

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**  
**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**  
**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE MOCA**  
**AUDITORIA 2002-2003**  
**30 DE JUNIO DE 2003**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**TABLE OF CONTENTS**

	<u>Pages</u>
<b>PART I - FINANCIAL SECTION</b>	
Independent Auditors' Report .....	1-2
Management's Discussion and Analysis .....	3-8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	9
Statement of Activities .....	10
Fund Financial Statements-Governmental Funds	
Balance Sheet .....	11-12
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances . . . .	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities . . .	15
Statement of Revenues, Expenditures and Other Financing Sources - Budget and Actual - General and Debt Service Funds .....	16
Notes to Basic Financial Statements .....	17-44

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BASIC FINANCIAL STATEMENTS  
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**TABLE OF CONTENTS (CONTINUED)**

	<u>Pages</u>
<b>PART II – SINGLE AUDIT SECTION</b>	
Schedule of Expenditures of Federal Awards .....	45
Notes to Schedule of Expenditures of Federal Awards .....	46
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	47-48
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 .....	49-50
Schedule of Findings and Questioned Costs .....	51
Schedule of Status of Prior Year Audit Findings and Questioned Costs .....	52-53

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Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, discretely component unit, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Moca Housing Project, as of June 30, 2003. Those financial statements were audited by other auditors whose report thereon has been furnished to, and our opinion, insofar as it relates to the amounts included for Moca Housing Project, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Municipality of Moca as of June 30, 2003, and the respective changes in financial position, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Municipality has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for States and Local Government."

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2003 on our consideration of the Municipality's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

San Juan, Puerto Rico  
December 19, 2003

The stamp 1908319 was affixed to the original of this report.



**Estado Libre Asociado de Puerto Rico**  
**MUNICIPIO DE MOCA**  
**Moca, Puerto Rico**

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**MUNICIPALITY OF MOCA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the Municipality of Moca (the "Municipality") provides this Management's Discussion and Analysis of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

**FINANCIAL HIGHLIGHTS**

- The Municipality net assets decreased by \$ 262,201.
- In the fund financial statements, general fund balances by decreased \$ 745,257.
- Capital projects funds increased by \$ 1,367,034
- Capital expenditures amounted to \$ 1,406,465.

**GOVERNMENT-WIDE-FINANCIAL STATEMENT**

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2003 even if cash involved have not been received or paid. The

government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

### **Statement of Net Assets**

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

### **Statement of Activities**

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2003. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the above mentioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

### **Fund Financial Statements**

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund

Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$ 13,020,806 at June 30, 2003.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

### Condensed Statement of Net Assets June 30, 2003

Current assets	\$ 4,634,934
Capital assets	17,659,660
Total assets	<u>22,294,594</u>
Current liabilities	1,999,992
Noncurrent liabilities	7,273,796
Total liabilities	<u>9,273,788</u>
Invested in capital assets, net of related debt	14,489,660
Restricted	1,827,452
Unrestricted	<u>(3,296,306)</u>
Total net assets	<u>\$ 13,020,806</u>

## Changes in Net Assets

The Municipality's net assets decreased by \$ 262,201. Approximately 43 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 28 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works. In future years, when prior-year information is available, a comparative analysis of government-wide data will be present.

### Condensed Statement of Activities June 30, 2003

Program revenues	
Charges for services	\$ 708,389
Licenses and Permits	220,081
Operating grants and contributions	1,428,086
Capital grants and contributions	559,776
General revenues	
Property taxes	2,390,975
Municipal license tax	805,775
Grants and contributions not restricted	4,919,264
Interest, fines and penalties	74,777
Miscellaneous	216,162
Total revenues	<u>11,323,285</u>
Expenses	
General government	5,162,384
Public safety	789,834
Public works	2,983,477
Culture	104,642
Recreation	779,017
Health and welfare	1,531,533
Interest on long-term debt	234,599
Total expenses	<u>11,585,486</u>
Change in net assets	(262,201)
Net assets, beginning of year	<u>13,283,017</u>
Net assets, end of year	<u>\$ 13,020,816</u>

## **FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$3,285,630, a decrease of \$297,934 in comparison with the prior year. There are reservations of fund balance amounting to \$ 5,903. This is the fund balance that is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$ 5,903.) and 2) to pay debt service (\$346,242).

The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2003, the general fund has a superavit of \$560,785. The superavit decreased by \$ 745,257 during the fiscal year 2003.

## **CAPITAL ASSETS**

### **Capital Assets**

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$22.5 million, net of accumulated depreciation of \$4.9 million, leaving a net book value of \$17.6 million. This investment in capital assets includes land, buildings, improvements, equipment construction in progress.

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 4% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$1.4 million for the year. Depreciation charges for the year totaled \$.6 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond 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, 2003 the Municipality has \$.8 million of unexpended proceeds from bond issuances that are committed to future construction activities.

## **FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayers, 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 on the second floor of the Town Hall, Moca, Puerto Rico 00676.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
STATEMENT OF NET ASSETS  
JUNE 30, 2003**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Moca Housing Project</u>
Cash in bank (Note 2)	\$ 2,645,572	\$ 33,496
Cash with fiscal agent (Note 2)	1,436,822	
Accounts receivables:		
Other	92,421	3,335
Due from other agencies (Note 8)	460,119	
Restricted deposits		215,433
Other assets		20,172
Capital assets, net (Note 10)	<u>17,659,660</u>	<u>1,014,267</u>
 Total assets	 <u>\$ 22,294,594</u>	 <u>\$ 1,286,703</u>
 <b><u>Liabilities and Net Assets</u></b>		
<b>Liabilities</b>		
Account payable and accrued liabilities	\$ 289,374	\$ 57,895
Due to other agencies (Note 11)	195,920	
General obligations:		
Bonds	93,979	
Interest	97,257	
Deferred revenues (Note 12):		
Municipal license tax	581,712	
Federal government	91,062	
Accrued interest	234,599	
Noncurrent liabilities (Note 14):		
Due within one year	416,089	43,530
Due in more than one year	7,273,796	1,133,138
Total liabilities	<u>9,273,788</u>	<u>1,234,563</u>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	14,489,660	
Restricted for:		
Debt service	346,242	
Capital project	1,481,210	
Unrestricted	(3,296,306)	52,140
Total net assets	<u>13,020,806</u>	<u>52,140</u>
 Total liabilities and net assets	 <u>\$ 22,294,594</u>	 <u>\$ 1,286,703</u>

The accompanying notes are an integral part of these basic financial statements.

-9-

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Licenses and Permits	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Moca Housing Project
<b>Primary Government:</b>							
General government	\$ 5,162,384	\$ 708,389	\$ 220,081	\$ -	\$ -	\$ (4,233,914)	\$ -
Public safety	789,834					(789,834)	
Public works	2,983,477				559,776	(2,423,701)	
Culture	104,642					(104,642)	
Recreation	779,017					(779,017)	
Health and welfare	1,531,533			1,428,086		(103,447)	
Interest on long-term debt	234,599					(234,599)	
Total primary government	<u>\$ 11,585,486</u>	<u>\$ 708,389</u>	<u>\$ 220,081</u>	<u>\$ 1,428,086</u>	<u>\$ 559,776</u>	<u>(8,669,154)</u>	
<b>Component Unit:</b>							
Moca Housing Project	\$ 441,437	\$ 23,273	\$ -	\$ 410,464	\$ -		(7,700)
General revenues:							
Property taxes						2,390,975	
Municipal license tax						805,775	
Grants and contributions not restricted to specific programs						4,919,264	
Interest, fines and penalties						74,777	
Miscellaneous						216,162	
Total general revenues						<u>8,406,953</u>	<u>-</u>
Change in net assets						(262,201)	(7,700)
Net assets at beginning of year						13,283,007	59,840
Net assets at end of year						<u>\$ 13,020,806</u>	<u>\$ 52,140</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2003**

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 2)	\$ 1,491,242	\$ 169,775	\$ -	\$ 677,832	\$ 306,723	\$ 2,645,572
Cash with fiscal agent (Note 2)	11,988		537,478	887,356		1,436,822
Accounts receivable:						
Other	92,419					92,419
Due from other agencies (Note 8)	250,088	194,803			15,228	460,119
Due from other funds (Note 9)	1,142,892				1,601,324	2,744,216
<b>Total assets</b>	<b><u>\$ 2,988,629</u></b>	<b><u>\$ 364,578</u></b>	<b><u>\$ 537,478</u></b>	<b><u>\$ 1,565,188</u></b>	<b><u>\$ 1,923,275</u></b>	<b><u>\$ 7,379,148</u></b>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2003**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>						
Account payable and accrued liabilities	\$ 68,355	\$ 137,041	\$ -	\$ 83,978	\$ -	\$ 289,374
Due to other funds (Note 9)	1,601,325	157,828			985,063	2,744,216
Due to other agencies (Note 11)	176,453	19,467				195,920
General obligations:						
Bonds			93,979			93,979
Interest			97,257			97,257
Deferred revenues (Note 12):						
Municipal license tax	581,711					581,711
Federal government		50,242			40,819	91,061
Total liabilities	<u>2,427,844</u>	<u>364,578</u>	<u>191,236</u>	<u>83,978</u>	<u>1,025,882</u>	<u>4,093,518</u>
<b>Fund Balances (Deficit)</b>						
Reserved for:						
Encumbrances	5,903					5,903
Debt service			346,242			346,242
Unreserved fund balance (deficit)	554,882			1,481,210	897,393	2,933,485
Total fund balance/(deficit)	<u>560,785</u>	<u>-</u>	<u>346,242</u>	<u>1,481,210</u>	<u>897,393</u>	<u>3,285,630</u>
Total liabilities and fund balance (deficit)	<u>\$ 2,988,629</u>	<u>\$ 364,578</u>	<u>\$ 537,478</u>	<u>\$ 1,565,188</u>	<u>\$ 1,923,275</u>	<u>\$ 7,379,148</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2003**

Total fund balances - governmental funds	\$ 3,285,630
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net, used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	17,659,660
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. <b>(Note 4)</b>	( <u>7,924,484</u> )
Net assets of governmental activities	<u>\$13,020,806</u>

The accompanying notes are an integral part of these basic financial statements.

-13-

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Property taxes (Note 6)	\$ 1,991,960	\$ -	\$ 399,015	\$ -	\$ -	\$ 2,390,975
Municipal license taxes (Note 7)	805,775					805,775
Licenses and permits	220,081					220,081
Charges for service and rents	708,389					708,389
Intergovernmental revenues (Note 13):						
Federal grants and contributions		1,246,985			181,101	1,428,086
State contributions	4,919,264			559,776		5,479,040
Interest, fines, and penalties	70,516		4,261			74,777
Other revenues	216,162					216,162
Total revenues	<u>8,932,147</u>	<u>1,246,985</u>	<u>403,276</u>	<u>559,776</u>	<u>181,101</u>	<u>11,323,285</u>
<b>EXPENDITURES</b>						
Current:						
General government	5,016,409					5,016,409
Public safety	755,113					755,113
Public works	2,832,594					2,832,594
Culture	104,642					104,642
Recreation	573,517					573,517
Health and welfare	499,993	254,935			776,605	1,531,533
Capital outlays		939,426		77,742		1,017,168
Debt service:						
Principal retirement			187,913			187,913
Interest and other			267,182			267,182
Total expenditures	<u>9,782,268</u>	<u>1,194,361</u>	<u>455,095</u>	<u>77,742</u>	<u>776,605</u>	<u>12,286,071</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(850,121)</u>	<u>52,624</u>	<u>(51,819)</u>	<u>482,034</u>	<u>(595,504)</u>	<u>(962,786)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from loan				885,000		885,000
Transfers in	141,226		36,362			177,588
Transfers out	<u>(36,362)</u>		<u>(141,226)</u>			<u>(177,588)</u>
Total other financing sources (uses)	<u>104,864</u>	<u>-</u>	<u>(104,864)</u>	<u>885,000</u>	<u>-</u>	<u>885,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(745,257)</u>	<u>52,624</u>	<u>(156,683)</u>	<u>1,367,034</u>	<u>(595,504)</u>	<u>(77,786)</u>
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	<u>1,306,042</u>	<u>(52,624)</u>	<u>502,925</u>	<u>114,176</u>	<u>1,492,897</u>	<u>3,363,416</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 560,785</u>	<u>\$ -</u>	<u>\$ 346,242</u>	<u>\$ 1,481,210</u>	<u>\$ 897,393</u>	<u>\$ 3,285,630</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net change in fund balances - total governmental funds (\$ 77,786)

Amounts reported for governmental activities in the statement of activities are different because:

<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</li> </ul>	1,406,465
<ul style="list-style-type: none"> <li>• Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.</li> </ul>	( 591,359)
<ul style="list-style-type: none"> <li>• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.</li> </ul>	( 885,000)
<ul style="list-style-type: none"> <li>• Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities.</li> </ul>	187,913
<ul style="list-style-type: none"> <li>• Change in accrued interest expense which does not require the use of current financial resources.</li> </ul>	32,583
<ul style="list-style-type: none"> <li>• Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.</li> </ul>	( <u>335,017</u> )
Changes in net assets of governmental activities	(\$ <u>262,201</u> )

The accompanying notes are an integral part of these basic financial statements.

-15-

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
<b>REVENUES</b>								
Property taxes	\$ 1,741,860	\$ 1,741,860	\$ 1,741,860	\$ -	\$ 948,197	\$ 948,197	\$ 399,015	\$ (549,182)
Municipal license taxes	690,000	690,000	805,775	115,775				
Licenses and permits	101,700	101,700	220,081	118,381				
Charges for services and rent	2,109,500	2,109,500	708,389	(1,401,111)				
Intergovernmental revenues:								
State contributions	4,850,730	4,850,730	4,919,264	68,534				
Interest, fines and penalties	42,000	42,000	70,516	28,516			4,261	4,261
Other revenues	120,000	120,000	357,388	237,388				
Total revenues	<u>9,655,790</u>	<u>9,655,790</u>	<u>8,823,273</u>	<u>(832,517)</u>	<u>948,197</u>	<u>948,197</u>	<u>403,276</u>	<u>(544,921)</u>
<b>EXPENDITURES</b>								
Current:								
General government	4,540,670	5,277,972	5,044,447	233,525				
Public safety	834,980	840,881	755,113	85,768				
Public works	3,041,194	2,957,277	2,832,594	124,683				
Culture	121,293	121,293	104,642	16,651				
Recreation	617,660	611,395	573,517	37,878				
Health and welfare	499,993	499,993	499,993	-				
Debt service:								
Principal					476,346	476,346	187,913	(288,433)
Interest					471,851	471,851	267,182	(204,669)
Total expenditures	<u>9,655,790</u>	<u>10,308,811</u>	<u>9,810,306</u>	<u>498,505</u>	<u>948,197</u>	<u>948,197</u>	<u>455,095</u>	<u>(493,102)</u>
<b>OTHER FINANCING SOURCES</b>								
Reprogramming funds		653,021		(653,021)				
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (987,033)</u>	<u>\$ (987,033)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (51,819)</u>	<u>\$ (51,819)</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. ORGANIZATION**

The Municipality of Moca, Puerto Rico (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture, and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For the fiscal year ended June 30, 2003, the Municipality implemented; GASB Statement No. 34 (GASB 34), Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 37 (GASB 37), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and GASB Statement No. 38 (GASB 38), Certain Financial Statements Disclosures.

GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more useful to the people who use governmental financial information to make decisions.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The financial information of the Municipality is presented in this report as follows:

- **Management's Discussion and Analysis** - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- **Government - Wide Financial Statements** - The new reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- **Statement of Program Activities** - The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

GASB 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance - related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers with GASB 34 is implemented.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The following is a summary of the more significant policies.

**a. Reporting Entity**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoint a voting majority of the entity's governing body, and if either one of the following conditions exists: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Moca Housing Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will

Moca Housing Project is an 80-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under an accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

2) Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

3) Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

4) Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

**d. Cash and Cash with Fiscal Agent**

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

**e. Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

**f. Capital Assets**

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	30-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

**g. Reservation of Fund Balance**

Reservations of fund balance represent portions of fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

1) Encumbrances

Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

**h. Risk Financing**

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2003 amounted to approximately \$267,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$268,000 for workers' compensation insurance covering all municipal employees.

**i. Compensated Absences**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**j. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

**k. Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
39	Determining Whether Certain Organizations are Components Units	2003-04
40	Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements.	2004-05
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2004-05

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**3. 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 GAAP, 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 and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2003 representing the original budget.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2003 is presented below for the general and debt service funds:

	<u>General</u>	<u>Debt Service</u>
Excess of expenditures over revenues - budgetary basis	(\$987,033)	(\$ 51,819)
Timing differences:		
Current year encumbrances recorded as expenditures on the budgetary basis	5,903	-
Prior year encumbrances	( 14,227)	-
Entity differences:		
Non-budgeted transfers	-	( 141,226)
Non-budgeted revenues	<u>250,100</u>	<u>36,362</u>
Excess of expenditures over revenues - GAAP basis	<u>(\$745,257)</u>	<u>(\$156,683)</u>

**c. Legal Compliance**

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

**4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$12 million difference are as follows:

Bonds payable	\$3,170,000
Landfill obligation	2,067,918
Compensated absences	1,276,980
Note payable	1,174,987
Accrued interest payable	<u>234,599</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$7,924,484</u>

**5. DEPOSITS**

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$691,000 in the general fund were fully collateralized at June 30, 2003. In addition, the HUD Programs and other governmental funds, maintain deposits with commercial banks of approximately \$170,000 and \$307,000, respectively, that were fully collateralized.

The deposits at GDB of approximately \$1.5 million that are restricted principally for capital projects, and the \$538,000 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its investments in two (2) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**6. PROPERTY TAXES**

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.08% for real property and 5.08% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>8.08%</u>	<u>6.08%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

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 Department of Treasury assumes payment of the basic tax to the

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

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. The CRIM is required by law to prepare a settlement 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 settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year end. 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. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$121,000. This amount will be repaid through advances from property taxes (refer to Note 14).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2002-03, but not the final settlement as the six months period after a fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2003, the amount collected from taxpayers and charges by CRIM of approximately \$5.2 million, less than the advances received by the Municipality for the same period by \$487,280. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**7. MUNICIPAL LICENSE TAX**

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2003. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Moca, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Moca, are as follows:

Savings and loans associations	= 1.50%
Financing institution	= 1.50%
Other organizations	= .50%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$581,000, corresponding to the next fiscal year municipal license.

**8. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Municipal Revenues Collection Center	\$250,088
HUD - Section 8	194,803
Other Special Revenues	<u>15,228</u>
	<u>\$460,119</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**9. INTERFUND TRANSACTIONS**

**a. Due From/To Other Funds:**

The due from and due to other fund balances as of June 30, 2003, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General	\$1,601,324
General	Other Governmental Funds	985,063
General	HUD	<u>157,828</u>
		<u>\$2,744,216</u>

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2003 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$ 36,362
General Fund	Debt Service	<u>141,226</u>
		<u>\$177,588</u>

Transfers are used to (1) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**10. CAPITAL ASSETS**

Capital asset activity for the Municipality for the year ended June 30, 2003 was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2002 (As Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,257,711	\$ -	\$ -	\$ 2,257,711
Construction in progress	3,953,988	-	-	3,953,988
Total capital assets, not being depreciated	<u>6,211,699</u>	<u>-</u>	<u>-</u>	<u>6,211,699</u>
Capital assets, being depreciated:				
Buildings and building improvements	9,352,777	1,309,429	-	10,662,206
Furniture and fixtures	594,722	24,061	-	618,783
Vehicles and equipment	4,948,373	72,975	-	5,021,348
Total capital assets, being depreciated	<u>14,895,872</u>	<u>1,406,465</u>	<u>-</u>	<u>16,302,337</u>
Less accumulated depreciation for:				
Buildings and building improvements	1,352,071	254,874	-	1,606,945
Furnitures and fixtures	296,733	49,838	-	346,571
Vehicles and equipment	2,614,213	286,647	-	2,900,860
Total accumulated depreciation	<u>4,263,017</u>	<u>591,359</u>	<u>-</u>	<u>4,854,376</u>
Total capital assets, being depreciated, net	<u>10,632,855</u>	<u>815,106</u>	<u>-</u>	<u>11,447,961</u>
Governmental activities capital assets, net	<u>\$ 16,844,554</u>	<u>\$ 815,106</u>	<u>\$ -</u>	<u>\$ 17,659,660</u>

The beginning balance of capital assets at July 1, 2002 has been restated to conform with the adoption of GASB 34.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Capital asset activity for Moca Housing Project, a discretely presented component unit, for the year ended June 30, 2003 was as follows:

<u>Component Unit- Moca Housing Project</u>	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Capital assets, not being depreciated:				
Land	\$ 60,900	\$ -	\$ -	\$ 60,900
Total capital assets, not being depreciated	<u>60,900</u>	<u>-</u>	<u>-</u>	<u>60,900</u>
Capital assets, being depreciated:				
Land improvements	68,916			68,916
Buildings and building improvements	2,050,154	31,260		2,081,414
Building equipment	323,395	1,793		325,188
Furniture and fixtures	37,412	1,148		38,560
Equipment	14,284			14,284
Total capital assets, being depreciated	<u>2,494,161</u>	<u>34,201</u>	<u>-</u>	<u>2,528,362</u>
Less accumulated depreciation	1,491,805	83,190		1,574,995
Total accumulated depreciation	<u>1,491,805</u>	<u>83,190</u>	<u>-</u>	<u>1,574,995</u>
Total capital assets, being depreciated, net	<u>1,002,356</u>	<u>(48,989)</u>	<u>-</u>	<u>953,367</u>
Moca Housing Project capital assets, net	<u>\$ 1,063,256</u>	<u>\$ (48,989)</u>	<u>\$ -</u>	<u>\$ 1,014,267</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**11. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2003 are as follows:

Puerto Rico Electric Power Authority	\$ 84,443
Puerto Rico Water and Sewer Authority	12,147
U. S. Department of Housing and Urban Development	19,467
Retirement System Administration	61,382
General Services Administration	1,039
Puerto Rico Labor Department	<u>17,442</u>
Total	<u>\$195,920</u>

**12. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of approximately \$582,000 in the general fund related to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

**b. Federal Government**

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. The balance of \$50,242 in the HUD Program is related to the Section 8 Program and \$40,819 for Other Governmental Funds.

**13. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**14. LONG-TERM DEBTS**

Bonds and other long-term liabilities outstanding at June 30, 2003 are as follows:

**Bonds**

\$2,780,000 series of 1995, payable in annual installments of \$40,000 to \$270,000 until July 1, 2017, interest ranging from 4.7% to 6.63%.	\$2,295,000
\$430,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	425,000
\$455,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	<u>450,000</u>
Total bonds payable	<u>3,170,000</u>

**Notes**

\$1,000,000 series of 2001, payable in annual installments of \$181,000 to \$220,000 until July 1, 2008, interest at 4.875%.	1,000,000
\$213,000 series of 1986, payable in annual installments of \$2,662.50 until July 1, 2004; interest at 8%.	31,950
\$105,286 series of 1987, payable in annual installments of \$1,316.08 until July 1, 2007 with interest at 8%.	<u>21,058</u>
Total notes payable	<u>1,053,008</u>
Total long-term liabilities	<u>\$4,223,008</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note Payable**

Note payable of \$121,980 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$3,020 plus an interest rate of 6.935%.

**Due to Puerto Rico Health Insurance Administration**

Due to the Puerto Rico Health Insurance Administration represents the municipal contribution related to the Health Care Reform corresponding to the period from December 1, 1995 through June 30, 1997. This balance will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The annual debt service requirements for the bonds payable and note payable at June 30, 2003, are as follows:

	<i><b>Bonds</b></i>		<i><b>Note Payable</b></i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 100,000	\$ 196,188	\$ 200,569	\$ 38,411
2005	115,000	196,880	209,604	43,506
2006	125,000	189,952	219,638	32,936
2007	135,000	182,352	218,024	32,255
2008	145,000	174,094	223,795	11,710
2009-2013	935,000	718,664	19,513	4,385
2014-2018	1,130,000	357,542	20,447	4,255
2019-2023	235,000	128,700	21,424	2,484
2024-2028	250,000	42,250	22,448	1,450
2029-2032			19,525	76
	<u>\$ 3,170,000</u>	<u>\$2,186,622</u>	<u>\$1,174,987</u>	<u>\$ 171,468</u>

**Component Unit**

The mortgage payable by the discretely component unit is owed by Moca Housing Project and consists of an 8% mortgage note, payable in monthly installments of \$12,193, including interest, until 2017, collateralized with land and building.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The principal maturities of the mortgage in each of the next five years and thereafter are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2004	\$ 43,530
2005	47,613
2006	52,080
2007	59,577
2008	62,309
Thereafter	<u>911,559</u>
	<u>\$1,176,668</u>

**Landfill Obligations**

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$2.0 million as the Municipality's estimated current cost for landfill closure as of June 30, 2003. The reported liability represents the total estimated cost of closure since the Municipality expects to close the landfill in the year 2011. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and postclosure costs of \$2.0 million are reported in the statement of net assets because it will not be funded with available expendable financial resources at June 30, 2003.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Long-term liability activity for the year ended June 30, 2003 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 2,450,000	\$ 885,000	\$ (165,000)	\$ 3,170,000	\$ 100,000
Note payable	1,197,900		(22,913)	1,174,987	200,569
Total long-term debt	<u>3,647,900</u>	<u>885,000</u>	<u>(187,913)</u>	<u>4,344,987</u>	<u>300,569</u>
<b>Other long-term liabilities:</b>					
Landfill obligation	2,067,918		-	2,067,918	-
Compensated absences	1,037,410	335,017	(95,447)	1,276,980	115,520
Total other long-term liabilities	<u>3,105,328</u>	<u>335,017</u>	<u>(95,447)</u>	<u>3,344,898</u>	<u>115,520</u>
Total noncurrent liabilities, governmental activities	<u>\$ 6,753,228</u>	<u>\$ 1,220,017</u>	<u>\$ (283,360)</u>	<u>\$ 7,689,885</u>	<u>\$ 416,089</u>
<b>Component Unit:</b>					
Moca Housing Project mortgage payable	<u>\$ 1,216,226</u>	<u>\$ -</u>	<u>\$ (39,558)</u>	<u>\$ 1,176,668</u>	<u>\$ 43,350</u>

**15. RETIREMENT PLAN**

**a. Plan Description**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000, will only

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2003 was approximately \$327,000 million. The Municipality's payroll for employees covered by ERS was approximately \$3.5 million. The Municipality total payroll for all employees was approximately \$4.7 million.

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

**16. RISK MANAGEMENT**

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance 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.

**17. LEASES**

**Operating Leases**

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2003 was approximately \$12,197.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

**18. LANDFILL CLOSURE AND POSTCLOSURE COSTS**

The Municipality adopted the provisions of Statement No. 18, Accounting for Municipal solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws and regulations to incur closure and postclosure care costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. The Municipality has determined that the present value of total estimated closing costs and post closing care costs amount to \$2,000,000.

**19. CONTINGENCIES**

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

**20. COMMITMENTS**

The Municipality of Moca had several outstanding or planned construction projects as of June 30, 2003. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$200,000.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<b>Federal Grantor Pass/Through Grantor/ Program Title</b>	<b>CFDA Number</b>	<b>Federal Disbursements/ Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>		
Direct Programs		
Section 8 Vouchers	14.871	\$ 254,936
Pass-through Commonwealth of Puerto Rico/ Commissions Office of Municipal Affairs Community Development Block Grant-States Program SBGP	14.228	<u>939,426</u>
Subtotal U.S. Department of HUD		<u>1,194,362</u>
<b>U.S. Department of Agriculture</b>		
Pass-through Governor's Office of Child Services and Community Development: Child and Adult Care Food Program	10.558	<u>63,534</u>
Subtotal U.S. Department of Agriculture		<u>63,534</u>
<b>U.S. Department of Justice</b>		
Pass-through the Governor's Office of Community Local Law Enforcement	16.592	2,245
Public Safety Partnership and Community Policing Grants (COPS)	16.710	<u>70,007</u>
Subtotal U.S. Department of Justice		<u>72,252</u>
<b>TOTAL</b>		<b><u>\$1,330,148</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Moca and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. BASIS OF PRESENTATION**

The expenditures of the schedule are included in the Municipality's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u><b>Expenditures</b></u>
Expenditures as per basic financial statements:	
Housing and Urban Development Programs	\$1,194,362
Others Governmental Funds	<u>135,786</u>
Total expenditures per schedule of expenditures of federal awards	<u><b>\$1,330,148</b></u>



**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

To the Honorable Mayor  
and Municipal Legislature  
Municipality of Moca  
Moca, Puerto Rico

We have audited the basic financial statements of the Municipality of Moca as of and for the year ended June 30, 2003, and have issued our report thereon dated December 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Municipality of Moca's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of 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 test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Municipality of Moca's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Municipality of Moca, in a separate letter dated December 19, 2003.

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico  
December 19, 2003

*Ortiz, Rodriguez, Rivera & Co.*

The stamp 1908320 was affixed to the original of this report.





**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

To the Honorable Mayor  
and Municipal Legislature  
Municipality of Moca  
Moca, Puerto Rico

Compliance

We have audited the compliance of Municipality of Moca with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Municipality of Moca's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Moca's management. Our responsibility is to express an opinion on Municipality of Moca's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Moca's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Moca's compliance with those requirements.

In our opinion, Municipality of Moca complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control over Compliance

The management of Municipality of Moca is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Moca's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico  
December 19, 2003

*Ortiz, Rodriguez, Rivera & Co.*

The stamp 1908321 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Moca.
- b. There were no reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Moca were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Municipality of Moca express an unqualified opinion.
- f. The auditor did not find any condition that requires disclosure as per Section .510(a) OMB Circular A-133.
- g. The programs tested as major programs included:  
  
SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Moca was determined to be a high-risk auditee.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

None.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audit Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS  
AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>SBGP CFDA 14.228</b>	<b>Condition 02-01</b>  The Municipality's internal control over the monitoring of subrecipients' activities is not designed effectively in order to provide reasonable assurance that the subrecipient administered federal awards in compliance with federal requirements.	Condition was corrected.