June 30, 2010. In the other governmental funds there were deposits with commercial banks of approximately \$1,512,856 that were fully collateralized.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

2. CASH AND CASH EQUIVALENTS (CONTINUED)

The deposits at GDB of approximately \$1,875 that is restricted for other purposes in the general fund, the \$13,849,855 that is restricted principally for capital projects in the capital project fund - local, state and federal grants and \$4,467,077 in the debt service fund, and the \$259,916 in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax*- the Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2010, the tax rates were as follows:

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

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable of \$31,837 represents filed municipal license tax returns that were uncollected as of June 30, 2010, 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 consist primarily of the amounts owed by the Municipal Revenue Collection Center (CRIM) to the Municipality, at June 20, 2010. Said amounts included the estimated amounts owed by CRIM and the Treasury Department as reflected by the annual liquidation prepared by CRIM whose main components are the following: the subsidy appropriated by the Commonwealth General Fund to the Municipality; and the annual contribution to the Municipality by the Puerto Rico Electronic Lottery; and the property taxes imposed by the Municipality and collected by CRIM. Besides, the indicated receivables included the monies owed by the Treasury Department corresponding to fines. Total receivables from all these concepts as of year end amounted to \$226,376, and are detailed as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Treasury Department	\$ 59,118
Municipal Revenue Collection Center ("CRIM")	<u>167,258</u>
Total	<u>\$ 226,376</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. RECEIVABLES (CONTINUED)

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")	\$ 51,993
Total	<u>\$ 51,993</u>

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

<u>Governmental Entity</u>	<u>Amount</u>
Department of Labor and Human Resources- Law 52 Grant	\$ 56,250
<u>Federal Program Description</u>	
Community Development Block Grant	65,668
Home Program	5,554
Homeland Security Program	<u>21,162</u>
Total	<u>\$ 148,634</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2010, and interfund transfers during the fiscal year ended at June 30, 2010, 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 Projects Fund Local, State, and Federal Grants	Reimbursable Expenditures	\$ 167,575
General Fund	Other Governmental Funds (Law 52 Proposal, Housing Voucher Program, and Section 8 Moderate Program)	Reimbursable Expenditures	538,997
Other governmental funds (HOPWA)	Other governmental funds (Housing Voucher Program)	Reimbursable Expenditures	<u>5,415</u>
Total			<u>\$711,987</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

4. INTERFUND TRANSACTIONS (CONTINUED)

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Debt Service Fund	General Fund	Transfer of funds	\$ 485,000
General Fund	Capital Projects Fund – Local, State & Federal Grants	Capital Projects	98,750
Capital Projects Fund – Local, State & Federal Grants	General Fund	Transfer of funds for operations	557,867
Other Governmental Funds	General Fund	Transfer of funds for operations	109,815
Capital Projects Fund – Local, State & Federal Grants	Debt Service Fund	Debt Retirement	82,132
Other Governmental Funds	General Fund	Transfer of funds for operations	76,763
Other Governmental Funds	Capital Projects Fund – Local, State & Federal Grants	Transfer of funds	66,535
Other Governmental Funds	Debt Service Fund	Debt Retirement	<u>570,763</u>
Total			<u>\$ 2,047,625</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. CAPITAL ASSETS

Capital assets; those with an estimated useful live 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 2010, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
Capital asset, not being depreciated:				
Land	\$ 41,074,588	\$ 274,213	\$ -	\$ 41,348,801
Construction in progress	<u>16,208,321</u>	<u>4,061,640</u>	<u>(6,061,387)</u>	<u>14,208,574</u>
Total capital assets not being depreciated	<u>57,282,909</u>	<u>4,335,853</u>	<u>(6,061,387)</u>	<u>55,557,375</u>
Capital assets, being depreciated:				
Buildings	33,503,363	623,424		34,126,787
Buildings improvements	14,080,700	4,644,034		18,724,734
Infrastructure	17,562,660	35,648		17,598,308
Infrastructure improvements	8,198,818	794,289		8,993,107
Equipment	2,115,436	313,922	(54,355)	2,375,003
Furnishing	1,206,716	20,446	(13,389)	1,213,773
Computers	521,285	100,597	(44,411)	577,471
Vehicles	<u>6,457,474</u>	<u>76,000</u>	<u>(29,942)</u>	<u>6,503,532</u>
Total capital assets being depreciated	<u>83,646,452</u>	<u>6,608,360</u>	<u>(142,097)</u>	<u>90,112,715</u>
Less accumulated depreciation for:				
Buildings	(7,080,271)	(849,082)		(7,929,353)
Buildings improvements	(940,902)	(426,281)		(1,367,183)
Infrastructure	(11,000,342)	(439,181)		(11,439,523)
Infrastructure improvements	(2,569,957)	(617,980)		(3,187,937)
Equipment	(1,614,935)	(231,690)	49,404	(1,797,221)
Furnishing	(868,468)	(173,324)	13,229	(1,028,563)
Computers	(431,976)	(64,671)	43,867	(452,780)
Vehicles	<u>(5,811,052)</u>	<u>(376,757)</u>	<u>29,942</u>	<u>(6,157,867)</u>
Total accumulated depreciation	<u>(30,317,903)</u>	<u>(3,178,966)</u>	<u>136,442</u>	<u>(33,360,427)</u>
Total capital assets being depreciated, net	<u>53,328,549</u>	<u>3,429,394</u>	<u>(5,655)</u>	<u>56,752,288</u>
Governmental activities capital assets, net	<u>\$110,611,458</u>	<u>\$ 7,765,247</u>	<u>\$ (6,067,042)</u>	<u>\$112,309,663</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	\$ 1,176,391
Public safety	173,195
Public works	937,743
Culture and recreation	626,625
Health and welfare	57,691
Community development	200,337
Education	<u>6,984</u>
Total depreciation expense-governmental activities	<u>\$ 3,178,966</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 collections exceeded advances by \$167,258.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. PROPERTY TAXES (CONTINUED)

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 2010, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$1,059,586.

The annual tax rate, as amended in April 2010, 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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%. Subsequent to the approval of such tax by the Municipal Legislature, through the approval of Act No. 117 of July 4, 2006 the Commonwealth Legislative Assembly approved the levy of a seven (7%) percent sales and use tax. Out of such percentage, 1.5% should be imposed and collected by the Municipality and the remaining 5.5% by the Secretary of the Treasury. According to the Legislation in effect as of June 30, 2010, the product of the 1.5% to be collected by the Municipality is distributed as follows: 1% is retained by each municipal government; 0.5% must be remitted to the Secretary of the Treasury to be deposited as follows in a separate new funds under the custody of the Government Development Bank: 0.2% in the Municipal Development Fund; 0.2% in the Municipal Redemption Fund; and 0.1% in Municipal Improvement Fund. The remaining 5.5% will revert to the General Fund of the Commonwealth Government. The Municipality can transfer up to 50% of the Municipal Development Fund to the Municipal Redemption Fund. The Municipality collected \$2,209,119 during the year ended June 30, 2010. Also, \$471,873 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, 2010 are summarized as follows:

Description	General Fund	Capital Projects Fund-Local & State Grants	Debt Service Fund	Other Governmental Funds	Total
Accounts payable	\$ 407,457	\$ 31,102	\$ -	\$ 447,688	\$ 886,247
Accrued liabilities	<u>646,711</u>	-	-	-	<u>646,711</u>
Total	<u>\$ 1,054,168</u>	<u>\$ 31,102</u>	<u>\$ -</u>	<u>\$ 447,688</u>	<u>\$ 1,532,958</u>

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	\$ 250
Department of Labor - Unemployment Program	13
Puerto Rico Aqueduct and Sewer Authority	<u>12,773</u>
Total	<u>\$ 13,036</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

10. DEFERRED REVENUES

- A. Municipal License Tax-** The deferred revenues of \$2,717,038 in the general fund relates to municipal license tax collected in fiscal year 2009-10 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	\$ 478,831
Housing Opportunities for Persons with AIDS	81,958
Regional Community Program	174,723
Title III	27,657
Public Assistance Grant	69,920
Others	<u>37,852</u>
Total	<u>\$ 870,941</u>

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2010, 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	\$27,836,000	\$11,020,000	\$(2,596,000)	\$ 36,260,000	\$ 1,285,000
Notes Payable	7,550,000	2,290,000	(740,000)	9,100,000	550,000
Note Payable-PRIDCO	76,500	-	(76,500)	-	-
LIMS Repayment Plan	346,325	-	(132,471)	213,854	140,470
Property Tax Debt- Law 146	1,107,749	-	(48,163)	1,059,586	48,163
Property Tax Debt -Treasury	82,924	-	(82,924)	-	-
Property Tax Debt - Advances	972,161	-	(972,161)	-	-
Claims and judgments	477,501	80,000	(208,208)	349,293	349,293
Retirement Adm.-Special Laws	96,243	-	(96,243)	-	-
Compensated Absences	<u>3,819,902</u>	<u>549,090</u>	<u>(456,989)</u>	<u>3,912,003</u>	<u>475,000</u>
Total	<u>\$42,365,305</u>	<u>\$13,939,090</u>	<u>\$(5,409,659)</u>	<u>\$ 50,894,736</u>	<u>\$ 2,847,926</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2010
2010 Series	7-1-2030	\$ 5,930,000	6.00% to 7.50%	\$ 5,930,000
2010 Series	7-1-2033	\$ 5,090,000	7.00%	5,090,000
2009 Series	7-1-2034	1,185,000	2.43% to 7.50%	1,170,000
2008 Series	7-1-2033	\$ 2,565,000	2.43% to 7.50%	2,490,000
2005 Series	7-1-2030	3,820,000	4.38% to 5.02%	3,505,000
2004 Series	7-1-2027	5,430,000	4.38% to 5.02%	4,655,000
2004 Series	7-1-2027	355,000	4.38% to 5.02%	305,000
2004 Series	7-1-2027	255,000	4.17% to 5.02%	220,000
2002 Series	7-1-2026	3,985,000	4.10% to 5.60%	3,405,000
1998 Series	7-1-2022	11,230,000	5.78% to 6.56%	8,315,000
1994 Series	7-1-2013	3,390,000	7.71%	<u>1,175,000</u>
Total general obligation bonds				<u>\$ 36,260,000</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
2011	\$ 1,285,000	\$ 1,937,864
2012	1,385,000	2,173,991
2013	1,495,000	2,083,826
2014	1,600,000	1,986,709
2015	1,365,000	1,895,886
2016-2020	8,495,000	8,054,506
2021-2025	9,945,000	5,007,119
2026-2030	7,950,000	2,184,496
2031-2035	<u>2,740,000</u>	<u>353,940</u>
Total	<u>\$ 36,260,000</u>	<u>\$ 25,678,337</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010</u>
2010 Series	7-01-20	305,000	4.75% to 7.50%	\$ 305,000
2010 Series	7-01-20	1,985,000	6.00% to 7.50%	1,985,000
Section 108 - Series 2003-A	8-01-23	\$ 4,000,000	Variable	2,740,000
2005 Series	1-31-12	1,455,000	4.38% to 4.62%	470,000
2008 Series	7-01-32	3,705,000	7.50%	<u>3,600,000</u>
Total notes payable				<u>\$ 9,100,000</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 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>
2011	\$ 550,000	\$ 324,527
2012	795,000	553,119
2013	580,000	511,582
2014	610,000	473,118
2015	640,000	432,307
2016-2020	2,430,000	1,639,852
2021-2025	1,690,000	1,054,153
2026-2030	1,210,000	592,500
2031-2035	<u>595,000</u>	<u>132,750</u>
Total	<u>\$ 9,100,000</u>	<u>\$ 5,713,908</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 said entity. 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, 2010, the outstanding debt balance is \$213,854. 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, 2010

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, 2010 as described in Note 6.
6. **Compensated absences-** The government-wide statement of net assets includes approximately \$1,873,535 of accrued sick leave benefits, and approximately \$2,038,468 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

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 Legislative Assembly of the Government of Puerto Rico. 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 a deferred annuity 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 OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

12. PENSION PLAN (CONTINUED)

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, 2010 amounted to approximately \$805,419. 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.

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, 2010, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940-2003.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

13. RISK MANAGEMENT

The Property Division, attached to 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, 2010, 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, would not to be material.

B. Claims and lawsuits:

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

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$349,293 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 that based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2010:

- a. GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for periods beginning after June 15, 2010.
- b. 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.

16. PRIOR PERIOD ADJUSTMENTS

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, and Federal Grants	Debt Service Fund	Other Governmental Funds	Total
Fund balance beginning	\$ 765,841	\$ 10,172,066	\$ 4,045,328	\$ 625,795	\$ 15,609,030
To adjust due from governmental entity				(3,698)	(3,698)
To restate cash balance	-	-	-	123,392	123,392
Fund balance, beginning as restated	<u>\$ 765,841</u>	<u>\$ 10,172,066</u>	<u>\$ 4,045,328</u>	<u>\$ 745,489</u>	<u>\$ 15,728,724</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

16. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

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	\$ 88,183,415
To adjust due from governmental entities	(3,698)
To restate cash balance	123,392
To adjust construction in progress amounts for projects reclassified and completed in prior years	<u>(9,057,089)</u>
Net assets, beginning as restated	<u>\$ 79,246,020</u>

17. SUBSEQUENT EVENTS

On September 21, 2010, the Municipal Legislature approved the issuance of a special obligation note for the amount of \$441,000, for the acquisition of waste disposal trucks. Repayment of said note is scheduled from July 2011 through July, 2017.

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

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

YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis) (See Note 1)	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 8,570,755	\$ 9,255,834	\$ 9,347,455	\$ 91,621
Municipal license tax	4,662,000	4,662,000	4,664,878	2,878
Municipal sales and use tax	3,030,000	3,030,000	2,422,885	(607,115)
Licenses, permits and other local taxes	2,400,000	2,400,000	1,188,145	(1,211,855)
Intergovernmental	4,292,122	4,292,122	4,300,834	8,712
Rent of property	513,000	513,000	499,964	(13,036)
Interest	425,000	425,000	345,471	(79,529)
Miscellaneous	<u>840,000</u>	<u>840,000</u>	<u>739,761</u>	<u>(100,239)</u>
Total revenues before carryover	<u>24,732,877</u>	<u>25,417,956</u>	<u>23,509,393</u>	<u>(1,908,563)</u>
Budget carryover (1)	<u>-</u>	<u>103,000</u>	<u>103,000</u>	<u>-</u>
Total revenues, including budget carryover	<u>24,732,877</u>	<u>25,520,956</u>	<u>23,612,393</u>	<u>(1,908,563)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	13,082,948	13,721,504	13,022,640	698,864
Public safety	2,342,475	2,169,770	2,149,593	20,177
Public works	3,052,680	3,046,503	3,043,489	3,014
Health and welfare	3,979,867	4,389,514	4,178,765	210,749
Culture and recreation	1,400,766	1,330,852	1,226,237	104,615
Community development	430,267	430,456	422,122	8,334
Education	<u>443,874</u>	<u>432,357</u>	<u>409,915</u>	<u>22,442</u>
Total expenditures, encumbrances and other financing uses	<u>24,732,877</u>	<u>25,520,956</u>	<u>24,452,761</u>	<u>1,068,195</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (840,368)</u>	<u>\$ (840,368)</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				\$ 23,612,393
Differences-budget to GAAP:				
Budget carryover				(103,000)
GAAP adjustments to revenues				720,302
Nonbudgeted transfer-in				<u>1,229,445</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 25,459,140</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

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

YEAR ENDED JUNE 30, 2010

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 24,452,761
Differences-budget to GAAP:	
Nonbudgeted expenditures	685,014
Operating transfer out to other funds	98,750
Prior year encumbrances recorded as current year expenditures for GAAP basis	<u>375,813</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 25,612,338</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, 2010

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, 2010 representing original budget. There were no supplemental appropriations for the year ended June 30, 2010.

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

SCHEDULE OF FEDERAL EXPENDITURES AWARDS

YEAR ENDED JUNE 30, 2010

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		\$ 842,837
Direct Program:			
Home Investment Partnership Program	14.239		587,822
Direct Program:			
Community Development Block Grants - Section 108 Loan Guarantee	14.248		825
Direct Program:			
ARRA-Community Development Block Grant ARRA Entitlement Grant(CDBG-R) (Recovery Act funded)	14.253		72,402
Direct Program:			
Homeless Prevention and Rapid Re- Housing (Recovery Act funded)	14.257		31,150
Direct Program:			
Section 8 Housing Choice Voucher	14.871		3,544,509
Direct Program:			
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856		1,414,513
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	24,223
Total U.S. Department of Housing and Urban Development:			6,518,281

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

SCHEDULE OF FEDERAL EXPENDITURES AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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>33,373</u>
Total U.S. Department of Transportation			<u>33,373</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance	97.036		1,983
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Homeland Security Grant Program	97.067		<u>52,994</u>
Total U.S. Department of Homeland Security			<u>54,977</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	17,881
Nutrition Services Incentives Program	93.053	Not Available	<u>160,277</u>
Total U.S. Department of Health and Human Services			<u>178,158</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$6,784,789</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, 2010

1. BASIS OF PRESENTATION:

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

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Capital Projects Fund – 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	Capital Projects-Local & Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	825	\$6,783,964	\$6,784,789
Non - federal programs Expenditures	\$6,557,170	1,556,474	8,113,644
Total expenditures in the fund financial statements	<u>\$6,557,995</u>	<u>\$8,340,438</u>	<u>\$14,898,433</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. SUBRECIPIENTS:

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Community Development Block Grants/Entitlement Grants	14.218	<u>\$29,585</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Trujillo Alto, Puerto Rico**, as of and for the year ended June 30, 2010, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 28, 2010. 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item **10-01**. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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)**

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 December 28, 2010.

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.

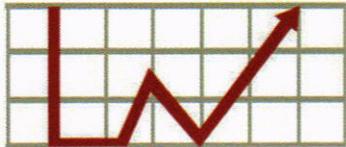
This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 28, 2010

Stamp No. 2575458 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

Member of:

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

INDEPENDENT AUDITOR'S 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, 2010. 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 identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010. 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 **10-02** thru **10-04**.

INDEPENDENT AUDITOR'S 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

Management of the **Municipality of Trujillo Alto** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Trujillo Alto's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Trujillo Alto's** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items **10-02** through **10-04**. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Certified Public Accountants / Management Advisors

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Trujillo Alto** in a separate letter dated March 23, 2011.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 23, 2011

Stamp No. 2575459 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**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

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 X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported

Type of auditor’s report issued on compliance for major programs:	Unqualified	
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No
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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
14.871	Section 8 Housing Choice Vouchers

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section II – Financial Statements Findings

Finding Reference **10-01**

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 OCMA].

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, 2010

Section II – Financial Statements Findings

Finding Reference **10-01 (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, 2010

Section III – Major Federal Program Award Findings and Questioned Costs

Finding Reference	10-02
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Financial Reporting
Statement of Condition	SF-425, Federal Financial Report (cash status only) was not submitted for the fiscal year ended June 30, 2010.
Criteria	24 CFR, Subtitled A, Subpart C, Section 85.41 states (a) General (1) Except as provided in paragraphs (a) (2) and (5) of this section, grantees will use only the forms specified in paragraphs (a) through (e) of this section, and such supplementary or other forms as may from time to time be authorized by OMB, for: (i) Submitting financial reports to Federal agencies. Also, Section (b) states that grantees will use Standard Form to report the status of funds for all non-construction grants and for construction grants when required in accordance with 85.41(e)(2)(iii) of this section. Also, Section 85.41 (c) (ii) states that these reports will used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees. The format of the report may be adapted as appropriate when reporting is to be accomplished with the assistance of automatic data processing provided that the information to submitted id not changed in substance.
Cause of Condition	The Program financial management failed to report the disclosure of the financial results and failed to have available for examination by us during the application of planned audit procedures.
Effect of Condition	The Program is not in compliance with the Code of Federal Regulation 24, Subpart C, Sec. 85.41.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-02 (continued)**

Recommendation We recommend that Program should implement procedures in order to assure that all Financial Status Report are prepared and submitted on time. Also, we recommend that the Program's Management instruct the Program accounting staff to prepare financial reporting with accurate, current, and completed disclosure of the financial results of financially assisted activities.

Questioned Costs None

**Management Response
and Corrective Action** The Federal Program submitted evidence of SF-425, Federal Financial Report, for program EECBG. The Program will verify the submittal of the quarterly financial reports through E-Snap system and the financial reports to HUD for CDBG and HPRP programs.

Implementation Date: Immediately

Responsible Person: Mrs. Cecilia Cruz Donate-Federal Programs Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs

Finding Reference	10-03
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, 2010.
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, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-03 (Continued)**

Questioned Costs None

**Management Response
And Corrective Action**

The CDBG program consultant meets with HUD personnel for training in completing form HUD-60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-income Persons, (OMB No.2529-0043). Implementation will be immediate.

Implementation date: Immediately

Responsible Person: Mrs. Cecilia Cruz Donate-Federal Programs
Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Program Award Findings and Questioned Costs

Finding Reference	10-04
Program	Section 8 Housing Choice Vouchers (CFDA. No. 14.871); U.S. Department of Housing and Urban Development
Requirement	Special Test
Statement of Condition	We noted that the Section 8 Housing Choice Voucher Program did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999)
Criteria	24 CFR Subpart D, Section 982.156 states. (c) The PHA must enter into an agreement with the depository in the form required by HUD. (d) If required under a written freeze notice from HUD to the depository: (i) The depository may not permit any withdrawal by the PHA of funds held under the depository unless expressly authorized by written notice from HUD to the depository; and (ii) The depository must permit withdrawals of such funds by HUD. (2) HUD must send the PHA a copy of the freeze notice from HUD to the depository.
Cause of Condition	The Program is not performing an effective review of compliance requirement that are required by HUD.
Effect of Condition	The PHA is not in compliance with laws and established regulation as prescribed by HUD.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-04 (continued)**

Recommendation Procedures should be implemented to ascertain that the PHA complies with the established Federal Regulation, as prescribed by HUD.

Questioned Costs None

Management Response The Municipality's management concurs with the finding. The Program will complete the form and request that the depository bank sign it, to comply with the special test as established by HUD regulations.

Implementation Date: Immediately

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, 2010

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-02	14.218	<p><u>HUD-60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons, (OMB No. 2529-0043) was not submitted for the fiscal year ended June 30, 2009.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-03.</p>
09-03	14.239	<p><u>During our examination of reporting requirements we noted the following exceptions: 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 program's 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.</u></p> <p>Corrective action was taken.</p>