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COMMONWEALTH OF PUERTO RICO APR-2 PH 22

**AUTONOMOUS MUNICIPALITY OF
TRUJILLO ALTO**

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

Year Ended June 30, 2012



Municipality of Trujillo Alto, P.O. Box 1869, Trujillo Alto, Puerto Rico 00977
Hon. José L. Cruz Cruz

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

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

YEAR ENDED JUNE 30, 2012

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

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

YEAR ENDED JUNE 30, 2012

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
the Municipal Legislature
Autonomous 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 **Autonomous Municipality of Trujillo Alto, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2012, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinion.

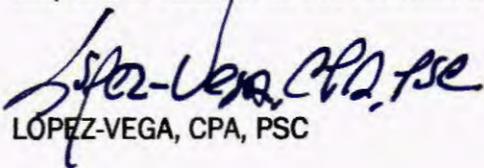
In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Trujillo Alto, Puerto Rico**, as of June 30, 2012, 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 12, 2013, 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 56 be presented to supplement the basic financial statements. Such information, although not a 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 **Autonomous Municipality of Trujillo Alto's** financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and related 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 basic 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.


LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 7, 2012

Stamp No. 2632100 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
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

The **Autonomous 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, as amended. 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, contributions from the Traditional and Electronic Lottery sponsored by said Government, and the Contribution in Lieu of Taxes (PILOT) that according to Act No. 83, 1941, as amended, the Puerto Rico Electric Power Authority (PREPA) must pay to the Municipalities.

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 2012. 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. However, such expectations have been adversely affected as a result of a more than seven (7) year recession being suffered by the island of Puerto Rico.

This discussion and analysis of the **Autonomous 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, 2012. 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, 2011. 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 2011-2012 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
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012

FINANCIAL HIGHLIGHTS

During the fiscal year 2011-2012, the economic environment of the Commonwealth of Puerto Rico continued to suffer the adverse results of a recession that has been occurring during the past 7 years. Considering this economic reality, the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2012, 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 2012 amounted to \$80,274,996, or fifty two percent (52%) of total assets.
2. The Municipality's total Net Assets decreased by \$2,682,395 which represents a 3% reduction when compared with prior fiscal year 2011. Such decrease is mainly attributable to the adverse effects reflected in the collections of the Municipality's property taxes for fiscal year 2011-2012 which were mainly caused by an additional and special property tax levied by the Puerto Rico Legislative Assembly. The proceeds of said tax were collected by the Secretary of the Treasury and for the exclusive benefit of the Commonwealth Government's General Fund. It is management's opinion that through this type and other similar legislation, the Municipalities have been subsidizing the central government's General Fund.
3. As of the end of fiscal year 2011-2012, the Municipality's Governmental Funds reported combined ending fund balances of \$23,749,618, in the Balance Sheet, or a decrease of \$4,263,875 under the similar figure corresponding to the previous fiscal year 2010-2011.
4. As of the end of the fiscal year 2011-2012, the deficit of the Municipality's General Fund amounted to \$1,736,394 or \$2,634,133 under the corresponding figure for previous fiscal year. Although such balance looks reasonable under prevailing economic constraints, management is aware that in order to improve the Municipality's rate of return, strict measures must be implemented and strengthened to increase revenues and attain further reductions in current expenses.
5. As reflected in the Budgetary Comparison Schedule-General Fund attached hereto, as of June 30, 2012, the actual budgetary activities resulted in an unfavorable balance of \$3,061,073. Such balance is mainly attributable to a significant negative variance that in the amount of \$4,446,106 was reflected in actual revenues derived from Licenses, Permits and other local taxes.
6. At the end of fiscal year 2012, total liabilities amounted to \$73,886,991. Out of said amount, \$63,909,771 corresponded to long-term liabilities of which \$49,245,000 and \$8,801,000 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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012

FINANCIAL HIGHLIGHTS (CONTINUED)

7. The Municipality has maintained an aggressive capital improvement program. As of June 30, 2012, prior year construction work in process included the improvement of several recreational facilities including the Municipal Coliseum, construction of roads, sidewalks and pluvial infrastructure. Current year construction in progress includes \$11 million dollars for improvements in various recreational facilities and infrastructure, including the design phase for the Diabetes Medical Center and Hospital.
8. 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. Since the year 2006, the annual payments of PILOT made by PREPA to the Municipalities, have showed certain deviations from the formula established by law. The Municipality of Trujillo Alto and the Puerto Rico Majors Association have raised their written concerns to PREPA's management with respect to this matter, but as of this date no affirmative action has been taken said public corporation. The indicated inconsistencies have been detected during those years in which the amount payable to the local governments is equivalent to the dollar value of the municipalities annual electric power consumption billed by PREPA, and its annual net revenues have not been sufficient to satisfy full payment of PILOT.

According to the Municipalities, the annual payments of PILOT have been underestimated, a situation which from the perspective of the affiliated mayors of the Puerto Rico Majors Association, has adversely affected the Municipal General Fund revenues for more than five years.

The aforementioned situation might get worse upon approval by de Puerto Rico Legislative Assembly of Act Number 233 of December, 2011. Said Act provides for an additional amendment to Section 22b of PREPA organic Act with respect to the formula for the PILOT annual calculation. According to the amendment, the annual electric power consumption of those municipal installations which produces rent or other income to the municipalities, must be eliminated from the PILOT computation, when electric power consumption is the main factor in the formula to be applied. When implemented, such adjustment might reduce current income and might increase electric power expense account of the Municipal General Fund."

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2012

FINANCIAL HIGHLIGHTS (CONTINUED)

Management feels satisfied with the financial condition and results of operations reflected by the audited financial statements prepared as of June 30, 2012. It is its contention that in spite of the more than six 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 to keep and expand public essential services to its constituents. However, as previously indicated, management is aware also that such performance might significantly change in the future, if 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 2012. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

FINANCIAL STATEMENTS COMPONENTS

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

The Statement of Net Assets reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

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 **Autonomous Municipality of Trujillo Alto**, as of June 30, 2012, such figure amounted to \$80,274,996 a decrease of \$2,682,395 over previous year 2011, as restated, and represents fifty two percent (52%) of the total assets. Such decrease is due to the reasons previously stated. 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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

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, 2012, shows total expenses incurred to afford the cost of all functions and programs amounted to \$45,101,434. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that the amount of \$13,044,391 was derived from the following sources: \$730,872 charges for services; \$11,492,076 from operating grants and contributions; and \$821,443 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$29,374,648. When such figure is added to the \$13,044,391 previously mentioned, total revenues available for the financing of activities amounted to \$42,419,039. There was a deficiency of revenues over expenses in the amount of \$2,682,395. The main causes of this deficiency have been previously explained.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole.

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

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

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

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets. During the previous fiscal years, the Municipality reported historical costs of infrastructure assets corresponding to years prior to July 1, 2002 amounting to \$17,562,660 including accumulated depreciation for \$11,000,342. This year, depreciation expense for this classification amounted to \$456,093. Net value of infrastructure assets as of fiscal year end 2012 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

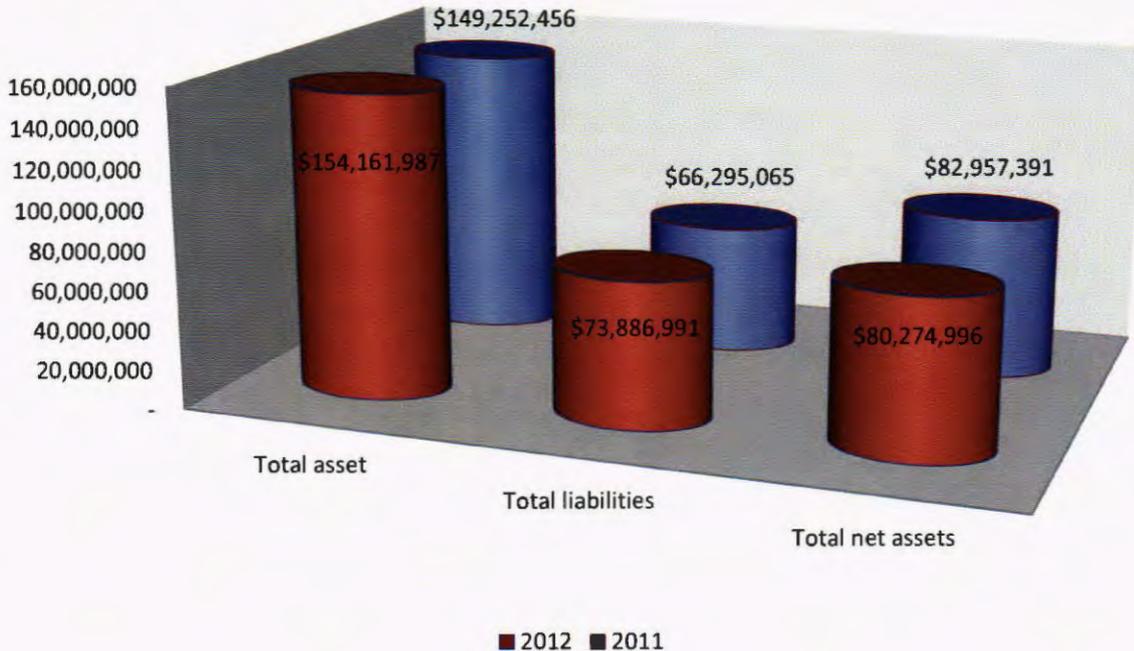
Net Assets

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 **Autonomous Municipality of Trujillo Alto**, primary government assets exceeded total liabilities by \$80,274,996 at the end of 2012, as compared with \$82,957,391, which reflect a decrease of \$2,682,395 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 \$(2,682,395) decrease reflected in the Net Assets figure.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

| Condensed Statement of Net Assets | 2012 | 2011 | Change | % |
|---|----------------------|----------------------|-----------------------|------------|
| Current and other assets | \$ 30,215,933 | \$ 33,406,306 | \$ (3,190,373) | (10)% |
| Capital assets | 123,946,054 | 115,846,150 | 8,099,904 | 7% |
| Total assets | 154,161,987 | 149,252,456 | 4,909,531 | 3% |
| Current and other liabilities | 9,977,220 | 8,305,674 | 1,671,546 | 20% |
| Long-term liabilities | 63,909,771 | 57,989,391 | 5,920,380 | 10% |
| Total liabilities | 73,886,991 | 66,295,065 | 7,591,926 | 11% |
| Invested in capital assets, net of related debt | 66,695,055 | 64,085,150 | 2,609,905 | 4% |
| Restricted | 24,246,921 | 26,361,631 | (2,114,710) | (8)% |
| Unrestricted deficit | (10,666,980) | (7,489,390) | (3,177,590) | (42)% |
| Total net assets | \$ 80,274,996 | \$ 82,957,391 | \$ (2,682,395) | 3% |



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

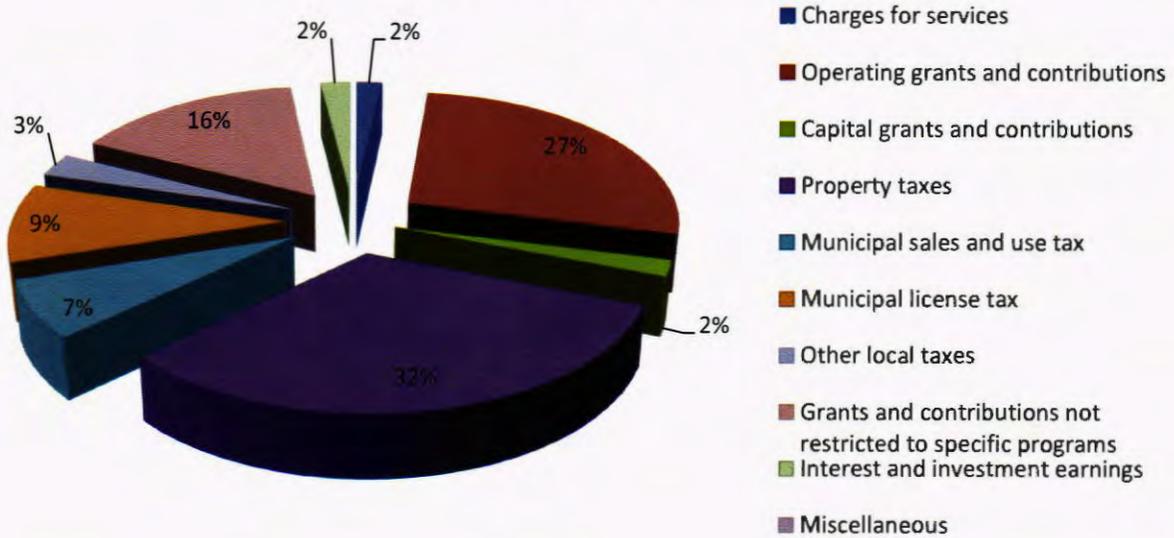
The Statement of Activities reflects that for fiscal year 2012, the net effect of the revenues derived from several programs plus current operating expenses, amounted to a deficit of \$2,682,395. As previously stated, such amount constituted a decrease in the Municipality's net assets. Approximately fifty one percent (51%) of the Municipality's total revenue came from taxes, while forty five percent (45%) resulted from grants and contributions, including federal aid. Charges for Services provided two percent (2%) and Interest and Investment earnings two percent (2%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development, 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, 2012 and 2011. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

| Condensed Statement of Activities | 2012 | 2011 | Change | % |
|--|-------------------|-------------------|------------------|-------------|
| Program revenues: | | | | |
| Charges for services | \$ 730,872 | \$ 317,280 | \$ 413,592 | 130% |
| Operating grants and contributions | 11,492,076 | 10,690,383 | 801,693 | 7% |
| Capital grants and contributions | 821,443 | 950,112 | (128,669) | (14)% |
| General revenues: | | | | |
| Property taxes | 13,639,453 | 14,021,753 | (382,300) | 3% |
| Municipal sales and use tax | 2,965,331 | 2,980,643 | (15,312) | (1)% |
| Municipal license tax | 4,045,269 | 4,159,923 | (114,654) | (3)% |
| Other local taxes | 1,165,450 | 1,115,843 | 49,607 | 4% |
| Grants and contributions not restricted to specific programs | 6,617,475 | 6,302,610 | 314,865 | 5% |
| Interest and investment earnings | 850,397 | 969,239 | (118,842) | (12)% |
| Miscellaneous | 91,273 | 1,662,272 | (1,570,999) | (95)% |
| Total revenues | 42,419,039 | 43,170,058 | (751,019) | (2)% |
| Expenses: | | | | |
| General government | 17,770,251 | 16,316,484 | 1,453,767 | 27% |
| Public safety | 2,242,032 | 2,136,607 | 105,425 | 5% |
| Public works | 6,467,957 | 6,682,261 | (214,304) | (3)% |
| Culture and recreation | 479,158 | 469,936 | 9,222 | 2% |
| Economic Development | 426,744 | - | 426,744 | 100% |
| Health and welfare | 13,161,745 | 11,668,794 | 1,492,951 | 13% |
| Community development | 816,532 | 1,027,762 | (211,230) | (21)% |
| Education | 609,214 | 666,808 | (57,594) | 7% |
| Urban development | 528,399 | 44,145 | 484,254 | 1096% |
| Interest on long-term debt | 2,599,402 | 2,093,713 | 505,689 | 24% |
| Total expenses | 45,101,434 | 41,106,510 | 3,994,924 | 10% |
| Change in net assets | (2,682,395) | 2,063,548 | (4,745,943) | (230)% |
| Net assets, beginning of year | \$ 82,957,391 | \$80,893,843 | 2,063,548 | 3% |
| Net assets, end of year | \$ 80,274,996 | \$ 82,957,391 | \$ (2,682,395) | 3% |

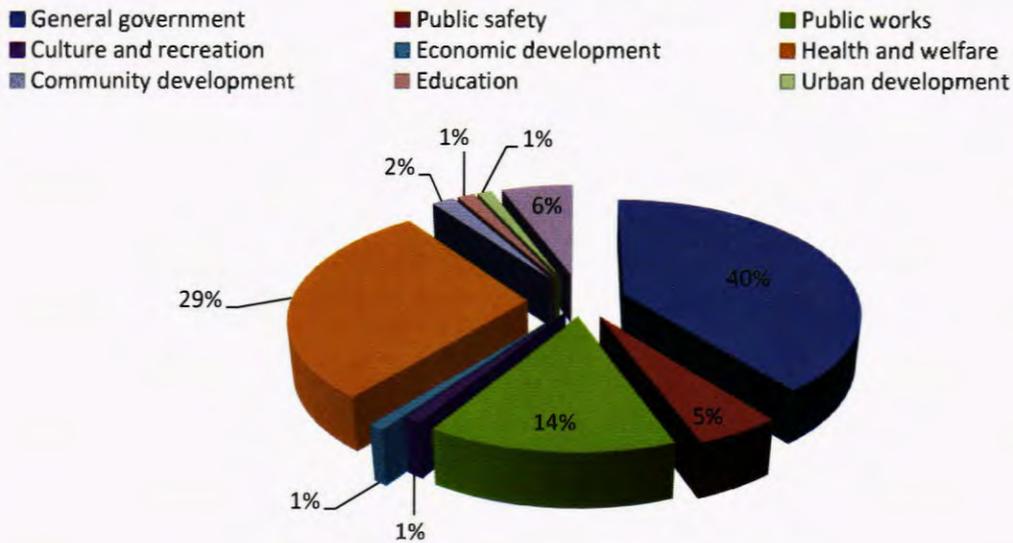
**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2012



Expenses 2012



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012

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 \$23,749,618, which represents a decrease of \$4,263,875 when compared with the prior year, as restated. There are reservations of fund balance amounting to \$25,852,747. The combined fund balances include restricted fund balance amounting to \$24,406,349. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes (\$1,573,971); 2) to pay for capital projects (\$16,434,655); 3) to pay debt services (\$6,397,723). There are committed fund balance amounting to \$1,120,926 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions to pay for capital projects. There are assigned fund balances amounting to \$177,700 that represent resources for specific purposes but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor) to pay for capital projects.

As of June 30, 2012, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of \$2,103,129.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2011-2012, 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. Upon considering the indicated budget readjustments, and as reflected in the Budgetary Comparison Schedule-General Fund, attached hereto, the net result of operating revenues and current expenditures produced a deficit of \$3,061,073.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2012, amounted to \$163,664,372 which upon deduction of accumulated depreciation in the amount of \$39,718,318 produced a net book value attributable to capital assets in the amount of \$123,946,054. 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. The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately six percent (6%) of net book value. This increase was due to an aggressive construction and improvement of public facilities plan. Depreciation charges for the year totaled \$3,880,582.

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, 2012, the Municipality had \$15,169,907 of unexpended proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Capital Projects Fund- Local, State and Federal Grants and waste disposal obligations in the General Fund.

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, as amended, also known as Financing Municipal Act. Such Act requires a Municipality must have sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. In the particular case of the **Autonomous 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
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2012

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. State grant revenues may vary if new grants are available, but the revenue can be also predictable. Due to economic and budgetary constriction being faced by the Federal Government, grants available for present and future years could be reduced for states and territories. Although specific reductions are unpredictable, those factors are being considered by the Municipality in the confection of 2012-2013 and subsequent fiscal years budgets.

FINAL COMMENTS

On August 2012, the Municipal Legislature approved the issuance of a special obligation bond for the amount of \$1,400,000, for the payment of principal and interest of rental bond of \$5,090,000 and the liquidation of CRIM debt of \$940,425.

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
Autonomous Municipality of Trujillo Alto
Statement of Net Assets
June 30, 2012

| | Governmental Activities |
|--|------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 7,105,343 |
| Cash with fiscal agent | 22,480,897 |
| Accounts receivable: | |
| Municipal license tax | 107,088 |
| Intergovernmental | 414,381 |
| Interest | 75,719 |
| Others | 32,505 |
| Capital assets | |
| Land, improvements, and construction in progress | 51,519,505 |
| Other capital assets, net of depreciation | 72,426,549 |
| Total capital assets | 123,946,054 |
| Total assets | 154,161,987 |
| Liabilities | |
| Accounts payable and accrued liabilities | 4,534,988 |
| Due to other governmental entities | 10,333 |
| Deferred revenues: | |
| Municipal license tax | 2,995,116 |
| Federal grant revenues | 980,602 |
| Interest payable | 1,456,181 |
| Noncurrent liabilities: | |
| Due within one year | 3,805,401 |
| Due in more than one year | 60,104,370 |
| Total liabilities | 73,886,991 |
| Net Assets | |
| Invested in capital assets, net of related debt | 66,695,055 |
| Restricted for: | |
| Capital projects | 17,480,291 |
| Debt service | 4,941,542 |
| Other purposes | 1,825,088 |
| Unrestricted (deficit) | (10,666,980) |
| Total net assets | \$ 80,274,996 |

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

Commonwealth of Puerto Rico
Autonomous Municipality of Trujillo Alto
Statement of Activities
For the Year Ended June 30, 2012

| 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 | \$17,770,251 | \$ 517,742 | \$ 355,683 | \$ - | \$ (16,896,826) |
| Public safety | 2,242,032 | 34,983 | 58 | | (2,206,991) |
| Public works | 6,467,957 | 17,826 | | 392,871 | (6,057,260) |
| Health and welfare | 13,161,745 | | 10,407,227 | | (2,754,518) |
| Culture and recreation | 479,158 | 62,212 | 1,500 | 428,572 | 13,126 |
| Economic development | 426,744 | | 655,262 | | 228,518 |
| Community development | 816,532 | | 25,808 | | (790,724) |
| Urban development | 528,399 | | 160 | | (528,239) |
| Education | 609,214 | 98,109 | 46,378 | | (464,727) |
| Interest on long-term debt | 2,599,402 | | | | (2,599,402) |
| Total governmental activities | \$45,101,434 | \$ 730,872 | \$11,492,076 | \$ 821,443 | (32,057,043) |
| General revenues: | | | | | |
| | | | | | 13,639,453 |
| Property taxes | | | | | 2,965,331 |
| Municipal sales and use tax | | | | | 4,045,269 |
| Municipal license tax | | | | | 1,165,450 |
| Other local taxes | | | | | 6,617,475 |
| Grants and contributions not restricted to specific programs | | | | | 850,397 |
| Interest and investment earnings | | | | | 91,273 |
| Miscellaneous | | | | | |
| Total general revenues | | | | | 29,374,648 |
| Change in net assets | | | | | (2,682,395) |
| Net assets - beginning, as restated | | | | | 82,957,391 |
| Net assets - ending | | | | | \$ 80,274,996 |

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

Commonwealth of Puerto Rico
Autonomous Municipality of Trujillo Alto
Balance Sheet
Governmental Funds
June 30, 2012

| | General Fund | Special Revenue Fund-Diagnose and Treatment Center | Capital Projects Fund - Local, State & Federal Grants | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--|---|-------------------------|--------------------------------|--------------------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 880,097 | \$ 833,764 | \$ 3,209,595 | \$ - | \$ 2,181,887 | \$ 7,105,343 |
| Cash with fiscal agent | 144,497 | 839,062 | 15,169,907 | 6,327,431 | | 22,480,897 |
| Accounts receivable: | | | | | | |
| Municipal license tax | 107,088 | | | | | 107,088 |
| Intergovernmental | 6,023 | | | 70,292 | 338,066 | 414,381 |
| Interest | 75,719 | | | | | 75,719 |
| Others | 32,505 | | | | | 32,505 |
| Advance to other funds | 147,772 | | | | | 147,772 |
| Due from other funds | 737,976 | | | | | 737,976 |
| Total assets | \$ 2,131,677 | \$ 1,672,826 | \$ 18,379,502 | \$ 6,397,723 | \$ 2,519,953 | \$ 31,101,681 |
| Liabilities and Fund Balances | | | | | | |
| Liabilities : | | | | | | |
| Accounts payable and accrued liabilities | \$ 862,622 | \$ 75,165 | \$ 1,345,846 | \$ - | \$ 196,631 | \$ 2,480,264 |
| Due to other governmental entities | 10,333 | | | | | 10,333 |
| Advance from other funds | | | | | 147,772 | 147,772 |
| Due to other funds | | 123,198 | 199,627 | | 415,151 | 737,976 |
| Deferred revenues: | | | | | | |
| Municipal license tax | 2,995,116 | | | | | 2,995,116 |
| Federal grant revenues | | | | | 980,602 | 980,602 |
| Total liabilities | 3,868,071 | 198,363 | 1,545,473 | - | 1,740,156 | 7,352,063 |
| Fund balances: | | | | | | |
| Nonspendable | 147,772 | | | | | 147,772 |
| Restricted | 218,963 | 640,699 | 16,434,655 | 6,397,723 | 714,309 | 24,406,349 |
| Committed | | 833,764 | 287,162 | | | 1,120,926 |
| Assigned | | | 112,212 | | 65,488 | 177,700 |
| Unassigned | (2,103,129) | | | | | (2,103,129) |
| Total fund balances | (1,736,394) | 1,474,463 | 16,834,029 | 6,397,723 | 779,797 | 23,749,618 |
| Total liabilities and fund balances | \$ 2,131,677 | \$ 1,672,826 | \$ 18,379,502 | \$ 6,397,723 | \$ 2,519,953 | \$ 31,101,681 |

Commonwealth of Puerto Rico
Autonomous Municipality of Trujillo Alto
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

| | General Fund | Special Revenue Fund-Diagnose and Treatment Center | Capital Projects Fund - Local, State & Federal Grants | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|-----------------------|--|---|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 8,950,309 | \$ - | \$ - | \$ 4,689,144 | \$ - | \$ 13,639,453 |
| Municipal sales and use tax | 2,571,036 | | | 394,295 | | 2,965,331 |
| Municipal license taxes | 4,045,269 | | | | | 4,045,269 |
| Licenses, permits and other local taxes | 1,177,047 | | | | | 1,177,047 |
| Charges for services | 12,130 | 189,218 | | | 94,834 | 296,182 |
| Intergovernmental | 6,973,158 | 2,236,324 | 698,797 | | 56,210 | 9,964,489 |
| Rent of property | 550,984 | | | | 9,992 | 560,976 |
| Fines and forfeitures | 34,983 | | | | | 34,983 |
| Interest | 844,596 | | 5,801 | | | 850,397 |
| Federal grants | | | | | 8,602,790 | 8,602,790 |
| Miscellaneous | 74,149 | | | | 202,129 | 276,278 |
| Total revenues | 25,233,661 | 2,425,542 | 704,598 | 5,083,439 | 8,965,955 | 42,413,195 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | 16,954,864 | | 130,836 | | 16,666 | 17,102,366 |
| Public safety | 2,206,470 | | | | 83,185 | 2,289,655 |
| Public works | 3,382,493 | | 8,294,507 | | 114,531 | 11,791,531 |
| Health and welfare | 4,217,195 | 3,698,909 | | | 5,986,844 | 13,902,948 |
| Culture and recreation | 1,087,435 | | 52,490 | | 15,943 | 1,155,868 |
| Economic development | | | | | 655,262 | 655,262 |
| Community development | 364,459 | | | | 1,543,295 | 1,907,754 |
| Urban development | | | 526,565 | | 1,835 | 528,400 |
| Education | 475,406 | | | | 143,277 | 618,683 |
| Debt service: | | | | | | |
| Principal | | | | 2,410,000 | | 2,410,000 |
| Interest | | | | 2,204,603 | | 2,204,603 |
| Total expenditures | 28,688,322 | 3,698,909 | 9,004,398 | 4,614,603 | 8,560,838 | 54,567,070 |
| Excess (deficiency) of revenues over (under) expenditures | (3,454,661) | (1,273,367) | (8,299,800) | 468,836 | 405,117 | (12,153,875) |
| Other financing sources (uses) | | | | | | |
| Transfers in | 823,868 | | 3,350 | 433,075 | 18,271 | 1,278,564 |
| Transfers out | (3,340) | (85,000) | (292,139) | (550,000) | (348,085) | (1,278,564) |
| Long term debt issued | | 590,000 | 7,300,000 | | | 7,890,000 |
| Total other financing sources (uses) | 820,528 | 505,000 | 7,011,211 | (116,925) | (329,814) | 7,890,000 |
| Net change in fund balances | (2,634,133) | (768,367) | (1,288,589) | 351,911 | 75,303 | (4,263,875) |
| Fund balance, beginning, as restated | 897,739 | 2,242,830 | 18,122,618 | 6,045,812 | 704,494 | 28,013,493 |
| Fund balance (Deficit), ending | <u>\$ (1,736,394)</u> | <u>\$ 1,474,463</u> | <u>\$ 16,834,029</u> | <u>\$ 6,397,723</u> | <u>\$ 779,797</u> | <u>\$ 23,749,618</u> |

Commonwealth of Puerto Rico
Autonomous Municipality of Trujillo Alto
**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets**
For the Year Ended June 30, 2012

Total Fund Balances - Governmental Funds \$ 23,749,618

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 | \$ 51,519,505 | |
| Depreciable Capital Assets, net of depreciation | <u>72,426,549</u> | |
| Total Capital Assets | | 123,946,054 |

Accounts payable related to Construction in Progress are not due and payable in the current period and, therefore, are not reported in the funds. (2,054,724)

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds (1,456,181)

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 | 58,046,000 | |
| Property taxes debt | 1,725,262 | |
| Compensated absences | 3,625,180 | |
| Claims and judgment | <u>513,329</u> | |
| Total Long-Term Liabilities | | <u>(63,909,771)</u> |

Total Net Assets of Governmental Activities \$ 80,274,996

**Commonwealth of Puerto Rico
Autonomous 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, 2012**

Net Change in Fund Balances - Total Governmental Funds **\$ (4,263,875)**

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. 12,069,249

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. 5,844

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. (3,880,582)

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 assets account on the Government-Wide Statement of Net Assets. (94,607)

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. (394,800)

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. (203,244)

Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments. (5,480,000)

State Insurance Fund 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 State Insurance Fund debt. 115,803

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. (450,546)

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. (80,961)

Long-term claims and judgments and other notes payable 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. (24,676)

Change in Net Assets of Governmental Activities **\$ (2,682,395)**

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous 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, waste disposal, 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.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In fiscal year 2011, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

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

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, *The Financial Reporting Entity*, of the GASB, as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Components Units an amendment of GASB Statement 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria the Municipality does not have component units to include within its reporting entity.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

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. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying governmental funds financial statements:

General Fund - is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

B. Government-wide and fund financial statements (Continued)

Special Revenue Funds-Diagnose and Treatment Center – is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Capital Projects Fund – is a major governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

Debt Service Fund –is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying statement of net assets. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

B. Government-wide and fund financial statements (Continued)

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

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

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 financial resources not accounted for and reported in another fund.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account and report the proceeds of specific revenue sources derived from federal grants that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. 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 and report the proceeds of specific revenue sources derived from local and state grants that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

C. Financial reporting presentation (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 all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

Capital Projects Fund – Federal Grants - Capital Projects Funds are used to account for financial resources derived from federal grants restricted, committed or assigned to expenditure for the acquisition or construction of capital assets. 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

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

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

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

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

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

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Government Fund Financial Statements – The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2012. At June 30, 2012, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

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

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

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."

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

E. Assets, liabilities and net assets (Continued)

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.

- 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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

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

E. Assets, liabilities and net assets (Continued)

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. Deferred revenues- In the GFFS, deferred revenues arises when one of the following situations occur:

- a. Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2012 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

6. 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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

E. Assets, liabilities and net assets (Continued)

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

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

8. **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.

9. **Fund Balances-** In fiscal year 2011, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. *Nonspendable* – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- b. *Restricted* – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

E. Assets, liabilities and net assets (Continued)

- c. *Committed* – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- d. *Assigned* – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- e. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of for the fiscal year ended June 30, 2012.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

E. Assets, liabilities and net assets (Continued)

10. Net Assets - Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

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

E. Assets, liabilities and net assets (Continued)

- 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).

- 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.

11. Accounting for Pension Costs- On July 1, 2007, the Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, the state Government of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing define benefit pension 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 Government of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government of Puerto Rico.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

E. Assets, liabilities and net assets (Continued)

12. 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.

13. 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. The Municipality obtains medical insurance from a health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

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, 2012 amounted to \$611,559. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$528,810 for workers compensation insurance covering all municipal employees.

14. Use of Estimates - The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual amounts could differ from those estimates.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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, 2012.

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, 2012, (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, 2012, 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, 2012, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

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

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2012.

Therefore, the Municipality's management has concluded that at June 30, 2012 the custodial credit risk associated with the Municipality's cash and cash equivalents is nonexistent.

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, 2012.

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).

Deposits - The Municipality's bank balances in commercial banks of approximately \$880,097, \$833,764, \$3,209,595 in the general fund, the special revenue fund-Diagnose and Treatment Center, and capital project fund – local, state and federal grants, respectively, were fully collateralized at June 30, 2012. In the other governmental funds there were deposits with commercial banks of approximately \$2,181,887 that were fully collateralized.

The deposits at GDB of approximately \$144,497 that is restricted for other purposes in the general fund, the \$839,062 that were restricted for the special revenue fund-Diagnose and Treatment Center, the \$15,169,907 that is restricted principally for capital projects in the capital project fund – local, state and federal grants and \$6,327,431 in the debt service fund, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax*- the Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2012, the tax rates were as follows:

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

3. RECEIVABLES (CONTINUED)

1. Financial business- 1.50% of gross revenues

2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable of \$107,088 represents filed municipal license tax returns that were uncollected as of June 30, 2012, 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. *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 of 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, 2012, 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 \$2,571,036 during the year ended June 30, 2012. Also, \$394,295 from the Municipal Redemption Fund are included in the Debt Service Fund.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

3. RECEIVABLES (CONTINUED)

C. 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, 2012. 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; 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 \$6,023, and are detailed as follows:

| <u>Governmental Entity</u> | <u>Amount</u> |
|----------------------------|-----------------|
| Treasury Department | \$ 6,023 |
| Total | <u>\$ 6,023</u> |

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

| <u>Governmental Entity</u> | <u>Amount</u> |
|--|------------------|
| Municipal Revenue Collection Center ("CRIM") | \$ 70,292 |
| Total | <u>\$ 70,292</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 | \$ 21,920 |
| Total | <u>\$ 21,920</u> |
| | |
| <u>Federal Program Description</u> | |
| Community Development Block Grant | \$ 139,946 |
| Elderly Program | 16,052 |
| Energy Efficiency Block Grant | 105,262 |
| Homelessness Prevention and Rapid Rehousing Program | 45 |
| Home Program | 33,679 |
| Homeland Security Program | <u>21,162</u> |
| Total | <u>\$ 316,146</u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2012, and interfund transfers during the fiscal year ended at June 30, 2012, 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 | \$ 199,627 |
| General Fund | Special Revenue Fund-Diagnose and Treatment Center | Reimbursable Expenditures | 123,198 |
| General Fund | Other Governmental Funds (Law 52 Proposal, Housing Voucher Program, and Section 8 Moderate Program) | Reimbursable Expenditures | <u>562,923</u> |
| Total | | | <u>\$ 885,748</u> |

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 | \$ 550,000 |
| Capital Projects Fund - Local, State & Federal Grants | General Fund | Transfer of funds for operational activities | 273,868 |
| Special Revenue Funds-Diagnose and Treatment Center | Debt Service Fund | Debt Retirement | 85,000 |
| General Fund | Capital Projects Fund - Local, State & Federal Grants | Transfer of funds for operational activities | 3,340 |
| Capital Projects Fund - Local, State & Federal Grants | Other Governmental Funds | Transfer of funds | 18,271 |
| Other Governmental Funds | Debt Service Fund | Debt Retirement | 348,075 |
| Other Governmental Funds | Capital Projects Fund - Local, State & Federal Grants | Transfer of funds | <u>10</u> |
| Total | | | <u>\$ 1,278,564</u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2012, 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, 2011</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance June 30, 2012</u> |
|--|---------------------------------|----------------------|-----------------------|----------------------------------|
| Capital asset, not being depreciated: | | | | |
| Land | \$ 42,080,671 | \$ 4,081 | \$ - | \$ 42,084,752 |
| Construction in progress | <u>11,148,437</u> | <u>8,111,762</u> | <u>(9,825,446)</u> | <u>9,434,753</u> |
| Total capital assets not being depreciated | <u>53,229,108</u> | <u>8,115,843</u> | <u>(9,825,446)</u> | <u>51,519,505</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 34,151,307 | 4,000 | | 34,155,307 |
| Buildings improvements | 23,164,646 | 8,390,735 | (93,502) | 31,461,879 |
| Infrastructure | 18,093,464 | 791,475 | | 18,884,939 |
| Infrastructure improvements | 10,962,962 | 3,350,023 | | 14,312,985 |
| Equipment | 2,950,237 | 209,307 | (40,734) | 3,118,810 |
| Furnishing | 1,267,457 | 23,748 | (8,407) | 1,282,798 |
| Computers | 624,764 | 110,434 | (34,289) | 700,909 |
| Vehicles | <u>7,322,266</u> | <u>904,974</u> | <u>-</u> | <u>8,227,240</u> |
| Total capital assets being depreciated | <u>98,537,103</u> | <u>13,784,696</u> | <u>(176,932)</u> | <u>112,144,867</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (8,809,387) | (880,622) | | (9,690,009) |
| Buildings improvements | (1,836,690) | (712,467) | 1,560 | (2,547,597) |
| Infrastructure | (11,881,660) | (456,093) | | (12,337,753) |
| Infrastructure improvements | (3,937,112) | (881,277) | | (4,818,389) |
| Equipment | (1,975,329) | (300,310) | 38,263 | (2,237,376) |
| Furnishing | (1,160,388) | (35,858) | 8,310 | (1,187,936) |
| Computers | (514,333) | (76,296) | 34,192 | (556,437) |
| Vehicles | <u>(5,805,162)</u> | <u>(537,659)</u> | <u>-</u> | <u>(6,342,821)</u> |
| Total accumulated depreciation | <u>(35,920,061)</u> | <u>(3,880,582)</u> | <u>82,325</u> | <u>(39,718,318)</u> |
| Total capital assets being depreciated, net | <u>62,617,042</u> | <u>9,904,114</u> | <u>(94,607)</u> | <u>72,426,549</u> |
| Governmental activities capital assets, net | <u>\$115,846,150</u> | <u>\$ 18,019,957</u> | <u>\$ (9,920,053)</u> | <u>\$123,946,054</u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. CAPITAL ASSETS (CONTINUED)

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

| Governmental activities: | <u>Amount</u> |
|---|----------------------------|
| General government | \$ 1,478,997 |
| Public safety | 174,922 |
| Public works | 1,135,726 |
| Culture and recreation | 790,370 |
| Health and welfare | 95,787 |
| Community development | 193,278 |
| Education | <u>11,502</u> |
| Total depreciation expense-governmental activities | <u>\$ 3,880,582</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 collected 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 advances exceeded collections by \$572,093. This balance will be retained by the CRIM during fiscal year 2013-2014. These amounts are presented in the government wide financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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 2012, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$963,260.

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
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

Accounts payable and accrued liabilities at June 30, 2012 are summarized as follows:

| Description | General Fund | Special Revenue Fund- Diagnose and Treatment Center | Capital Projects Fund-Local & State Grants | Debt Service Fund | Other Governmental Funds | Total |
|---------------------|--------------------------|---|---|-------------------------|--------------------------------|----------------------------|
| Accounts payable | \$ 360,445 | \$ 75,165 | \$ 1,345,846 | \$ - | \$ 196,631 | \$ 1,978,087 |
| Accrued liabilities | <u>502,177</u> | - | - | - | - | <u>502,177</u> |
| Total | <u>\$ 862,622</u> | <u>\$ 75,165</u> | <u>\$ 1,345,846</u> | <u>\$ -</u> | <u>\$ 196,631</u> | <u>\$ 2,480,264</u> |

8. 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 | \$ 180 |
| Puerto Rico Aqueduct and Sewer Authority | <u>10,153</u> |
| Total | <u>\$ 10,333</u> |

9. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$2,995,116 in the general fund relates to municipal license tax collected in fiscal year 2011-12 that will be earned in fiscal year 2012-13.

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 | \$ 522,276 |
| Housing Opportunities for Persons with AIDS | 83,416 |
| Regional Community Program | 208,285 |
| Public Assistance Grant | 146,416 |
| Others | <u>20,209</u> |
| Total | <u>\$ 980,602</u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

| Description | Beginning Balance | Borrowings or Additions | Payments or Deductions | Ending Balance | Due Within One Year |
|--------------------------------|-----------------------------|----------------------------|-----------------------------|-----------------------------|----------------------------|
| Bonds Payable | \$ 43,515,000 | \$ 7,300,000 | \$(1,570,000) | \$ 49,245,000 | \$ 1,885,000 |
| Notes Payable | 8,841,000 | 800,000 | (840,000) | 8,801,000 | 694,000 |
| LIMS Repayment Plan | 73,384 | - | (73,384) | - | - |
| Property Tax Debt- Law 146 | 1,011,423 | - | (48,163) | 963,260 | 48,163 |
| Property Tax Debt - CRIM | 189,909 | 572,093 | - | 762,002 | 189,909 |
| Claims and judgments | 488,653 | 24,676 | - | 513,329 | 513,329 |
| State Insurance Fund Repayment | 115,803 | - | (115,803) | - | - |
| Compensated Absences | <u>3,544,219</u> | <u>587,292</u> | <u>(506,331)</u> | <u>3,625,180</u> | <u>475,000</u> |
| Total | <u>\$ 57,779,391</u> | <u>\$ 9,284,061</u> | <u>\$(3,153,681)</u> | <u>\$ 63,909,771</u> | <u>\$ 3,805,401</u> |

- A. 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, is paid with unrestricted funds.
- B. 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, 2012 are as follows:

| Description | Balance at June 30, 2012 |
|--|-----------------------------|
| 2011 General obligation bond for construction and improvements of infrastructure with an original amount of \$7,650,000 due in installments of \$185,000 to \$675,000 through July 1, 2031, with interest ranging from 6% to 7% | \$ 7,465,000 |
| 2011 General obligation bond for construction and improvements of infrastructure with an original amount of \$805,000 due in installments of \$10,000 to \$65,000 through July 1, 2036, with interest ranging from 6% to 7% | 795,000 |
| 2010 General obligation bond for construction and improvements of infrastructure with an original amount of \$5,930,000 due in installments of \$145,000 to \$545,000 through July 1, 2030, with interest ranging from 6% to 7.5% | 5,650,000 |
| 2010 Revenue bond for infrastructure's improvement and the operational expenditures of the Medical Treatment and Diagnostic Center with an original amount of \$5,090,000 due in installments of \$85,000 to \$420,000 through July 1, 2033, with interest of 7% | 5,005,000 |

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

10. LONG-TERM LIABILITIES (CONTINUED)

| Description | Balance at June 30, 2012 |
|---|-----------------------------|
| 2009 General obligation bond for construction and improvement of infrastructure assets with an original amount \$1,185,000 due in installments of \$20,000 to \$100,000 through July 1, 2034, with interest ranging from 2.43% to 7.5% | 1,130,000 |
| 2008 General bond obligation for construction and improvement of infrastructure assets with an original amount \$2,565,000 due in installments of \$45,000 to \$215,000 through July 1, 2033, with interest ranging from 2.43% to 7.5% | 2,400,000 |
| 2005 General bond obligation for construction and improvement of infrastructure assets with an original amount \$3,820,000 due in installments of \$100,000 to \$270,000 through July 1, 2030, with interest ranging from 4.38% to 5.02% | 3,310,000 |
| 2004 General bond obligation for construction and improvement of infrastructure assets with an original amount \$5,430,000 due in installments of \$155,000 to \$420,000 through July 1, 2027, with interest ranging from 4.38% to 5.02% | 4,355,000 |
| 2004 General bond obligation for construction and improvement of infrastructure assets with an original amount \$355,000 due in installments of \$10,000 to \$25,000 through July 1, 2027, with interest ranging from 4.38% to 5.02% | 285,000 |
| 2004 General bond obligation for construction and improvement of infrastructure assets with an original amount \$255,000 due in installments of \$5,000 to \$20,000 through July 1, 2027, with interest ranging from 4.17% to 5.02% | 210,000 |
| 2002 General bond obligation for construction of infrastructure assets with an original amount \$3,985,000 due in installments of \$110,000 to \$345,000 through July 1, 2026, with interest ranging from 4.10% to 5.60% | 3,195,000 |
| 1998 General bond obligation for construction and improvement of infrastructure assets with an original amount \$11,230,000 due in installments of \$420,000 to \$975,000 through July 1, 2022, with interest ranging from 5.78% to 6.56% | 7,510,000 |
| 1994 General bond obligation for construction and improvement of infrastructure assets with an original amount \$3,390,000 due in installments of \$280,000 to \$330,000 through July 1, 2013, with interest of 7.71% | 635,000 |
| 2012 General bond obligation for construction and improvement of infrastructure assets with an original amount \$7,300,000 due in installments of \$185,000 to \$685,000 through July 1, 2031, with interest from 6.0% to 7.50% | <u>7,300,000</u> |
| Total general obligation bonds | <u>\$ 49,245,000</u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

10. LONG-TERM LIABILITIES (CONTINUED)

These bonds are payable from the ad valorem property tax of 3.25% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|-----------------------------|-----------------------------|
| 2013 | \$ 1,885,000 | \$ 2,636,215 |
| 2014 | 2,025,000 | 3,075,459 |
| 2015 | 1,815,000 | 2,952,973 |
| 2016 | 1,950,000 | 2,834,309 |
| 2017 | 2,100,000 | 2,705,801 |
| 2018-2022 | 13,005,000 | 11,216,692 |
| 2023-2027 | 13,815,000 | 6,696,485 |
| 2028-2032 | 10,835,000 | 2,239,784 |
| 2033-2037 | <u>1,815,000</u> | <u>184,388</u> |
| Total | <u>\$ 49,245,000</u> | <u>\$ 34,542,106</u> |

C. 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, 2012</u> |
|-----------------------------|--------------------------|----------------------------|------------------------------------|-------------------------------------|
| 2011 Series | 7-01-18 | \$ 441,000 | 6% to 7.5% | \$ 391,000 |
| 2010 Series | 7-01-20 | 305,000 | 4.75% to 7.50% | 235,000 |
| 2010 Series | 7-01-20 | 1,985,000 | 6.00% to 7.50% | 1,515,000 |
| Section 108 - Series 2003-A | 8-01-23 | 4,000,000 | Variable | 2,530,000 |
| 2008 Series | 7-01-32 | 3,705,000 | 7.50% | 3,540,000 |
| 2012 Series | 7-01-19 | 590,000 | 6.00% to 7.50% | <u>590,000</u> |
| Total notes payable | | | | <u>\$ 8,801,000</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 3.25% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Series 2008 and the Series 2011, amounting 3,705,000, and \$441,000, respectively, is payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

10. LONG-TERM LIABILITIES (CONTINUED)

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

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|---------------------|---------------------|
| 2013 | \$ 694,000 | \$ 367,562 |
| 2014 | 733,000 | 532,967 |
| 2015 | 772,000 | 471,532 |
| 2016 | 822,000 | 416,734 |
| 2017 | 882,000 | 357,580 |
| 2018-2022 | 2,293,000 | 1,292,306 |
| 2023-2027 | 1,010,000 | 782,250 |
| 2028-2032 | 1,290,000 | 368,625 |
| 2033-2037 | <u>305,000</u> | <u>11,437</u> |
| Total | <u>\$ 8,801,000</u> | <u>\$ 4,600,993</u> |

- D. 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 was to be retained in a ten years period at an interest rate of 5.95% until November 28, 2011. At June 30, 2012, the total amount was paid.
- E. Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2012 as described in Note 6.
- F. State Insurance Fund Repayment Plan-** These amount represented balance owed for policy premiums arising from an audit made by the CFSE to the Municipality. During fiscal year 2011-2012 the Repayment Plan was completed.
- G. Compensated absences-** The government-wide statement of net assets includes approximately \$1,877,054 of accrued sick leave benefits, and approximately \$1,748,126 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

11. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. PENSION PLAN (CONTINUED)

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. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

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.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. PENSION PLAN (CONTINUED)

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

If at the time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state and municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

| | |
|-----------------------------------|---|
| Municipality | 9.275% of gross salary |
| Employees: | |
| Hired on or before March 31, 1990 | 5.775% of gross salary up to \$6,600 8.275% of gross salary over \$6,600 |
| Hired on or before April 1, 1990 | 8.275% of gross salary |

Annual Contribution

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

| <u>Fiscal year</u> | <u>Law No. 447</u> | <u>System 2000</u> |
|--------------------|--------------------|--------------------|
| 2012 | \$ 441,413 | \$ 309,814 |
| 2011 | \$ 462,163 | \$ 306,438 |
| 2010 | \$ 490,084 | \$ 315,335 |

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. PENSION PLAN (CONTINUED)

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2012, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940-2003.

12. 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.

13. 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, 2012, 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 \$513,329 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.

C. Other Commitments:

At June 30, 2012, the general fund had commitments of approximately \$472,391 for executory purchase orders or contracts that will be honored during the subsequent year.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012**

14. Fund Balance (Deficit)

As of June 30 2012, fund balance (deficit) is comprised of the following:

| <u>Fund Balance (Deficit)</u> | <u>General Fund</u> | <u>Special Revenue Fund- Diagnose & Treatment Center</u> | <u>Capital Projects Fund- State - Local & Federal Grants</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|------------------------------------|-----------------------|--|--|--------------------------|---------------------------------|----------------------|
| Nonspendable: | | | | | | |
| Interfund loans receivable | \$ 147,772 | \$ - | \$ - | \$ - | \$ - | \$ 147,772 |
| Restricted for: | | | | | | |
| General Government | 74,466 | | 379 | | | 74,845 |
| Culture and Recreation | | | 69,563 | | | 69,563 |
| Health and Welfare | 144,497 | 640,699 | | | 714,309 | 1,499,505 |
| Capital Projects | | | 15,640,531 | | | 15,640,531 |
| Debt Service | | | | 6,397,723 | | 6,397,723 |
| Urban Development | | | 724,182 | | | 724,182 |
| Committed: | | | | | | |
| Health and Welfare | | 833,764 | | | | 833,764 |
| Public Works | | | 287,162 | | | 287,162 |
| Assigned: | | | | | | |
| Public Works | | | 112,212 | | 65,488 | 177,700 |
| Unassigned | <u>(2,103,129)</u> | | | | | <u>(2,103,129)</u> |
| Total Fund Balance(Deficit) | <u>(\$ 1,736,394)</u> | <u>\$ 1,474,463</u> | <u>\$ 16,834,029</u> | <u>\$ 6,397,723</u> | <u>\$ 779,797</u> | <u>\$ 23,749,618</u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2012:

- a. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*. The requirements of this statement are effective for periods beginning after June 15, 2012.
- b. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- c. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*). The requirements of this statement are effective for periods beginning after December 15, 2012.
- d. GASB Statement No. 66, *Technical corrections-2012 – an amendment of GASB Statements No. 10 and No.62*. The requirements of this statement are effective for periods beginning after December 15, 2012.
- e. GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The requirements of this statement are effective for periods beginning after June 15, 2013.
- f. GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The requirements of this statement are effective for periods beginning after June 15, 2014.

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012**

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 | Special Revenue Fund – Diagnose & Treatment Center | Capital Projects Fund – State & Federal Grants | Debt Service Fund | Other Governmental Fund | Total |
|--|-------------------|--|--|---------------------|-------------------------|---------------------|
| Fund balance, beginning | \$1,194,677 | \$ - | \$ 20,705,406 | \$ 6,045,812 | \$ 98,418 | \$28,044,313 |
| Reclassification for major fund presentation | | 2,242,830 | (2,878,197) | | 635,367 | - |
| To adjust Law 52 Receivable | | | | | (30,820) | (30,820) |
| To correct interfund transaction | (296,938) | - | 295,409 | - | 1,529 | - |
| Fund balance, beginning as restated | <u>\$ 897,739</u> | <u>\$ 2,242,830</u> | <u>\$18,122,618</u> | <u>\$ 6,045,812</u> | <u>\$ 704,494</u> | <u>\$28,013,493</u> |

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

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

| <u>Description</u> | <u>Total</u> |
|--|----------------------|
| Net assets, beginning | \$ 83,198,211 |
| To adjust Law 52 receivable | (30,820) |
| To adjust Section 108 Loan as per confirmation | (210,000) |
| Net assets, beginning as restated | <u>\$ 82,957,391</u> |

17. SUBSEQUENT EVENTS

In August 2012, the Municipal Legislature approved the issuance of a special obligation bond for the amount of \$1,400,000, for the payment of principal and interest of rental bond of \$5,090,000 and the liquidation of CRIM debt of \$940,425.

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

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

YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | Actual Amounts (Budgetary Basis) (See Note 1) | Variance with Final Budget Positive (Negative) |
|--|-------------------------|-------------------|---|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Property taxes | \$ 12,069,072 | \$ 12,069,072 | \$ 12,455,884 | \$ 386,812 |
| Municipal license tax | 4,325,000 | 4,325,000 | 3,983,348 | (341,652) |
| Municipal sales and use tax | 2,864,000 | 2,864,000 | 2,581,015 | (282,985) |
| Licenses, permits and other local taxes | 5,622,200 | 5,622,200 | 1,176,094 | (4,446,106) |
| Intergovernmental | 2,864,917 | 2,864,917 | 2,822,100 | (42,817) |
| Rent of property | 513,000 | 513,000 | 560,244 | 47,244 |
| Interest | 425,000 | 425,000 | 857,677 | 432,677 |
| Miscellaneous | <u>150,000</u> | <u>150,000</u> | <u>119,359</u> | <u>(30,641)</u> |
| Total revenues | <u>28,833,189</u> | <u>28,833,189</u> | <u>24,555,721</u> | <u>(4,277,468)</u> |
| EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES: | | | | |
| Current: | | | | |
| General government | 15,724,544 | 16,856,906 | 16,144,818 | 712,088 |
| Public safety | 2,474,877 | 2,271,865 | 2,219,668 | 52,197 |
| Public works | 3,752,291 | 3,469,962 | 3,370,183 | 99,779 |
| Health and welfare | 4,474,482 | 4,094,005 | 3,941,713 | 152,292 |
| Culture and recreation | 1,382,117 | 1,244,054 | 1,098,981 | 145,073 |
| Community development | 464,451 | 377,521 | 364,459 | 13,062 |
| Education | <u>560,427</u> | <u>518,876</u> | <u>476,972</u> | <u>41,904</u> |
| Total expenditures, encumbrances and other financing uses | <u>28,833,189</u> | <u>28,833,189</u> | <u>27,616,794</u> | <u>1,216,395</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (3,061,073)</u> | <u>\$ (3,061,073)</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 | | | | \$ 24,555,721 |
| Differences-budget to GAAP: | | | | |
| GAAP adjustments to revenues | | | | 677,940 |
| Nonbudgeted transfer-in | | | | <u>823,868</u> |
| Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances | | | | <u>\$26,057,529</u> |
| Uses/outflows of resources: | | | | |
| Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule | | | | \$ 27,616,794 |
| Differences-budget to GAAP: | | | | |
| Nonbudgeted expenditures | | | | 1,034,532 |
| Nonbudgeted transfer out | | | | 3,340 |
| Current year encumbrances recorded as expenditures for budgetary purposes | | | | (472,392) |
| Prior year encumbrances recorded as current year expenditures for GAAP basis | | | | <u>509,388</u> |
| Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances. | | | | <u>\$28,691,662</u> |

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

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2012

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, 2012 representing original budget. There were no supplemental appropriations for the year ended June 30, 2012.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO
SCHEDULE OF EXPENDITURES FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Expenditures |
|---|------------------------|--|---------------|
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| Direct Program: Community Development Block Grants - Entitlement Grants | 14.218 | | \$ 1,488,538 |
| Direct Program: Home Investment Partnership Program | 14.239 | | 652,671 |
| Direct Program: Community Development Block Grants - Section 108 Loan Guarantee | 14.248 | | 526,565 |
| Direct Program: Community Development Block Grant ARRA Entitlement Grant(CDBG-R) (Recovery Act funded) | 14.253 | B09-MY-72-0010 | 28,949 |
| Direct Program: Homeless Prevention and Rapid Re-Housing (Recovery Act funded) | 14.257 | S09-MY-72-0013 | 141,509 |
| Direct Program: Section 8 Housing Choice Voucher | 14.871 | | 3,529,406 |
| Direct Program: Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation | 14.856 | | 1,448,251 |
| Pass-through the Commonwealth of Puerto Rico Municipality of San Juan: Housing Opportunities for Persons with AIDS (HOPWA) | 14.241 | Not Available | <u>36,067</u> |

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

SCHEDULE OF EXPENDITURES FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2012

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Expenditures |
|---|--------------------------------|---|-------------------------|
| Total U.S. Department of Housing and Urban Development | | | <u>7,851,956</u> |
| U.S DEPARTMENT OF TRANSPORTATION | | | |
| Pass-through the Commonwealth of Puerto Rico – Transit Safety Commission: | | | |
| Incentive Grants | 20.600 | Not Available | <u>25,808</u> |
| Total U.S. Department of Transportation | | | <u>25,808</u> |
| U.S DEPARTMENT OF ENERGY | | | |
| Direct Program: | | | |
| Energy Efficiency and Conservation Block Grant Program (Recovery Act Funded) | 81.128 | DE-SC0002923 | <u>655,262</u> |
| Total U.S. Department of Energy | | | <u>655,262</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | |
| Pass-through the Commonwealth of Puerto Rico – Governor’s Office (Elderly Office): | | | |
| Special Program for Aging – Title III, Part B – Grants for Supportive Services and Senior Centers | | | |
| | 93.044 | Not Available | <u>35,843</u> |
| Nutrition Services Incentives Program | 93.053 | Not Available | <u>106,462</u> |
| Total U.S. Department of Health and Human Services | | | <u>142,305</u> |
| U.S. DEPARTMENT OF HOMELAND SECURITY: | | | |
| Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR): | | | |
| Disaster Grants – Public Assistance | 97.036 | | <u>85,899</u> |
| Total U.S. Department of Homeland Security | | | <u>85,899</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>8,761,230</u> |

The accompanying notes are an integral part of this schedule.

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

NOTES TO THE SCHEDULE OF EXPENDITURES FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Autonomous 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 | \$ 526,565 | \$8,234,665 | \$8,761,230 |
| Non - federal programs Expenditures | <u>8,477,833</u> | <u>326,173</u> | <u>8,804,006</u> |
| Total expenditures in the basic financial statements | <u>\$9,004,398</u> | <u>\$8,560,838</u> | <u>\$17,565,236</u> |

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

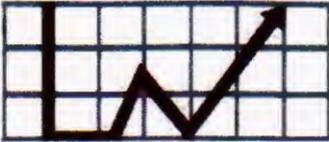
NOTES TO THE SCHEDULE OF EXPENDITURES FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2012

3. SUBRECIPIENTS:

The **Autonomous 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>\$23,694</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
Autonomous 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 **Autonomous Municipality of Trujillo Alto, Puerto Rico**, as of and for the year ended June 30, 2012, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 7, 2012. 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

Management of the **Autonomous Municipality of Trujillo Alto** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the **Autonomous 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 **Autonomous Municipality of Trujillo Alto's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Trujillo Alto's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item **12-02** to be material weaknesses.

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)

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item **12-01** to be significant deficiency.

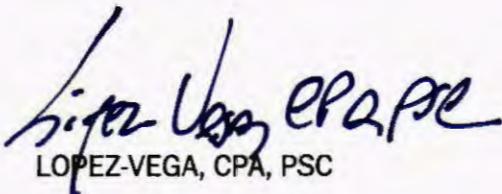
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Autonomous 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 **Autonomous Municipality of Trujillo Alto** in a separate letter dated December 7, 2012.

The **Autonomous 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 **Autonomous 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 7, 2012

Stamp No. 2632101 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



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the **Autonomous Municipality of Trujillo Alto's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Autonomous Municipality of Trujillo Alto's** major federal programs for the year ended June 30, 2012. The **Autonomous 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 laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Autonomous Municipality of Trujillo Alto's** management. Our responsibility is to express an opinion on the **Autonomous 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 **Autonomous 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 **Autonomous Municipality of Trujillo Alto's** compliance with those requirements.

In our opinion, the **Autonomous Municipality of Trujillo Alto's** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of its major federal programs for the year ended June 30, 2012. 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 item **12-03**.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

Internal Control Over Compliance

Management of the **Autonomous 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 **Autonomous 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 **Autonomous 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, or 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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. 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 item **12-03**. *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 **Autonomous Municipality of Trujillo Alto's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Autonomous Municipality of Trujillo Alto's** response and, accordingly, we express no opinion on the responses.



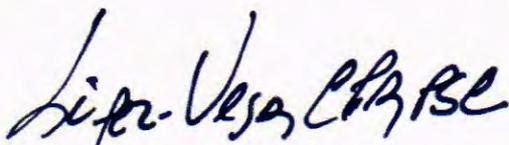
López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON 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 **Autonomous Municipality of Trujillo Alto** in a separate letter dated March 12, 2013.

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 12, 2013

Stamp No. 2632102 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
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

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

Federal awards

| | | |
|---|---|--|
| Internal Control over major programs: | | |
| Material weakness identified? | Yes | No <input checked="" type="checkbox"/> |
| Significant deficiencies identified not considered to be material weaknesses? | Yes <input checked="" type="checkbox"/> | None reported |
| Type of auditor’s report issued on compliance for major programs: | Unqualified | |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | Yes <input checked="" type="checkbox"/> | No |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|-------------|---|
| | CDBG-Entitlement grants Cluster: |
| 14.218 | Community Development Block Grant-Entitlement Grant |
| 14.253 | Community Development Block Grant-ARRA-Entitlement Grants (CDBG-R)-Recovery Act Funded) |
| 14.856 | Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation Program |
| 14.871 | Section 8 Housing Choice Vouchers |
| 81.128 | Energy Efficiency and Conservation Block Grant (Recovery Act Funded) |

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section II – Financial Statements Findings

| | |
|-------------------------------|---|
| Finding Reference | 12-01 |
| Requirement | Financial Reporting – Accounting Records |
| Statement of Condition | <p>During our examination of the Municipality's accounting system, we noted that the Municipality's accounting record for Local, State and Federal funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce government-wide financial statements. The computerized system provided by the Office of the Commissioner of Municipal Affairs (OCAM) and manual system maintained by the finance department personnel do not provide adequate and effective financial information to generate the basic financial statements since the accounts balances were affected by accounting errors in the first years of the system operation.</p> <p>Therefore, the Municipality hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and Law 81.</p> |
| Criteria | <p>Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.</p> |
| Cause of Condition | <p>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.</p> |
| Effect of Condition | <p>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.</p> |
| Recommendation | <p>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.</p> |
| Questioned Costs | None |

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section II - Financial Statements Findings

Finding Reference **12-01 (Continued)**

**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 was taken. After consulting with the OACM, the Office delegated in the Municipalities the acquisition or implementation of computerized accounting systems.

The Municipality's Management concurs with the finding. The actual economic situation of the Municipality does not facilitate the acquisition of a new computerized accounting system. Management will implement supplementary subsidiary records to help support the prevailing accounting system in those mostly needed areas.

Implementation Date: July 2014

Responsible Person: Milta Bermúdez-Finance Director

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section II – Financial Statements Findings

Finding Reference **12-02**

Requirement **Operating deficit of general fund**

**Statement of
Condition**

As of June 30, 2012, the Municipality closed with an accumulated unreserved (deficit) fund balance of \$2,103,129 in the general fund as presented in the balance sheet-governmental funds.

Criteria

Article 7.011, Section (a) of Autonomous Municipal Act (Law 81) establishes that if the Municipality close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year. Section (b) establishes among other things, that provides that accrued deficit in The Municipality, by public debt, will be amortized in a period of 40 years. The equivalent amortization amount will be established in an expense account in the annual budget known as accrued deficit which will be indicated in the chart of accounts.

Article 8.004 (b) establishes no amount shall be expended or obligated in a given fiscal year of if exceeds its budgeted or authorized amounts by the Municipal Legislation.

Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (The regulation) states that it must be special care to prepare the revenues estimates so these do not results in budget appropriations in excess of available resources.

Cause of Condition

The overstatement of estimated revenues and/or the incurrence of obligations without available credit caused the Municipality to operate with a deficit.

Effect of Condition

The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the revised regulation over basic Standard for Municipalities of Puerto Rico.

Recommendation

We recommend management to evaluate the adequacy of the provision for deficit reserve accounts in the next budget for the amortization of public debt as recommend by Law. Also, the Municipality's officers must evaluate the negative variances between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section II - Financial Statements Findings

Finding Reference **12-02 (continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality have taken aggressive action to increase revenues and expenditures control to reduce and eliminate this deficit and prevent future budget deficits.

Implementation Date: During Fiscal Year 2012-2013

Responsible Person: Mrs. Milta Bermúdez, Finance Director

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 12-03 |
| Program | Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development Section 8 Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation (CFDA 14.856) U.S. Department of Housing and Urban Development |
| Requirement | Eligibility Test |
| Statement of Condition | <p>During our Eligibility Test for the Section 8 Housing Choice Vouchers Program, we found the following situations:</p> <ul style="list-style-type: none">a. In four (4) cases, the participant files do not have evidence of Enterprise Income Verification (EIV). Also, in eight (8) cases, the Enterprise Income Verification (EIV) is not completed in all its parts.b. In two (2) cases, the participant files have evidence of revenues not included in HAP calculation.c. In one (1) case, the participant file did not have evidence of the birth certificate of a family member.d. In one (1) case, the participant file did not have evidence the PHA personnel verified social security card for a family member.e. In two (2) cases, the Privacy Act Notice, was not found on the participant file.f. In four (4) cases, the General Release for Third Party Verification was not found on file. Also, in ten (10) cases, the General Release was not completed in all of its parts.g. In one (1) case, there is no evidence on file of a re-examination at time of anniversary. The PHA states that participant was suspended but no action has been taken.h. In two (2) case, there is a mathematical error in the HAP calculation. |

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-03 (Continued)

During our Eligibility Test for the Section 8 Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation Program, we found the following situations:

- a. In four (4) cases, the participant files do not have evidence of Enterprise Income Verification (EIV). Also, in eight (8) cases, the Enterprise Income Verification (EIV) is not completed in all its parts.
- b. In one (1) case, there is an Enterprise Income Verification (EIV), which indicate unregistered revenues but no action has been taken by PHA.
- c. In fourteen (14) cases, the General Release for Third Party Verification was not found on file.
- d. In three (3) cases, the participant files have evidence of revenues not included in HAP calculation
- e. In one (1) case, the Privacy Act Notice, was not found on the participant file.
- f. In one (1) case, there is no evidence of initial application form on the participant file.

Criteria

Code of Federal Regulations 24, Sections 5.609 established that as a condition of admission or continued occupancy, the tenant must provide all necessary information and documentation required and tenant's authorization to verify income eligibility. 24 CFR Subpart K Section 982.516 (a), established that PHA responsibility for reexamination of family income and composition at least annually, (2) the PHA must obtain and document in the tenant file third-party verification. Besides, Code of Federal Regulations 24, Sections 982.158(d) and 982.405 (b) states that the PHA must prepare a unit inspection report and conduct quality control re-inspections.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-03 (Continued)**

Cause of Condition The Program's officers did not obtain and complete the required documentation to validate the participant's eligibility. In addition, the Municipality has no effective monitoring review process for the program internal quality control.

Effect of Condition The Program does not meet compliance with Code of Federal Regulations 24 and could have an effect in the performance on SEMAP report.

Recommendation The Program should strengthen internal control procedures to monitor performance, ensure compliance with these requirements and train staff on documentation and verification process.

Questioned Costs None

Management Response and Corrective Action The Municipality concurs with the finding. The program will review the documentation protocol and will evaluate the work of technicians in charge of managing participant files, to identify and correct any deficiency in compiling and filing documents.

Implementation Date: July 2013

Responsible Person: Mrs. Yadira Mercado

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2012

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133) |
|-------------------------|--------------------|--|
| 11-02 | 14.218 & 14.253 | <p><u>Management should update contract model according with the federal requirements.</u></p> <p>Full corrective action was taken.</p> |
| 11-03 | 14.218 & 14.253 | <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, 2011.</u></p> <p>Full corrective action was taken.</p> |
| 11-04 | 14.257 | <p><u>Management should strengthen its control procedures to comply with the established earmarking of 5% cap on administrative costs.</u></p> <p>Full corrective action was taken. The Municipality reviewed and adjusted program's general ledger to allocate the correct amount between programmatic and administrative expenses.</p> |
| 11-05 | 14.871 | <p><u>The Program should strengthen internal control procedures to monitor performance, ensure compliance with these requirements and train staff on documentation and verification process.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-03.</p> |
| 11-06 | 14.871 | <p><u>Management should improve its internal control procedures in order to assure that annual inspections are properly documented. For HQS deficiencies that are the owner's responsibility and are not corrected within the prescribed time frames, the PHA must abate housing assistance payments beginning no later than the first of the month following expiration of the PHA violation notice.</u></p> <p>Full corrective action was taken.</p> |
| 10-03 | 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, 2010.</u></p> <p>Full corrective action was taken.</p> |

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2012

| 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>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding.</p> |