
COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO

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

Year Ended June 30, 2014



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

CONTENTS

	Page
<u>BASIC FINANCIAL STATEMENTS</u>	
Independent Auditors' Report	1-3
Required Supplementary Information (Part 1) Management's Discussion and Analysis	4-14
Government-Wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Position	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Notes to Basic Financial Statements	21-54
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	55
Notes to Budgetary Comparison Schedule-General Fund	56
Financial Data Schedule – Balance Sheet	57
Financial Data Schedule – Statement of Revenues and Expenses	58
Notes to Financial Data Schedule	59
Schedule of Expenditures of Federal Awards	60
Notes to the Schedule of Federal Awards	61

CONTENTS

	Page
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Independent Auditors' Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	62-63
Independent Auditors' Report on compliance for each major program and on internal control over compliance required by OMB Circular A-133	64-66
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of Findings and Questioned Costs	67-76
Summary Schedule of Prior Years Audit Findings	77



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**

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinions.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Autonomous Municipality of Trujillo Alto, Puerto Rico, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Trujillo Alto's** basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in pages 58 and 59 are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in page 61 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Financial Data Schedule and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such 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 Financial Data Schedule and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.



López-Vega, CPA, PSC

Certified Public Accountant / Management Advisors

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2015, on our consideration of **Autonomous Municipality of Trujillo Alto'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 this 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Autonomous Municipality of Trujillo Alto's** internal control over financial reporting and compliance.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 17, 2015

Stamp No. 2675875 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

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, construction projects special charges, 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 or credit to the Municipalities.

The Municipality is a main component of the San Juan Metropolitan Area, with a population that exceeds 80,000 habitants and 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 programmed to be implemented during current calendar year 2014. Such efforts, complemented by other aggressive initiatives, should strengthen the financial framework of the Municipality. In relation thereto, particular emphasis has been given to increase collections from property taxes, municipal licenses, sales and uses tax. The municipal administrations feels confident that such efforts will be complements with the creation of a new private type affiliate corporation under the name of "EmpresasTrujillanas", which under local law will be able to developed and get involved in the acquisition of private licenses and in the development of large and complex projects for the benefit and welfare of the Municipalities constituents. However it should be noted that efforts to accelerate the indicated programs have been adversely affected by the heavy recession being faced by the Island during more than seven years.

It must be clarified that the results of the aforementioned initiatives must be evaluated upon considering the effects that new legislation approved by the Legislative Assembly such as Act No. 18-2014, Act 19-2014 and Act No.57-2014 might have on the operating revenues of the Municipalities. Additional information of such legislation is furtherly explained in the following paragraphs.

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, 2014. 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. In addition, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2013. 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 2013-2014 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. major or extraordinary events that might cause future changes in the statements of condition and operations of the Municipality;
6. major constraints being faced by the Municipality in obtaining financing for capital improvements program and operating expenses;
7. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

During the fiscal year 2013-2014, the economic environment of the Commonwealth of Puerto Rico continued to suffer the adverse results of a recession that, as previously mentioned, has deeply hurt the local economy during the past 8 years. Considering this economic reality, the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2014, reflects the continued decreasing trend of the Municipality's economic strength during the last three years.

1. Total net position of the Municipality as of the end of fiscal year 2014 amounted to \$77,166,399, or fifty two percent (52%) of total assets.
2. The Municipality's total net position at the end of the year decreased by \$1,722,551, or a 2% reduction when compared with prior fiscal year 2013, as restated. Such decrease is mainly attributable to the reduction in cash available balance. This cash was mainly used for the acquisition and construction of capital assets as we can see with the increase in capital assets-construction in progress.
3. As of the end of fiscal year 2013-2014, the Municipality's Governmental Funds Balance Sheet reflected a combined ending fund balances of \$7,511,928, which represents a decrease of \$3,344,969 when compared with the corresponding figures for the previous fiscal year 2012-2013, as restated.
4. As of the end of the fiscal year 2013-2014, the deficit of the Municipality's General Fund amounted to \$5,970,727 or \$674,778 below the corresponding figure for previous fiscal year 2013, as restated. Although such balance is attributable to the prevailing economic constraints, management is aware that in order to improve the Municipality's rate of return, drastic measures must be implemented to increase revenues and reduce current expenses. Management is aware also that corrective actions will encountered several difficulties due to further increases are anticipated in some aspects such as contributions to the Commonwealth Government Pension Funds, certain limitations imposed by law in budget management and limitations in projects financing due to - credit downgrading imposed by rating agencies; significant changes approved upon approval of Act 57-2014 which drastically changed the formula for the calculation of the Annual Contribution in Lieu of Taxes (PILOT) pay of credit by the Puerto Rico Electrical Authority (PREPA) to the Municipalities (PILOT); possible changes to operating income of the Municipality derived from the Municipal Taxes resulting from Acts No. 18-2014 and 19-2014 which create a new public corporation (Municipal Financing Corporation), as an affiliate to the Government Bank and which will be responsible for the final collection and distribution of the Municipal Tax, changes in the distribution and uses of the Municipal Development and Municipal Redemption Funds resulting from said legislation; and the proposed new Internal Revenue Code which at present is under the consideration of the Legislative Assembly.
5. As reflected in the Budgetary Comparison Schedule-General Fund attached hereto, as of June 30, 2014, the actual budgetary activities resulted in an unfavorable balance of \$2,516,546. Such balance is mainly attributable to a significant negative variance in the amount of \$5,380,535 that was reflected in actual revenues derived from licenses, permits and other local taxes.
6. At the end of fiscal year 2014, total liabilities amounted to \$71,807,422. Out of said amount, \$62,287,342 corresponded to long-term liabilities, of which \$48,870,000 and \$5,934,000 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.

FINANCIAL HIGHLIGHTS (CONTINUED)

7. In spite of difficulties being encountered, the Municipality has maintained an aggressive capital improvement program. As of June 30, 2014, 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 \$1 million used for improvements in various recreational facilities and infrastructure, including the design phase for the Diabetes Medical Center and Hospital. However, management is aware that the construction rhythm of its capital improvement program will depend on the municipality's credit availability which has been seriously restrained for the Commonwealth Government of Puerto Rico, its agencies and municipalities due to their bond downgrading executed by the rating agencies.
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 three years 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 Mayors Association have raised their written concerns to PREPA's management with respect to this matter. At present, the Commonwealth Government administration has presented a whole package of new legislation for a huge restructuring or PREPA's operational and regulatory measures. Such legislation includes the implementation of a new formula for the calculation of PILOT which will require all local governmental agencies to attain material savings in power consumption, sanctions and penalties for noncompliance with the new legislation. All this legislative action was approved to help PREPA in solving its critical financial condition. For fiscal year 2013-2014, PILOT credit for the **Autonomous Municipality of Trujillo Alto** amounted to \$5,269,590.

Considering the prevailing economic scenario, management feels satisfied with the financial condition and results of operations reflected by the audited financial statements prepared as of June 30, 2014. It is its contention that in spite of the more than eight years, the municipal administration has been able to meet all current obligations and 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 reflect a remarkable continued deterioration, whose escalation might increase due to reasons explained in previous paragraphs.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The 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 2014. 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.

FINANCIAL STATEMENTS COMPONENTS

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.

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 Position 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 position as previously mentioned. In the particular case of the **Autonomous Municipality of Trujillo Alto**, as of June 30, 2014, such figure amounted to \$77,166,399, a decrease of \$1,722,551 over previous year 2013, as restated, and represents fifty two percent (52%) of the total assets. Such decrease is due to the reasons previously stated, especially those related to limited borrowing opportunities to finance the Municipality's improvement program and to the lack of General Fund contributions to afford the cost of such program. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations.

The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either through additional borrowings or through 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 position 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 Statement of Activities of the Municipality at June 30, 2014, shows total expenses incurred to afford the cost of all functions and programs amounted to \$44,526,578. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that the amount of \$9,068,280 was derived from the following sources: \$505,321 charges for services; \$7,771,646 from operating grants and contributions; and \$791,313 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$33,735,747. When such figure is added to the \$9,068,280 previously mentioned, total revenues available for the financing of activities amounted to \$44,526,578. There was a deficiency of revenues over expenses in the amount of \$1,722,551. The main cause of this deficiency has been previously explained.

The Fund Financial Statements are 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 through 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.

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

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

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

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement of Net Position. 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 amounting to \$18,940,977 including accumulated depreciation for \$12,764,101. This year, depreciation expense for this classification amounted to \$457,487. Net value of infrastructure assets as of fiscal year end 2014 corresponds to 15% 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

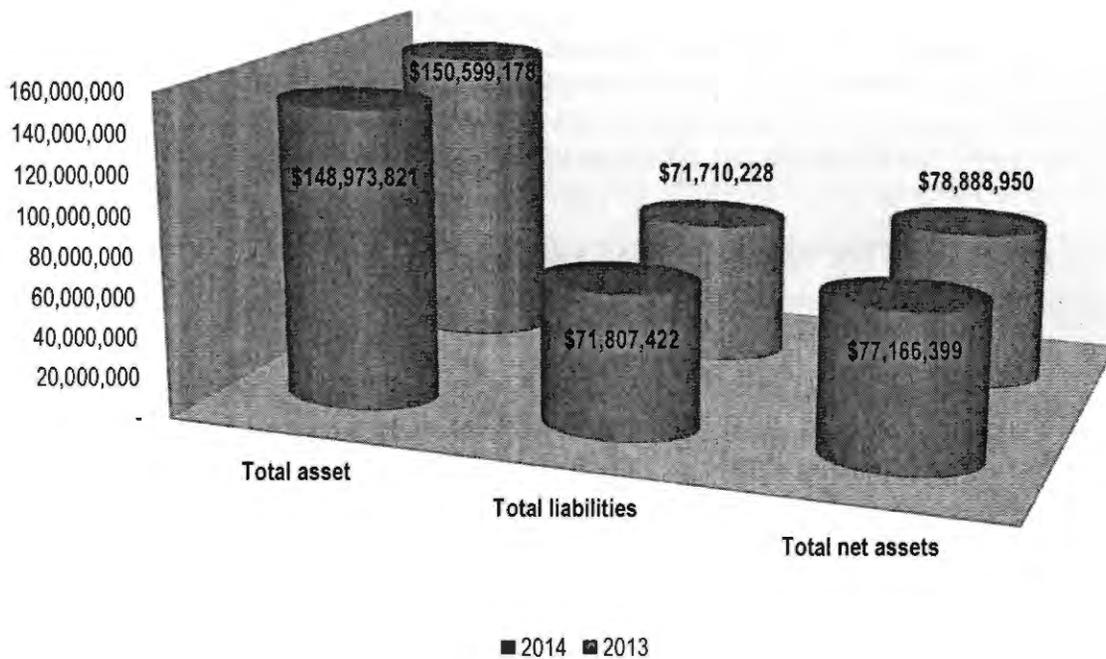
Net position

The Statement of Net Position 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 \$77,166,399 at the end of 2014, as compared with \$78,888,950, as restated, which reflect a decrease of \$1,722,551 over previous fiscal year. The following condensed Statements of Net Position of the Primary Government shows on a comparative basis the most important components of the \$(1,722,551) decrease reflected in the net position figure.

SPACE INTENTIONALLY LEFT IN BLANK.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net position	2014	2013	Increase (Decrease)	%
Current and other assets	\$ 18,015,522	\$ 19,807,143	\$ (1,791,621)	-9%
Capital assets	130,958,299	130,792,035	166,264	0.1%
Total assets	148,973,821	150,599,178	(1,625,357)	-1%
Current and other liabilities	9,520,080	8,903,931	616,149	7%
Long-term liabilities	62,287,342	62,806,297	(518,955)	-1%
Total liabilities	71,807,422	71,710,228	97,194	0.1%
Net investment in capital assets	78,349,299	87,574,587	(9,225,288)	-11%
Restricted	13,440,779	10,095,397	3,345,382	33%
Unrestricted deficit	(14,623,679)	(18,781,034)	4,157,355	-22%
Total net position	\$ 77,166,399	\$ 78,888,950	\$ (1,722,551)	-2%



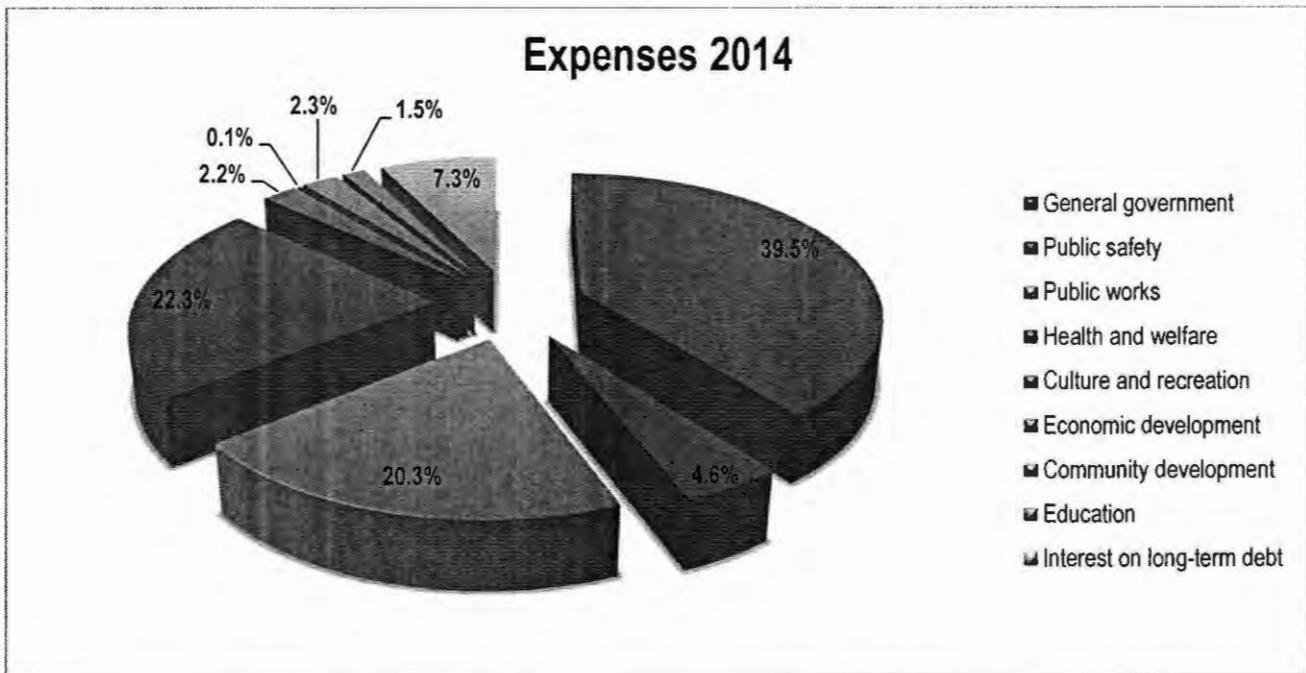
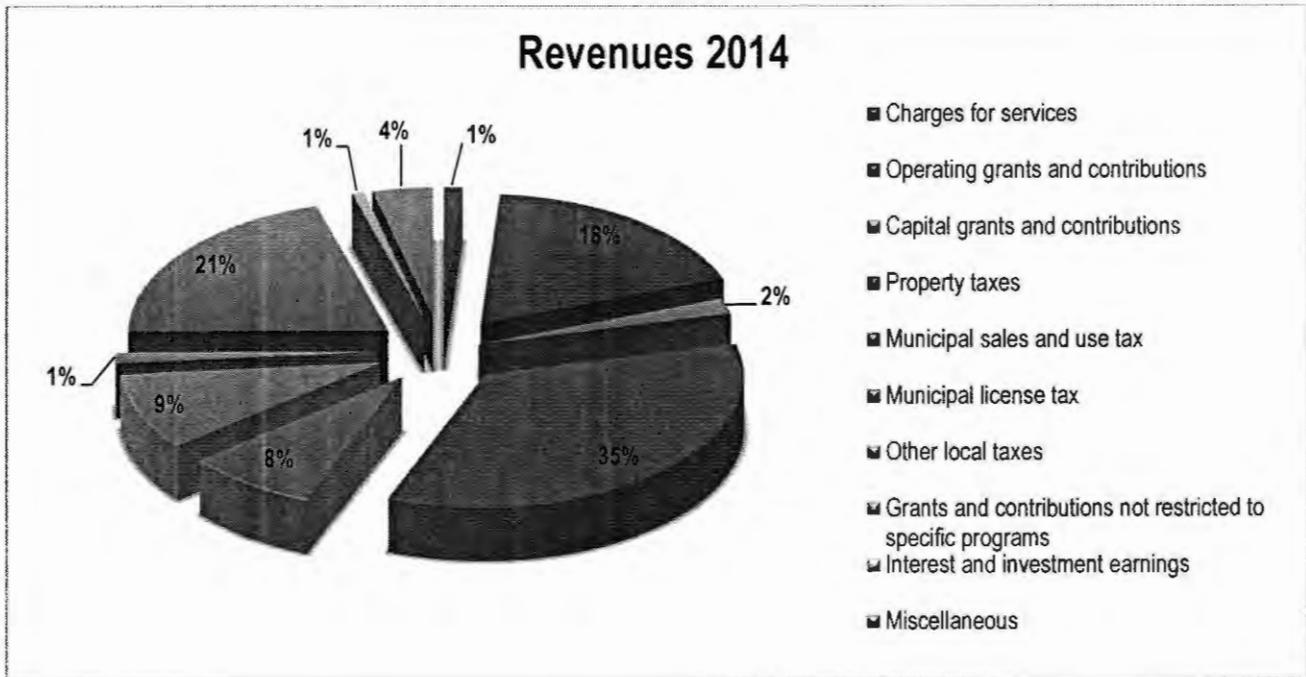
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in net position

The Statement of Activities reflects that, for fiscal year 2014, the net effect of the revenues derived from several programs plus current operating expenses, amounted to a deficit of \$1,722,551. As previously stated, such amount constituted a decrease in the Municipality's net position. Approximately fifty four percent (54%) of the Municipality's total revenue came from taxes, while forty-one percent (41%) resulted from grants and contributions, including federal aid. Charges for services provided one percent (1%) and interest and investment earnings less than one percent (.7%) 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, 2014 and 2013. Such analysis helps the reader to evaluate the Municipal administration's performance in the management of its current financial operations.

Condensed Statement of Activities	2014	2013	Increase (Decrease)	%
Program revenues:				
Charges for services	\$ 505,321	\$ 722,427	\$ (217,106)	-30%
Operating grants and contributions	7,771,646	7,785,148	(13,502)	-.18%
Capital grants and contributions	791,313	2,328,742	(1,537,429)	-66%
General revenues:				
Property taxes	14,883,577	13,650,276	1,233,301	9%
Municipal sales and use tax	3,506,100	3,134,587	371,513	12%
Municipal license tax	4,043,946	4,578,015	(534,069)	-12%
Other local taxes	586,604	1,674,561	(1,087,957)	-65%
Grants and contributions not restricted to specific programs	8,784,631	6,317,333	2,467,298	39%
Interest and investment earnings	318,302	624,517	(306,215)	-49%
Miscellaneous	1,612,587	651,560	961,027	147%
Total revenues	<u>42,804,027</u>	<u>41,467,166</u>	<u>1,336,861</u>	3%
Expenses:				
General government	17,567,464	13,319,247	4,248,217	32%
Public safety	2,034,670	2,121,828	(87,158)	-4%
Public works	9,046,688	11,080,218	(2,033,530)	-18%
Culture and recreation	1,001,353	2,188,533	(1,187,180)	-54%
Economic Development	24,341	48,208	(23,867)	-50%
Health and welfare	9,931,538	9,374,000	557,538	6%
Community development	1,011,260	1,409,849	(398,589)	-28%
Education	656,499	566,030	90,469	16%
Urban development		642,114	(642,114)	-100%
Interest on long-term debt	3,252,765	3,219,186	33,579	1%
Total expenses	<u>44,526,578</u>	<u>43,969,213</u>	<u>557,365</u>	1%
Change in net position	(1,722,551)	(2,502,047)	779,496	-31%
Net position, beginning of year, as restated	<u>78,888,950</u>	<u>81,390,997</u>	<u>(2,502,047)</u>	-3%
Net position, end of year	<u>\$ 77,166,399</u>	<u>\$ 78,888,950</u>	<u>\$ (1,722,551)</u>	-2%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



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, unassigned 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 \$7,511,928, which represents a decrease of \$3,344,969 when compared with the prior year, as restated. Such decrease is mainly attributable to the reduction in the current assets. The combined fund balances include restricted fund balance amounting to \$12,969,630. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions such as the following: 1) to pay for specific program purposes (\$3,667,808); 2) to pay for capital projects (\$5,818,792); and 3) to pay debt services (\$3,483,030). There are committed fund balances amounting to \$323,377 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 \$189,648 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, 2014, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of \$6,118,499. As previously mentioned, management is in the process of reviewing this negative financial situation through the design and enforcement of those measures that will contribute to reverse the declining trend of the Municipality's profitability. Some of these measures already implemented have produced positive results as reflected from the comparison of certain current expense items for the years 2012-2013 and 2013-2014.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2013-2014, the Municipal Legislature approved revisions to the operational budget that was prepared in accordance to the analysis of previous year's results. Despite of the balance budget, the expected amounts of revenues were not collected, as reflected in the exhibit Budgetary Comparison Schedule-General Fund attached here to. The **Municipality of Trujillo Alto's** current year operation had a deficiency of revenues over expenses of \$2,516,546. The main reasons for such deficiency have been explained in previous paragraphs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2014, amounted to \$178,696,026, which upon deduction of accumulated depreciation in the amount of \$47,737,727, produced a net book value attributable to capital assets in the amount of \$130,958,299. 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The total decrease in the Municipality's investment in capital assets for the current fiscal year represented approximately one percent (1%) of net book value. This decrease was due to depreciation expenses accumulated during the year. Depreciation charges for the year totaled \$4,543,768.

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, 2014, the Municipality had \$3,609,132 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. As previously mentioned, the reduction in said activities might continue of no effective action is taken to provide additional monies to finance the current improvement program.

Debt Administration

The Commonwealth Legislature of Puerto Rico 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 that a municipality must have sufficient "payment capacity" to incur in 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.

Under prevailing applicable law, the Municipality is required 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.

As mentioned in previous paragraphs in the notes of the Municipality's financial statements attached hereto, during the earlier months of the present year 2014, the Commonwealth Legislature approved Acts number 18 and 19. Through such legislation, the cash flow produced from collections by the municipalities of the sales and use taxes is completely restructured thru a creation of the Municipal Financial Corporations (known as COFIN in the Spanish anachronism) to provide additional liquidity to the Puerto Rico Government Development Bank's (GDB) weakened cash position. The new created affiliate to the GDB will receive those collections, and will assume the total indebtedness incurred by municipalities as of June 30, 2014. A portion estimated in .03% of total collections will be used for the payment of debt services requirement. In order to protect the municipality's cash flow, the GDB, on a monthly basis, will make advances to the municipalities included in the new arrangement, free of financing charges, equivalent to the monthly collections from the previous year. In the meantime, total liabilities incurred by de municipalities using the Municipal Redemption Fund will be refinanced and GDB will recover its borrowed cash.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

It is anticipated that under the arrangement, the municipalities will recover the total 1% of uses and sales tax and will get the assurance of future sources of financing either from GDB, from the new created affiliate or private financing institutions. Furthermore, the former Municipal Development Funds and the Bond Redemption funds will prevail under the new legislation. Its funding will be transferred from the .5% added to the Municipal Tax to be collected by the Secretary of the Treasury which will be first transfer to COFINA, which, upon compliance with its debt service obligation, will transfer .4% to each indicated municipal funds and .1% to a Municipal Improvement Fund, whose distribution to Municipalities will be determined by the Puerto Rico Legislative Assembly.

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 2014-2015 and subsequent fiscal years budgets.

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.

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 5,362,948
Cash with fiscal agent	11,628,686
Accounts receivable:	
Municipal sales and use tax	120,924
Interest	22,420
Others	47,116
Due from:	
Commonwealth Government	664,139
Federal Government	169,289
Capital assets	
Land, improvements, and construction in progress	53,626,518
Other capital assets, net of depreciation	77,331,781
Total capital assets	<u>130,958,299</u>
Total assets	<u>148,973,821</u>
Liabilities	
Accounts payable and accrued liabilities	4,864,662
Due to:	
Commonwealth Government	237,900
Unearned revenues:	
Municipal license tax	2,713,675
Interest payable	1,703,843
Noncurrent liabilities:	
Due within one year	3,820,288
Due in more than one year	58,467,054
Total liabilities	<u>71,807,422</u>
Net Position	
Net investment in capital assets	78,349,299
Restricted for:	
Capital projects	6,142,169
Debt service	3,483,030
Other purposes	3,815,580
Unrestricted (deficit)	<u>(14,623,679)</u>
Total net position	<u>\$ 77,166,399</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TRUJILLO ALTO

Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Position
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$ 17,567,464	\$ 261,291	\$ 330,880	\$ -	\$ (16,975,293)
Public safety	2,034,670	168,097	25,831		(1,840,742)
Public works	9,046,688	32,350	271,302	791,313	(7,951,723)
Health and welfare	9,931,538	4,740	6,913,981		(3,012,817)
Culture and recreation	1,001,353	25,922	229,652		(745,779)
Economic development	24,341				(24,341)
Community development	1,011,260				(1,011,260)
Education	656,499	12,921			(643,578)
Interest on long-term debt	3,252,765				(3,252,765)
Total governmental activities	\$ 44,526,578	\$ 505,321	\$ 7,771,646	\$ 791,313	(35,458,298)

General revenues:	
Property taxes	14,883,577
Municipal sales and use tax	3,506,100
Municipal license tax	4,043,946
Other local taxes	586,604
Grants and contributions not restricted to specific programs	8,784,631
Interest and investment earnings	318,302
Miscellaneous	1,612,587
Total general revenues	33,735,747
Change in net position	(1,722,551)
Net position - beginning, as restated	78,888,950
Net position - ending	\$ 77,166,399

	Major funds			Total Governmental Funds
	General Fund	Debt Service Fund	Other Governmental Funds	
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 5,362,948	\$ 5,362,948
Cash with fiscal agent	129,073	7,131,602	4,368,011	11,628,686
Accounts receivable:				
Municipal sales and use tax	120,924			120,924
Interest	22,420			22,420
Others	47,116			47,116
Due from:				
Commonwealth Government	600,310	63,829		664,139
Federal Government			169,289	169,289
Other funds	472,030		1,025,000	1,497,030
Advances to other funds	147,772			147,772
Total assets	\$ 1,539,645	\$ 7,195,431	\$ 10,925,248	\$ 19,660,324
Liabilities				
Accounts payable and accrued liabilities	\$ 3,135,442	\$ -	\$ 271,706	\$ 3,407,148
Mature bonds, notes and interest payable	168,350	3,712,401		3,880,751
Due to:				
Commonwealth Government	237,900			237,900
Other funds	1,025,000		472,030	1,497,030
Advances from other funds			147,772	147,772
Unearned revenues:				
Municipal license tax	2,713,675			2,713,675
Total liabilities	7,280,367	3,712,401	891,508	11,884,276
Deferred Inflows of Resources				
Unavailable revenues-Commonwealth Government	230,005			230,005
Unavailable revenues-Federal Government			34,115	34,115
Total deferred inflows of resources	230,005	-	34,115	264,120
Fund Balances (Deficit)				
Nonspendable	147,772			147,772
Restricted		3,483,030	9,486,600	12,969,630
Committed			323,377	323,377
Assigned			189,648	189,648
Unassigned	(6,118,499)			(6,118,499)
Total fund balances	(5,970,727)	3,483,030	9,999,625	7,511,928
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,143,950	\$ 7,195,431	\$ 1,388,730	\$ 21,264,943

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, 2014

	Major funds			Total Governmental Funds
	General Fund	Debt Service Fund	Other Governmental Funds	
Revenues				
Property taxes	\$ 9,642,454	\$ 5,241,123	\$ -	\$ 14,883,577
Municipal license taxes	4,043,946			4,043,946
Municipal sales and use tax	3,074,443	431,656		3,506,099
Licenses, permits and other local taxes	587,267			587,267
Charges for services			74,558	74,558
Intergovernmental	9,132,210		1,358,995	10,491,205
Rent of property	393,146		15,363	408,509
Interest	317,736		566	318,302
Federal grants			6,833,128	6,833,128
Miscellaneous	776,212		44,695	820,907
Total revenues	27,967,414	5,672,779	8,327,305	41,967,498
Expenditures				
Current:				
General government	20,957,192		7,321	20,964,513
Public safety	2,103,936		37,674	2,141,610
Public works	2,562,953		3,982,808	6,545,761
Health and welfare	3,404,641		6,505,279	9,909,920
Culture and recreation	653,731		307,489	961,220
Economic development			18,027	18,027
Community development	390,178		619,456	1,009,634
Urban development			1,252	1,252
Education	408,226		212,539	620,765
Debt service:				
Principal	100,000	2,402,000	210,000	2,712,000
Interest	584,855	2,549,355	118,555	3,252,765
Total expenditures	31,165,712	4,951,355	12,020,400	48,137,467
Excess (deficiency) of revenues over (under) expenditures	(3,198,298)	721,424	(3,693,095)	(6,169,969)
Other financing sources (uses)				
Transfers in	517,540		149,020	666,560
Transfers out	(149,020)	(517,540)		(666,560)
Long-term debt issued	2,155,000		670,000	2,825,000
Total other financing sources (uses)	2,523,520	(517,540)	819,020	2,825,000
Net change in fund balances	(674,778)	203,884	(2,874,075)	(3,344,969)
Fund balance, beginning as restated	(5,295,949)	3,279,146	12,873,700	10,856,897
Fund balance, ending	<u>\$ (5,970,727)</u>	<u>\$ 3,483,030</u>	<u>\$ 9,999,625</u>	<u>\$ 7,511,928</u>

Total Fund Balances - Governmental Funds \$ 7,511,928

Amounts reported for Governmental Activities in the Statement of Net Position 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	\$ 53,626,518	
Depreciable capital assets	125,069,508	
Accumulated depreciation	<u>(47,737,727)</u>	
Total capital assets		130,958,299

Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Due from Commonwealth Government:		
Christmas bonus reimbursement	230,005	
Others	<u>34,115</u>	
Total deferred inflows of resources		264,120

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds (225,092)

Accounts payable related to Construction in Progress are not due and payable in the current period and, therefore, are not reported in the funds. (1,457,514)

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:

General obligation bonds and notes	(52,402,000)	
Note payable to CRIM-Law No. 146	(866,833)	
Property tax advances debt	(30,254)	
Section 108 Loan Guarantee notes payable	(2,110,000)	
Compensated absences	(3,801,378)	
Claims and judgments	(179,676)	
Christmas bonus	<u>(495,201)</u>	
Total long-term liabilities		<u>(59,885,342)</u>

Total Net Position of Governmental Activities \$ 77,166,399

Net Change in Fund Balances - Total Governmental Funds **\$ (3,344,969)**

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 Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Expenditures for capital assets	\$ 3,586,319	
Less: current-year depreciation	<u>(4,543,768)</u>	(957,449)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Christmas bonus reimbursement (current year)	230,005	
Donated capital assets	819,112	
Others	<u>34,115</u>	1,083,232

Revenues reported in the funds that are not reported as revenues in the Statement of Activities:

Property taxes -General fund (current year)	(30,254)	
Christmas bonus reimbursement (prior year)	<u>(246,704)</u>	(276,958)

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Position, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities.

(6,475)

Accounts payable change is reported in the Government-Wide Statement of Activities and Change in Net Position, but not reported as in the Governmental Funds because they do not require the use of current financial resources. This is the amount reported in the current period.

1,059,689

Proceeds from general obligation bonds is another financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position

(2,825,000)

Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:

Matured bonds and notes principal payments (net change)		(66,000)
---	--	----------

Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	2,568,000	
Other long-term liabilities	<u>2,143,951</u>	4,711,951

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:

Christmas bonus	(495,201)	
Accrued compensated absences	(842,541)	
Accrued interest (net change)	<u>237,170</u>	(1,100,572)

Change in Net Position of Governmental Activities **\$ (1,722,551)**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous Municipality of Trujillo Alto (the Municipality)** was founded in 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 basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its governmental accounting and financial reporting standards which, along with subsequent GASB Statements and Interpretations, constitute GAAP for governmental entities.

A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the **Autonomous Municipality of Trujillo Alto** (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

1. The primary government appoints a voting majority of the entity's governing body, and either:
 - A financial benefit/ burden exist between the primary government and the entity or
 - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "special criteria" applies when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

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

3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate, tax-exempt organizations that do not meet the above special criteria should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component unit's balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government ("*blended component units*"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
 - A financial benefit/ burden exist between the primary government and the entity or
 - Management of the primary government has operational responsibility for the primary government.
2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
3. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units does not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("*discretely component units*"). Legally separate, tax-exempt organizations that meet the special criteria should be included as *discretely component units*.

Based on the above criteria, there are no potential component units which should be included as part of the financial statements.

B. Financial statement presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

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

Management's Discussion and Analysis

It provides a narrative introduction and analytical overview of the Municipality's financial activities.

Basic financial statements

The basic financial statements include both the government-wide and fund financial statements. Both sets of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

Government-wide Financial Statements (GWFS)

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the *economic resources* measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the *accrual basis of accounting*. Revenues are recognized in the period earned and expenses in the period in which the associated liability is incurred, regardless of the timing of related cash flows. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred).

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

In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Fund Financial Statements (FFS)

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criteria, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for and report all financial resources not accounted for and reported in another fund.

Debt Service Fund – This fund is used to account for and report financial resources that are restricted for expenditure for the payment of principal and interest of general obligation bonds and notes issued by the Municipality. This fund accounts for the resources of three individual funds: 1) "CAE Fund," the sinking fund which accounts for the 2% of property taxes collected by the Municipal Revenue Collection Center (CRIM); 2) "Municipal Redemption Fund," the sinking fund that accounts for the 0.2% of the 0.5% collected from the sales and use tax that is, by law, deposited in the Governmental Development Bank (GDB) for the financing of loans to Municipalities; and 3) operational loans that are paid from the general fund's operating revenues.

The FFS are accounted for using the *current financial resources* measurement focus and the *modified-accrual basis of accounting*. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both *measurable* and *available*).

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues susceptible to accrual include property taxes, recognized as revenue in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available.

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

There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized at the time of receipt or earlier, if the susceptible-to-accrual criterion is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible-to-accrual criterion is met.

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants, if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case, amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits, which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the GWFS, the expense and related accrual liability for long-term portions of debt must be included).

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 of the FFS. Likewise, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

Since the FFS are presented on a different measurement focus and basis of accounting than the GWFS, reconciliation is necessary to explain the adjustments needed to transform the FFS into the GWFS. This reconciliation is part of the financial statements.

Notes to financial statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

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

C. Financial reporting presentation

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

General Fund – 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.

Special Revenue Funds – Is a 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 Funds – is a 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.

D. Deposits and investments

The Municipality's cash and cash equivalents consist of cash on hand, demand deposits, and short-term **investments** with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards.

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

The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest 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 the GDB.

E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

F. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the general and debt service funds represent property tax revenues of the current fiscal year collected by the CRIM on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the special revenue or capital project funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

G. Interfund receivables and payables

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to 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 among funds are reported as "due from/to other funds".

Advances between funds, as reported in the fund financial statements, if any, are reported as "nonspendable" in the fund balance section of the Balance Sheet to indicate that they are not available for appropriation and are not expendable available financial resources.

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

H. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

I. Capital assets

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items). The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than \$25 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Buildings and site improvements	40 years
Infrastructure	40 years
Vehicles	5 years
Furniture and fixtures	5 years
Machinery and equipment	3 to 5 years

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

J. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

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

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

K. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Position, include general and special obligation bonds and notes, liabilities for compensated absences, claims and judgments, landfill closure and post-closure costs and long-term liabilities to other governmental entities.

Related bond issuance costs, whenever arise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

L. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave.

Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

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

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

M. 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 they matured (generally, when payment is due). The accompanying government-wide financial statements include an amount estimated as a contingent liability for liabilities as incurred.

N. Net position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

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

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is 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.

O. Net position flow assumption

Sometimes, the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

P. Fund balances

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") establish accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

Nonspendable: Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted: Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed: Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

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

Assigned: Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.

Unassigned: Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

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 balances amounts as of for the fiscal year ended June 30, 2014.

Q. Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

R. Accounting for pension costs

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.

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

For the purpose of applying the requirements of GASBS No. 27, the Commonwealth 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 defined 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 Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the Commonwealth's financial reporting entity.

S. 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 "Transfers-in" by the recipient fund and as "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.

T. Risk financing

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law Num. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance and health plan coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums is financed through a payment plan made with an insurance financing company, and the monthly payments are deducted from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The annual premium is also deducted from the monthly advances by the CRIM.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability or death because of work or employment-related accidents or due to a non-occupational disability.

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

The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks by each employee covered by law.

U. Use of Estimates

The preparation of the basic 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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

V. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

1. **GASB Statement No. 68 "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).
2. **GASB Statement No. 69 "Government Combinations and Disposals of Government Operations."** The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).
3. **GASB Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees."** The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013 (fiscal year ended June 30, 2015).
4. **GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date."** The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 (fiscal year ended June 30, 2015).

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

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.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2014.

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, 2014, (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, 2014, 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, 2014, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

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

In addition, public funds deposited in commercial banks are fully collateralized under the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014.

Therefore, the Municipality's management has concluded that at June 30, 2014 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, 2014.

Deposits - At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$5,362,948 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amounts to \$11,628,686 as of June 30, 2014.

3. RECEIVABLES

A. Municipal sales and use taxes

On July 4, 2006, the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80) which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. Effective January 1, 2011 the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050 the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue \$3,074,443 in the general fund corresponding to the 1% imposition and \$431,656 in the debt service fund corresponding to the Municipal Redemption Fund.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable of \$120,924 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 10, net of uncollectible accounts.

3. RECEIVABLES (CONTINUED)

On June 30, 2013, the Commonwealth approved Act No. 40 which among other things, reduces the municipal sales and use tax from 1.5% to 1% and increasing the Commonwealth sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

Act No. 18 of January 24, 2014

The purpose of this Act is to create a special fund called Municipal Administration Fund (FAM) under custody of the Governmental Development Bank of Puerto Rico ("GDB") that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds during a transitory period from February 1, 2014 to June 30, 2014 the Commonwealth will deposit \$43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

After July 1, 2014 the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The **Autonomous Municipality of Trujillo Alto** signed the agreement to be covered.

For municipalities covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,

3. RECEIVABLES (CONTINUED)

- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities has the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

Act No. 19 of January 24, 2014

The purpose of this Act is to create the Municipal Finance Corporation (COFIM) a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

4. DUE FROM (TO) GOVERNMENTAL ENTITIES

A. Amounts due from governmental entities as of June 30, 2014 are as follows:

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<u>Major fund – General fund:</u>		
PR Department of Treasury-Christmas bonus reimbursement	\$ 230,005	\$ -
PR Housing Department	370,305	
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes	63,829	
<u>Other Governmental Funds:</u>		
US Department of Housing and Urban Development-Community Development Block Grant		70,356
US Department of Housing and Urban Development-Home Investment Partnership Program		64,818
PR Transit Safety Commission-Incentive Grants		34,115
	<u>\$ 664,139</u>	<u>\$ 169,289</u>

5. INTERFUND TRANSACTIONS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds” (i.e., current portion of interfund loans).

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	Other Governmental Funds	Reimbursable Expenditures	\$ 472,030
Other Governmental Funds	General Fund	Short-term borrowings	<u>1,025,000</u>
Total			<u>\$ 1,497,030</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Transfer of funds for operational activities	\$ 149,020
Debt Service Fund	General Fund	Transfer of excess funds available in sinking fund for use in operating activities	<u>517,540</u>
Total			<u>\$ 666,560</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Bank overdraft	\$ 574,641	\$ -	\$ -	\$ 574,641
Accounts payable	1,928,017		271,706	2,199,723
Accrued liabilities	632,784			632,784
Total	\$ 3,135,442	\$ -	\$ 271,706	\$ 3,407,148

7. DUE TO OTHER GOVERNMENTAL ENTITIES

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

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 207,562
Puerto Rico Telephone Company	29,676
General Services Administration	662
Total	\$ 237,900

8. UNEARNED REVENUES

The amounts reported as unearned revenues as of June 30, 2014 are detail as follows:

	<u>Amount</u>
Major fund – General fund:	
Municipal license taxes collected in the fiscal year 2013-2014 that correspond to the 2014-2015 fiscal year budget	\$ 2,713,675
	\$ 2,713,675

9. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	<u>Commonwealth Government</u>	<u>Federal Government</u>
Major fund - General fund:		
P.R. Department of Treasury – Christmas bonus reimbursement	\$ 230,005	

9. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS (CONTINUED)

	Commonwealth Government	Federal Government
Other governmental funds:		
PR Transit Safety Commission-Incentive Grants		34,115
	\$ 230,005	\$ 34,115

10. FUND BALANCE (DEFICIT)

As of June 30 2014, fund balance (deficit) is comprised of the following:

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable				
Interfund loan receivable	\$ 147,772	\$ -	\$ -	\$ 147,772
Restricted				
General government			39,639	39,639
Public safety			9,189	9,189
Public works			5,618,758	5,618,758
Health and welfare			2,764,242	2,764,242
Culture and recreation			804,935	804,935
Economic development			4,733	4,733
Community development			1,558	1,558
Urban development			95,382	95,382
Education			148,164	148,164
Debt service		3,483,030		3,483,030
Committed				
General government			2,571	2,571
Public works			320,806	320,806
Assigned				
General government			81,332	81,332
Public works			36,265	36,265
Health and welfare			8,100	8,100
Culture and recreation			63,951	63,951
Unassigned	(6,118,499)			(6,118,499)
Total fund balances	\$ (5,970,727)	\$ 3,483,030	\$ 9,999,625	\$ 7,511,928

11. 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 2014, 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>	Balance July 1, 2013, as restated	Additions	Retirements	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 43,446,765	\$ 1,579,350	\$ -	\$ 45,026,115
Construction in progress	12,634,627	1,735,694	(5,769,918)	8,600,403
Total capital assets not being depreciated	<u>56,081,392</u>	<u>3,315,044</u>	<u>(5,769,918)</u>	<u>53,626,518</u>
Capital assets, being depreciated:				
Buildings	35,516,076	663,932		36,180,008
Buildings improvements	31,783,834	2,720,787		34,504,621
Infrastructure	18,940,977	90,086		19,031,063
Infrastructure improvements	18,991,823	2,512,260		21,504,083
Equipment	2,922,989	241,916	(88,352)	3,076,553
Furnishings	1,380,088	93,471	(8,848)	1,464,711
Computers	755,256	129,201	(34,535)	849,922
Works of art	190,000	22,435		212,435
Vehicles	8,691,954	386,217	(832,059)	8,246,112
Total capital assets being depreciated	<u>119,172,997</u>	<u>6,860,305</u>	<u>(963,794)</u>	<u>125,069,508</u>
Less accumulated depreciation for:				
Buildings	(10,763,817)	(895,532)		(11,659,349)
Buildings improvements	(3,306,948)	(873,390)		(4,180,338)
Infrastructure	(12,764,101)	(457,487)		(13,221,588)
Infrastructure improvements	(6,010,973)	(1,357,962)		(7,368,935)
Equipment	(2,221,986)	(281,656)	82,410	(2,421,232)
Furnishings	(1,266,015)	(39,533)	8,599	(1,296,949)
Computers	(653,430)	(66,030)	34,251	(685,209)
Vehicles	(7,164,008)	(572,178)	832,059	(6,904,127)
Total accumulated depreciation	<u>(44,151,278)</u>	<u>(4,543,768)</u>	<u>957,319</u>	<u>(47,737,727)</u>
Total capital assets being depreciated, net	<u>75,021,719</u>	<u>2,316,537</u>	<u>(6,475)</u>	<u>77,331,781</u>
Governmental activities capital assets, net	<u>\$ 131,103,111</u>	<u>\$ 5,631,581</u>	<u>\$ (5,776,393)</u>	<u>\$ 130,958,299</u>

11. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	\$ 2,098,716
Public safety	227,385
Public works	1,072,484
Culture and recreation	840,182
Health and welfare	103,514
Community development	188,367
Education	13,120
Total depreciation expense-governmental activities	\$ 4,543,768

12. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014, was as follows:

Description	Beginning Balance, as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 48,760,000	\$ 2,155,000	\$ (2,045,000)	\$ 48,870,000	\$ 1,870,000
Notes payable	5,787,000	670,000	(523,000)	5,934,000	637,000
Section 108-LGA	2,320,000		(210,000)	2,110,000	210,000
Property tax debt- Law No. 146	914,991		(48,158)	866,833	48,157
Property tax advances	582,380	30,254	(582,380)	30,254	30,254
Claims and judgments	182,176		(2,500)	179,676	179,676
Compensated absences	3,728,595	842,541	(769,758)	3,801,378	350,000
Christmas bonus	531,155	495,201	(531,155)	495,201	495,201
Total	\$ 62,806,297	\$ 4,192,996	\$ (4,711,951)	\$ 62,287,342	\$ 3,820,288

- 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, 2014 are as follows:

Description	Balance at June 30, 2014
2013 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%	\$ 6,915,000

12. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2014
2013 General bond obligation for operational expenditures with an original amount \$1,400,000 due in installments of \$20,000 to \$120,000 through July 1, 2038, with interest from 6.0% to 7.50%	1,380,000
2012 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%	7,050,000
2012 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%	770,000
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%	5,320,000
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%	4,810,000
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%	1,085,000
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%	2,295,000
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%	3,095,000
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%	4,015,000
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%	265,000
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%	190,000
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%	2,950,000
2014 General bond obligation for operational expenditures with an original amount \$2,155,000 due in installments of \$420,000 to \$975,000 through July 1, 2022, with interest ranging from 5.78% to 6.56%	6,575,000
1994 General bond obligation for construction and improvement of infrastructure assets with an original amount \$3,390,000 due in installments of \$35,000 to \$175,000 through July 1, 2039, with interest of 6.00% to 7.00%	2,155,000
Total general obligation bonds	\$ 48,870,000

12. 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.

These bonds, except the 2010 Series \$ 5,090,000 bond and the 2011 Series \$805,000, are payable from the special 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 2010 Series \$5,090,000 bond is payable with General Fund resources. The Series 2011 amounting \$805,000 is payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Commonwealth of Puerto Rico Treasury Department.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,870,000	\$ 2,848,046
2016	2,010,000	3,016,697
2017	2,165,000	2,886,089
2018	2,315,000	2,760,004
2019	2,480,000	2,622,171
2020-2024	14,405,000	10,420,321
2025-2029	14,125,000	5,776,421
2030-2034	7,770,000	1,571,531
2035-2039	<u>1,730,000</u>	<u>231,325</u>
Total	<u>\$ 48,870,000</u>	<u>\$ 32,132,605</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, 2014</u>
2012 Series General Obligation Note	7/1/2018	\$ 441,000	6% to 7.5%	\$ 279,000
2010 Series General Obligation Note	7/1/2020	305,000	4.75% to 7.50%	150,000
2010 Series General Obligation Note	7/1/2020	1,985,000	6.00% to 7.50%	975,000
2008 Series General Obligation Note	7/1/1932	3,705,000	7.50%	3,405,000
2013 Series General Obligation Note	7/1/2019	590,000	6.00% to 7.50%	455,000
2014 Series General Obligation Note	7/1/2021	670,000	6.00% to 7.50%	<u>670,000</u>
Total notes payable				<u>\$ 5,934,000</u>

These notes 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. The Series 2008 and the Series 2012, 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.

12. 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>
2015	\$ 637,000	\$ 226,459
2016	697,000	368,375
2017	762,000	314,100
2018	383,000	271,625
2019	325,000	245,562
2020-2024	950,000	976,863
2025-2029	1,050,000	631,875
2030-2034	<u>1,130,000</u>	<u>175,125</u>
Total	<u>\$ 5,934,000</u>	<u>\$ 3,209,984</u>

- D. Section 108 Loan Guarantee notes payable-** The Municipality entered into a financing agreement with the US Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The agreement was issued on August 2003, for \$4,000,000. The proceeds of the loan will be used for the following activities: (1) Municipal Public Safety Complex; (2) Improvement to "Parque Familiar"; (3) "Museo & Casa de la Cultura"; (4) PRIDCO Building-State Government Services Center; and (5) "Extensión Parque Kennedy". This note is payable in annual installments of \$210,000 to \$215,000 through August 1, 2023. The payment of principal and interest of the note are made from appropriation of funds from the Community Development Block Grants/Entitlement Grants Program. Debt Service requirement in future years is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 210,000	\$ 108,307
2016	210,000	97,807
2017	210,000	87,034
2018	210,000	76,030
2019	210,000	64,827
2020-2024	<u>1,060,000</u>	<u>150,259</u>
Total	<u>\$ 2,110,000</u>	<u>\$ 584,264</u>

- E. Property Taxes Debts (Law No. 146, and Property tax advances)-** These amounts represents the balance owed to the Municipal Revenue Collection Center ("CRIM") at June 30, 2014 as described in Note 13.
- F. Compensated absences-** The government-wide statement of net position includes approximately \$1,768,968 of accrued sick leave benefits, and approximately \$2,032,410 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- G. Christmas bonus -** represents the accrued portion corresponding to the fiscal year 2014 of the Christmas bonus to be paid in December 2014. The outstanding amount is \$495,201.

13. 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 final liquidation noting that advances exceeded collections by \$30,254.

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 through 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 2014, the related unpaid balances of this note included in the statement of net position amounted to \$866,833.

13. PROPERTY TAXES (CONTINUED)

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.

14. PENSION PLAN

A. Act No. 447 and System 2000 (until June 30, 2013)

As of June 30, 2014 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems.

The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The system operates under *Act 447, approved on May 15, 1951* effective on January 1, 1952 and *Act 1 of February 16, 1990* for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended *Act No. 447 of 1951* and *Act 1 of February 16, 1990* to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan.

14. PENSION PLAN (CONTINUED)

There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would 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 System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was \$10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 11.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

B. Act No. 3 of 2013 (beginning July 1, 2013)

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").
- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act No. 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

14. PENSION PLAN (CONTINUED)

- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.
- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment)
- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.000%.
- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- Retirement age was modified as follows:
 - ✓ Act No. 447 regular employees: age 58 to 61,
 - ✓ Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
 - ✓ Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- Due to changes to Special Laws (see note 14), the minimum monthly pension for current retirees was increased from \$400 to \$500.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 ($\$5,000 \times .25\%$).
- Survivor benefits were modified.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

14. PENSION PLAN (CONTINUED)

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>	<u>Law. No. 3</u>
2014	\$ -	\$ -	\$ 655,042
2013	\$ 414,841	\$ 314,608	\$ -
2012	\$ 441,413	\$ 309,814	\$ -

C. Act No. 32 of 2013 (beginning July 1, 2013)

On June 25, 2013, Act No. 32 was approved in order to amend Act No. 447 of 1957 by creating a new Article 5-117 *Additional Uniform Contribution (AUC)*, with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

Act No. 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars (\$140,000,000).
- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars (\$1,000,000,000). If, for any fiscal, the certified AUD is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

For the fiscal year 2013-2014, \$41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)). For the fiscal year ended June 30, 2014, the AUC partially subsidy received by the Municipality from OMB was \$143,550, which equaled the total contribution required.

15. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 16, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

Reduction in the Christmas bonus from \$600 to \$200 (current retirees),

- Elimination of summer bonus of \$100 (current retirees),
- No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees).
- Eliminated all Special Law benefits to future retirees.

Act No. 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

16. 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.

17. 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, 2014, 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 \$179,676 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.

18. RESTATEMENT OF FUND BALANCE AND NET POSITION

The following table disclosed the net change in fund balances and net position at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

	Fund Financial Statements			Government-wide Financial Statement
	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Net Position
Total fund balances/ net position, at beginning of year, as previously reported	\$ 9,013,743	\$ 7,044,895	\$ 2,931,930	\$ 77,934,298
Reclassification of funds to other governmental funds	(9,013,743)		9,013,743	
Correction of errors:				
Overstatement of unearned revenues-Federal Government			906,871	906,871
Overstatement of accounts payable			21,156	21,156
Understatement of matured bonds and interest payable		(3,765,749)		
Understatement of Christmas Bonus				(531,155)
Understatement of intergovernmental revenues				246,704
Understatement of Capital Assets				311,076
Fund balance/ net position, beginning as restated	\$ -	\$ 3,279,146	\$ 12,873,700	\$ 78,888,950

19. SUBSEQUENT EVENTS

Implementation of Acts 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014 (see note 3). The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM).

For those municipalities that signed the agreement to be covered by these Acts (including the **Municipality of Trujillo Alto**), the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality.

If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act No. 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA).

19. SUBSEQUENT EVENTS (CONTINUED)

The RFA for fiscal year 2014-2015 will be \$65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincon) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

On the other hand, the Governing Board of COFIM has not established an implementation date for the remaining 62 municipalities. However, for those municipalities that voluntarily decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014.

For those municipalities that want to be certified as collection agents for COFIM, the implementation date is January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base. The **Municipality of Trujillo Alto** has submitted the application to be a certified collection agent and is awaiting approval from COFIM.

At present, both the Executive and Legislative levels are considering a proposed new Puerto Rico Internal Revenue Code. The main amendments to the prevailing Code rest on the implementation of a Value Added Tax which may eliminate the IVU, will provide new Income Tax exemptions, may improve cash flow to the Commonwealth General Fund and introduce significant amendments to Acts 18 and 19 previously mentioned.

Implementation of Act No. 57 of May, 2014 Puerto Rico Energetic Transformation and Relief Act

On May 22, 2014, the Commonwealth Legislature approved Act No. 57 that includes the adoption of an aggressive public policy of energy conservation and use by the Public Sector facilities. Said Act established, among other things, a significant amendment to the actual calculation of the Annual Contribution in Lieu of Taxes that the Puerto Rico Electric Power Authority (PREPA) must pay to the Municipalities. This amendment includes: (1) A mechanism to achieve efficiency in the energy used by the municipalities, by establishing a maximum base amount on the annual energy consumption; (2) An special incentive to all municipalities that comply with the base amount determined as the maximum annual energy consumption; and (3) A uniform formula to calculate the maximum base amount of annual consumption that will be measured in a three-year interval. Said Act delegated the oversight and regulatory functions to the State Office of Energetic Public Policy and to the Energy Regulatory Commission. These changes will apply to the fiscal year 2014-2015.

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 8,724,300	\$ 8,724,300	\$ 9,642,454	\$ 918,154
Municipal license tax	4,400,000	4,400,000	4,043,946	(356,054)
Municipal sales and use tax	2,910,000	2,910,000	2,953,519	43,519
Licenses, permits and other local taxes	5,967,802	5,967,802	587,267	(5,380,535)
Intergovernmental	5,949,593	5,949,593	6,305,761	356,168
Rent of property	525,000	525,000	392,794	(132,206)
Interest	400,000	400,000	329,634	(70,366)
Miscellaneous	175,000	175,000	409,086	234,086
Total revenues	29,051,695	29,051,695	24,664,461	(4,387,234)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	17,133,277	18,649,182	17,699,706	949,476
Public safety	2,468,216	2,163,521	2,103,936	59,585
Public works	3,237,215	3,002,976	2,562,953	440,023
Health and welfare	4,208,012	3,656,967	3,404,641	252,326
Culture and recreation	1,041,869	768,972	653,731	115,241
Community development	471,975	362,925	347,814	15,111
Education	491,131	447,154	408,226	38,928
Total expenditures, encumbrances and other financing uses	29,051,695	29,051,695	27,181,007	1,870,688
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ (2,516,546)	\$ (2,516,546)
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 24,664,461
Differences-budget to GAAP:				
Non-budgeted transfer in				517,540
GAAP adjustments to revenues				3,302,952
Non-budgeted other financing source				2,155,000
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 30,639,954
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 27,181,007
Differences-budget to GAAP:				
Non-budgeted expenditures				3,271,884
Non-budgeted transfer out				149,020
Prior year encumbrances recorded as current year expenditures for GAAP basis				712,819
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 31,314,732

See notes to the Budgetary Comparison Schedule-General Fund.

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 assignments 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, 2014 representing original budget. There were no supplemental appropriations for the year ended June 30, 2014.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
BALANCE SHEET		
Assets	Current Assets Cash	
111	Cash - Unrestricted	\$ 312,648
113	Cash - Other Restricted	197,259
100	Total Cash	<u>509,907</u>
144	Inter Program Due From	314
150	Total Current Assets	<u>510,221</u>
	Non-Current Assets	
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	272,314
166	Accumulated Depreciation	(161,172)
160	Total Capital Assets, Net of Accumulated Depreciation	<u>111,142</u>
180	Total Non-Current Assets	111,142
190	Total Assets	<u>621,363</u>
290	Total Assets and Deferred Outflow of Resources	<u>621,363</u>
Liabilities and Equity	Liabilities	
300	Total Liabilities	-
312	Accounts Payable <= 90 Days	22,952
333	Accounts Payable Other Government	52,065
347	Inter Program-Due To	3,547
310	Total Current Liabilities	<u>78,564</u>
190	Total Liabilities	<u>78,564</u>
400	Deferred Inflow of Resources	-
Equity	Equity	
508.4	Net Investment in Capital Assets	111,142
511.4	Restricted Net Position	197,259
512.4	Unrestricted Net Position	234,398
513	Total Equity - Net Assets/Position	<u>542,799</u>
600	Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position	<u>\$ 621,363</u>

See notes to the Financial Data Schedule.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
INCOME STATEMENT		
70600	HUD PHA Operating Grants	\$ 3,441,747
71400	Fraud Recovery	7,606
72000	Investment Income - Restricted	5,564
70000	Total Revenues	<u>3,454,917</u>
Expenses Administrative:		
91100	Administrative Salaries	146,598
91200	Auditing Fees	2,051
91500	Employee Benefit Contributions - Administrative	86,286
91000	Total Operating - Administrative	<u>234,935</u>
96200	Other General Expenses	268,072
96000	Total Other General Expenses	<u>268,072</u>
96900	Total Operating Expenses	<u>503,007</u>
97000	Excess of Operating Revenue over Operating Expenses	2,951,910
97300	Housing Assistance Payments	3,248,014
97400	Depreciation Expense	13,943
90000	Total Expenses	<u>3,764,964</u>
10000	Excess (Deficiency) of Total Revenues Over (Under) Total Expenses	<u>\$ (310,047)</u>
Memo Account Information:		
*11030	Beginning Equity	\$ 852,846
*11170	Administrative Fee Equity	\$ 369,737
*11180	Housing Assistance Payments Equity	\$ 173,062
*11190	Unit Months Available	501
*11210	Number of Unit Months Available	438

See notes to the Financial Data Schedule.

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) presents the financial position of the Section 8 Housing Choice Voucher Program and the Section 8 Moderate Rehabilitation Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by the Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC) as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Program: Community Development Block Grants – Entitlement Grants	14.218		\$ 885,011
Direct Program: Home Investment Partnership Program	14.239		696,056
Direct Program: Community Development Block Grants – Section 108 Loan Guarantee	14.248		1,252
Direct Program: Section 8 Housing Choice Voucher	14.871		3,441,747
Direct Program: Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856		1,446,906
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan: Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>78,300</u>
Total U.S. Department of Housing and Urban Development			<u>6,549,272</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-through the Commonwealth of Puerto Rico – Transit Safety Commission: Incentive Grants	20.600	Not Available	<u>59,947</u>
Total U.S. Department of Transportation			<u>59,947</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>			
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	105,410
Nutrition Services Incentives Program	93.053	Not Available	<u>50,369</u>
Total U.S. Department of Health and Human Services			<u>155,779</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,764,998</u>

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

2. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Others Governmental Funds
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 6,764,998
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program and Section 8 Moderate Rehabilitation	605,894
Non-federal awards expenditures	<u>4,649,508</u>
Total expenditures, fund statements	<u>\$ 12,020,400</u>

3. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2014, the Municipality paid the amount of \$210,000 in principal as repayment of Section 108 Loan Guarantee Assistance Notes (LGA).



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 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, 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated February 17, 2015.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Trujillo Alto's** internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item **14-01** through **14-04** that we consider to be significant deficiencies.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Autonomous Municipality of Trujillo Alto's** financial statements are free from 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*.

Autonomous Municipality of Trujillo Alto's Response to Findings

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. **Autonomous Municipality of Trujillo Alto's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 17, 2015

Stamp No. 2675876 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



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Members:

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited **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 **Autonomous Municipality of Trujillo Alto's** major federal programs for the year ended June 30, 2014. **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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Autonomous Municipality of Trujillo Alto's** major federal programs based on our audit of the types of compliance requirements referred to above. 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 **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 on compliance for each major federal program. However, our audit does not provide a legal determination of **Autonomous Municipality of Trujillo Alto's** compliance.

Opinion on Each Major Federal Program

In our opinion, **Autonomous Municipality of Trujillo Alto** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **14-04** through **14-06**. Our opinion on each major federal program is not modified with respect to these matters.

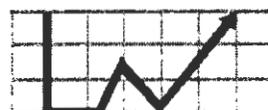
The **Municipality of Trujillo Alto's** response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Autonomous Municipality of Trujillo Alto's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Autonomous Municipality of Trujillo Alto is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Autonomous Municipality of Trujillo Alto's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.



López-Vega, CPA, PSC

Certified Public Accountants - Management Advisors

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 14-04 through 14-06, to be significant deficiencies.

Autonomous Municipality of Trujillo Alto's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Autonomous Municipality of Trujillo Alto's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

We noted certain matters that we reported to management of the **Autonomous Municipality of Trujillo Alto** in a separate letter dated February 17, 2015.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 17, 2015

Stamp No. 2675877 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

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal awards

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	CDBG-Entitlement grants Cluster:
14.218	Community Development Block Grant-Entitlement Grant
14.239	Section 8 Housing Choice Vouchers
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation Program
14.871	Section 8 Housing Choice Vouchers

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

Section II – Financial Statements Findings

Finding Reference	2014-001
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's 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	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None

Section II – Financial Statements Findings

Finding Reference **2014-001 (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: January 2016

Responsible Person: Milta Bermúdez, Finance Director

Section II – Financial Statements Findings

Finding Reference	2014-002
Requirement	Operating deficit of general fund
Statement of Condition	As of June 30, 2014, the Municipality closed with an accumulated unassigned (deficit) fund balance of \$5,970,727 in the general fund as presented in the balance sheet-governmental funds.
Criteria	<p>Article 7.011, Section (a) of Autonomous Municipal Act (Law 81) establishes that if the Municipal 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.</p> <p>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.</p> <p>Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (The regulation) states that the Municipality should prepare the annual budget using the next revenues in order to avoid operational deficits.</p>
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.
Questioned Costs	None
Management Response and Corrective Action	Management is aware of the continued trend of accumulated deficits been reflected in the Municipality's financial statements during the last three fiscal years ending of June 30, 2012, 2013 and 2014. Such deficits are mainly attributable to various factors related to the serious economic recession being faced by the Island for more than seven years. Such event is beyond management control. The real estate sector has been one of the most adversely affected by the economic contraction. Contractors and investors have assumed a more conservative position in project development, especially in the area of housing since the prevailing market environment has moved sales to the real estate owned (REO's).

Section II – Financial Statements Findings

Finding Reference **2014-002 (Continued)**

**Management Response
and Corrective Action** (Continued)

This in turn has remarkably limited the collection of a special taxes levied by the Municipality over construction costs. Sources of financing from financial institutions have been highly controlled by federal regulators.

In view of the aforementioned situation, management will adopt a more conservative approach towards revenues estimates and will implement a cost control program to attain additional savings in current expenses. Such control include among others, wages and salaries, fringe benefits, maintenance expenses, and other related items.

Implementation Date: During Fiscal Year 2014-2015

Responsible Person: Mrs. Milta Bermúdez, Finance Director

Section II – Financial Statements Findings

Finding Reference	2014-003
Requirement	Inadequate Interfund Transactions
Statement of Condition	The Municipality transferred certain restricted funds to the general operating fund on a temporary basis. These funds were granted by the Commonwealth of Puerto Rico for specific restricted purposes. However, these funds have been properly reflected in the accompanying basic financial statements as amounts due to and due from the respective funds.
Criteria	This situation referred to above departs from the provisions of Section 8 of Act No. 179-2002 and Section 8.004 (c) of the Act No. 81-1991. Also, Memorandum Circular No.93-94 of November 17, 1993, issued by the Commissioner of Municipal Affairs.
Cause of Condition	Lack of cash flow at certain times of the fiscal year.
Effect of Condition	The situation referred to above resulted in the use of funds appropriated for purposes other than the ones for which they were approved and authorized.
Recommendation	The Municipality should immediately refund amount owed to the restricted funds.
Questioned Costs	None
Management Response and Corrective Action	<p>Transfer of monies from Special Funds appropriated for specific purposes to the Municipal General Fund constituted a non-acceptable transaction which has never occurred in the Municipality's past performance. Management explained that Municipality's liquidity levels have been continuously deteriorated also as a result of the downward trend being reflected in current collections. Urgent cash needs to provide for the cost of urgent disbursements, caused the erroneous transfer which management assures should have never occurred. Aside from taking corrective action to avoid recurrence of such transfers, the Municipality continues to maintain an aggressive program to improve collections from all current income items.</p> <p>Implementation Date: During Fiscal Year 2014-2015</p> <p>Responsible Person: Mrs. Milta Bermúdez, Finance Director</p>

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2014-004
Program	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation Program CFDA (14.856) U.S. Department of Housing and Urban Development
Requirement	Financial Reporting
Statement of Condition	During our audit, we noted that the HUD-52681, Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169) was not submitted for the year audited.
Criteria	Chapter 8 of the Housing Assistance Payment Program Accounting Handbook established the requirement of submitting the form HUD-52681, Voucher for Payment of Annual Contributions.
Cause of Condition	The Municipality did not maintain appropriate procedures in order to assure the financial information is accounted and reported timely to the federal agencies.
Effect of Condition	The Municipality is not in compliance with the Housing Assistance Payment Program Accounting Handbook.
Recommendation	We recommended Management to instruct the program accountant to follow financial management and accounting procedures established in the Housing Assistance Payment Program Accounting Handbook.
Questioned Cost	None
Management Response and Corrective Action	The Municipality of Trujillo Alto is currently reviewing its financial procedures to ensure that any and all reporting to any entity is accurate and based on HUD requirements. This activity is part of an internal Action Plan and is scheduled to be completed by June 30, 2015.
	Implementation Date: Immediately
	Responsible Person: Mrs. Yadira Mercado Garcia, Director of the Municipal Housing Office

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2014-005
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development
Requirement	Financial Reporting
Statement of Condition	During our audit, we noted that the Voucher for Payment of Annual Contributions and Operating Statement submitted electronically to HUD via the VMS monthly does not agree with its annual financial submission to HUD through the FASS-PH system.
Criteria	<p>OMB Common Rules, Subpart C, Part .20 (b) (2), Accounting records, states that the grantees and sub-grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p> <p>The Voucher Program Guidebook-Housing Choice (7420.10G), Chapter 20, Financial Management, states the financial record keeping and management requirements with respect to Housing Assistance Payments Program Projects under annual contribution contracts.</p>
Cause of Condition	The Municipality did not maintain appropriate procedures in order to assure the financial information is accounted and reported accurately to the federal agencies.
Effect of Condition	The Municipality is not in compliance with the OMB Common Rules, Subpart C, Part .20 (b) (2) and with the Voucher Program Guidebook-Housing Choice (7420.10G), Chapter 20.
Recommendation	<p>We recommend Management to instruct the Program's accountant to follow financial management and accounting procedures established in the Voucher Program Guidebook-Housing Choice (7420.10G), Chapter 20, Financial Management.</p> <p>Also, we recommended Management to follow the requirements included in the HUD PHA GAAP Conversion Guide, prepared by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).</p>
Questioned Costs	None

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-005 (Continued)**

**Management Response
and Corrective Action**

The Municipality of Trujillo Alto is currently reviewing its financial procedures to ensure that any and all reporting to any entity is accurate and based on HUD requirements. This activity is part of an internal Action Plan and is scheduled to be completed by June 30, 2015.

Implementation Date: Immediately

Responsible Person: Mrs. Yadira Mercado García, Director of the Municipal Housing Office

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2014-006
Program	CDBG Entitlement Grants Cluster: Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Report – Performance Reporting
Statement of Condition	HUD-60002, <i>Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons</i> , (OMB No. 2529-0043) was not submitted for the fiscal year ended June 30, 2014.
Criteria	24 CFR sections 135.3 (a), 135.90, and 570.607. Section 135.3 (a) states that Section 3 applies to training, employment, contracting and other economic opportunities arising in connection with the expenditure of housing assistance and community development assistance that is used for the following projects: Housing rehabilitation, housing construction, and other public construction. Section 135.90, states that each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit an annual report for the purpose of determining the effectiveness of Section 3. Where the program providing the Section 3 assistance requires submission of an annual performance report, the Section 3 report will be submitted with the annual performance report. If the program does not require an annual performance report the report shall be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier. Section 570.607 states regulations for employment and contracting opportunities for low and very low income persons.
Cause of Condition	The Municipality did not comply with the established regulation as prescribed by HUD.
Effect of Condition	The Municipality could lose federal programs funds for the noncompliance with HUD requirements stated in 24 CFR 135.3 (a), 135.90, and 570.607.
Recommendation	Procedures should be implemented to ascertain that the Municipality complies with the established Federal Regulation, as prescribed by HUD.
Questioned Costs	None
Management Response and Corrective Action	The Municipality of Trujillo Alto is currently reviewing its financial procedures to ensure that any and all reporting to any entity is accurate and based on HUD requirements. This activity is part of an internal Action Plan and is scheduled to be completed by June 30, 2015.

Implementation Date: June 30, 2015

Responsible Person: Carlos O. Miranda Figueroa, Director of the Community Development Office

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
13-04	14.871	<p><u>During our audit, we noted that the Voucher for Payment of Annual Contributions and Operating Statement submitted electronically to HUD via the VMS monthly does not agree with its annual financial submission to HUD through the FASS-PH system.</u></p> <p>A similar situation was not identified in current year.</p>
13-05	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, 2013.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2014-006</p>