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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE MOCA
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

Cred No 1-15-24

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

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

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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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, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2004, 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, 2004. Those financial statements were audited by other auditors whose report thereon has been furnished to us, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. 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.

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, each major fund and the aggregate remaining fund information of the Municipality of Moca as of June 30, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the General and Debt

Service Funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2004 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic 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 17, 2004

Ortiz, Rodriguez, Rivera & Co.

The stamp 2000966 was affixed
to the original of this report.



Estado Libre Asociado De Puerto Rico
MUNICIPIO DE MOCA

Moca, Puerto Rico

**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, 2004. 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 increased by \$1,228,728.
- In the fund financial statements, general fund balances increased by \$393,960.
- Capital projects funds decreased by \$651,474.
- Capital expenditures amounted to \$680,890.

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, 2004 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, 2004. 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 abovementioned 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 \$ 12,999,253 at June 30, 2004.

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:

**Municipality of Moca
Condensed Statement of Net Assets
June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Current assets	\$ 4,351,551	\$ 4,634,934
Capital assets	18,293,953	17,659,660
Total assets	<u>22,645,504</u>	<u>22,294,594</u>
Current liabilities	2,299,938	1,999,992
Noncurrent liabilities	7,346,313	7,273,796
Total liabilities	<u>9,646,251</u>	<u>9,273,788</u>
Invested in capital assets, net of related debt	15,223,953	14,489,660
Restricted	1,230,946	1,827,452
Unrestricted	<u>(3,455,646)</u>	<u>(3,296,306)</u>
Total net assets	<u>\$ 12,999,253</u>	<u>\$ 13,020,806</u>

Changes in Net Assets

The Municipality's net assets increased by \$1,228,728. 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.

**Condensed Statement of Activities
June 30, 2004 and 2003**

Program revenues		
Charges for services	\$ 1,087,604	\$ 708,389
Licenses and Permits	220,607	220,081
Operating grants and contributions	1,497,871	1,428,086
Capital grants and contributions	349,104	559,776
General revenues		
Property taxes	2,702,355	2,390,975
Municipal license tax	744,842	805,775
Grants and contributions not restricted to specific programs	6,321,338	4,919,264
Interest, fines and penalties	83,406	74,777
Miscellaneous	111,134	216,162
Total revenues	13,118,261	11,323,285
Expenses		
General government	5,489,494	5,162,384
Public safety	825,026	789,834
Public works	3,070,530	2,983,477
Culture	72,445	104,642
Recreation	818,922	779,017
Health and welfare	551,599	1,531,533
Urban Development	801,623	-
Interest on long-term debt	259,894	234,599
Total expenses	11,889,533	11,585,486
Change in net assets	1,228,728	(262,201)
Net assets, beginning of year, as restated	11,770,525	13,283,017
Net assets, end of year	\$ 12,999,253	\$ 13,020,816

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 \$2,587,723, a decrease of \$202,546 in comparison with the prior year. There are reservations of fund balance amounting to \$44,698. 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 (\$ 44,698.) and 2) to pay debt service (\$ 401,210).

The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2004, the general fund has a surplus of \$1,356,777. The surplus increased by \$393,960 during fiscal year 2004.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2004, amounts to \$23.7 million, net of a accumulated depreciation of \$ 5.4 million, leaving a net book value of \$18.3 million. This investment in capital assets includes land, buildings, improvements, equipment construction in progress.

The total net increase in the Municipality's investment in capital assets for the current fiscal year was about 3% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$1.2 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, 2004 the Municipality has \$.3 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, 2004**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Moca Housing Project</u>
Cash (Note 2)	\$ 2,814,718	\$ 31,087
Cash with fiscal agent (Note 2)	1,137,148	
Accounts receivable:		
Municipal license taxes (Note 7)	63,873	
Landfill	79,852	
Others		430
Due from other agencies (Note 8)	255,960	
Other assets		17,801
Restricted funds		191,594
Capital assets, net (Note 10)	<u>18,293,953</u>	<u>961,274</u>
 Total assets	 <u>\$ 22,645,504</u>	 <u>\$ 1,202,186</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued liabilities	\$ 433,344	\$ 47,393
Due to other agencies (Note 11)	78,350	
Deferred revenues:		
Municipal license tax (Note 12)	670,941	
Federal government (Note 12)	392,830	
Mature bonds	103,979	
Accrued interest	84,384	
Noncurrent liabilities: (Note 14)		
Due within one year	536,110	47,613
Due in more than one year	7,346,313	1,085,286
Total liabilities	<u>9,646,251</u>	<u>1,180,292</u>
 Net Assets		
Investment in capital assets, net of related debt	15,223,953	
Restricted for:		
Debt service	401,210	
Capital projects	829,736	
Unrestricted	(3,455,646)	21,894
Total net assets	<u>12,999,253</u>	<u>21,894</u>
 Total liabilities and net assets	 <u>\$ 22,645,504</u>	 <u>\$ 1,202,186</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit Moca Housing Project</u>
Primary Government:						
General government	\$ 5,489,494	\$ 1,308,211	\$ -	\$ -	\$ (4,181,283)	
Public safety	825,026		86,809		(738,217)	
Public works	3,070,530				(3,070,530)	
Culture	72,445				(72,445)	
Recreation	818,922				(818,922)	
Health and welfare	551,599		68,809		(482,790)	
Urban development	801,623		1,342,253	349,104	889,734	
Interest on long-term debt	259,894				(259,894)	
Total primary government	\$ 11,889,533	\$ 1,308,211	\$ 1,497,871	\$ 349,104	\$ (8,734,347)	-
Component Unit:						
Moca Housing Project	463,043	427,407				(35,636)
Total component unit	\$ 463,043	\$ 427,407	\$ -	\$ -	-	(35,636)
General revenues:						
Property taxes					2,702,355	
Municipal license tax					744,842	
Grants and contributions not restricted to specific programs					6,321,338	
Interest and investment earnings					83,406	4,530
Miscellaneous					111,134	860
Total general revenues					9,963,075	5,390
Change in net assets					1,228,728	(30,246)
Net assets at beginning of year					13,020,806	52,140
Prior year adjustment (Note 21)					(1,250,281)	
Net assets at beginning of year restated					11,770,525	52,140
Net assets at end of year					\$ 12,999,253	\$ 21,894

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, 2004**

<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 (Note 2)	\$ 1,827,671	\$ 189,384	\$ -	\$ 522,190	\$ 275,473	\$ 2,814,718
Cash with fiscal agent (Note 2)	11,988		581,759	543,401		1,137,148
Accounts receivable:						
Municipal license taxes (Note 7)	63,873					63,873
Landfill	79,852					79,852
Due from agencies (Note 8)	122,110	126,036	7,814			255,960
Due from other funds (Note 9)	140,650					140,650
Total assets	\$ 2,246,144	\$ 315,420	\$ 589,573	\$ 1,065,591	\$ 275,473	\$ 4,492,201

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, 2004**

<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>
Liabilities						
Accounts payable and accrued liabilities	\$ 140,076	\$ 57,413	\$ -	\$ 235,855	\$ -	\$ 433,344
Due to other agencies (Note 11)	78,350					78,350
Due to other funds (Note 9)		95,385			45,265	140,650
General obligations:						
Bonds			103,979			103,979
Interest on bonds			84,384			84,384
Deferred revenues (Note 12):						
Municipal license tax	670,941					670,941
Federal government		162,622			230,208	392,830
Total liabilities	<u>889,367</u>	<u>315,420</u>	<u>188,363</u>	<u>235,855</u>	<u>275,473</u>	<u>1,904,478</u>
Fund Balances						
Reserved for:						
Encumbrances	44,698					44,698
Debt service			401,210			401,210
Capital project				829,736		
Unreserved fund balance	1,312,079					1,312,079
Total fund balance	<u>1,356,777</u>	<u>-</u>	<u>401,210</u>	<u>829,736</u>	<u>-</u>	<u>1,757,987</u>
Total liabilities and fund balance	<u>\$ 2,246,144</u>	<u>\$ 315,420</u>	<u>\$ 589,573</u>	<u>\$ 1,065,591</u>	<u>\$ 275,473</u>	<u>\$ 3,662,465</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, 2004

Total fund balances - governmental funds \$ 2,587,723

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 18,293,953

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (7,882,423)

Net assets of governmental activities \$ 12,999,253

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	General	Housing and Urban Development Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 6)	\$ 2,145,209	\$ -	\$ 557,146	\$ -	\$ -	\$ 2,702,355
Municipal license taxes (Note 7)	744,042			-		744,842
Licenses and permits	220,607					220,607
Charges for service and rents	1,087,604					1,087,604
Intergovernmental revenues (Note 13):						
Federal grants and contributions		1,339,604			158,267	1,497,871
State contributions	6,670,442					6,670,442
Interest, fines, and penalties	79,535		3,871			83,406
Other revenues	111,134					111,134
Total revenues	11,059,373	1,339,604	561,017	-	158,267	13,118,261
EXPENDITURES						
General government	5,814,363					5,814,363
Public safety	690,179				86,809	776,988
Public works	2,911,686					2,911,686
Culture	72,445					72,445
Recreation	591,456					591,456
Health and welfare	482,790				68,809	551,599
Urban development		1,339,604				1,339,604
Capital outlays				680,241	2,649	682,890
Debt service:						
Principal retirement			319,882			319,882
Interest and other			259,894			259,894
Total expenditures	10,562,919	1,339,604	579,776	680,241	158,267	13,320,807
Excess (deficiency) of revenues over (under) expenditures	496,454	-	(18,759)	(680,241)	-	(202,546)
OTHER FINANCING SOURCES (USES)						
Transfers in	3,976		77,703	28,767		110,446
Transfers out	(106,470)		(3,976)			(110,446)
Total other financing sources (uses)	(102,494)	-	73,727	28,767	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	393,960	-	54,968	(651,474)	-	(202,546)
FUND BALANCES AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED						
	560,785	-	346,242	1,481,210	897,393	3,285,630
Prior year adjustments	402,032				(897,393)	(495,361)
FUND BALANCES AT BEGINNING OF YEAR AS RESTATED	962,817	-	346,242	1,481,210	-	2,790,269
FUND BALANCES AT END OF YEAR	\$ 1,356,777	\$ -	\$ 401,210	\$ 829,736	\$ -	\$ 2,587,723

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, 2004**

Net change in fund balances - total governmental funds \$ (202,546)

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

- 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. 1,227,128
- 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. (592,835)
- 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. 319,882
- Some expenditures reported in the governmental funds do not require the use of current financial resources; therefore, are not reported as expense in statement of activities. 477,099

Changes in net assets of governmental activities \$ 1,228,728

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

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, 2004

	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		
REVENUES								
Property taxes	\$ 1,813,833	\$ 2,333,031	\$ 2,133,589	\$ (199,442)	\$ 540,142	\$ 540,142	\$ 557,146	\$ 17,004
Municipal license taxes	740,000	740,000	680,969	(59,031)				
Licenses and permits	210,000	215,000	220,607	5,607				
Charges for service and rents	1,512,000	1,492,000	1,007,752	(484,248)				
Intergovernmental revenues:								
State contributions	4,966,058	4,966,058	4,899,703	(66,355)				
Interest	32,000	47,000	79,535	32,535			3,871	3,871
Other revenues	60,000	60,000	111,134	51,134				
Total revenues	<u>9,333,891</u>	<u>9,853,089</u>	<u>9,133,289</u>	<u>(719,800)</u>	<u>540,142</u>	<u>540,142</u>	<u>561,017</u>	<u>20,875</u>
EXPENDITURES								
General government	4,486,415	5,204,628	4,344,138	860,490				
Public safety	825,449	791,886	691,457	100,429				
Public works	2,866,382	3,018,914	2,924,350	94,564				
Culture	74,802	74,902	72,445	2,457				
Health and welfare	482,790	482,790	482,790	-				
Recreation	598,053	617,302	596,839	20,463				
Debt service:								
Principal	-	-	-	-	95,000	95,000	276,000	(181,000)
Interest	-	-	-	-	271,642	271,642	230,050	41,592
Total expenditures	<u>9,333,891</u>	<u>10,190,422</u>	<u>9,112,019</u>	<u>1,078,403</u>	<u>366,642</u>	<u>366,642</u>	<u>506,050</u>	<u>(139,408)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ (337,333)</u>	<u>\$ 21,270</u>	<u>\$ 358,603</u>	<u>\$ 173,500</u>	<u>\$ 173,500</u>	<u>\$ 54,967</u>	<u>\$ (118,533)</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, 2004**

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.

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

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

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.

**COMMONWEALTH OF PUERTO RICO
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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.

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.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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*. 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.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

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.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 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

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

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, 2004 amounted to approximately \$279,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$166,833 for workers' compensation insurance covering all municipal employees.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

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.

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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>
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
43	Financial Reporting for Post-employment Benefit Other than Pension Plans	2005-06
44	Economic Condition Reporting: The Statistical Section - an amendment on NCGA Statement I	2005-06
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2009-10

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

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

**COMMONWEALTH OF PUERTO RICO
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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, 2004 representing the original budget.

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

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

sources over expenditures and other financing uses for the year ended June 30, 2004 is presented below for the general and debt service funds:

	<u>General</u>	<u>Debt Service</u>
Excess of revenues over expenditures - budgetary basis	\$ 21,270	\$54,967
Timing differences:		
Current year encumbrances recorded as expenditures on the budgetary basis	64,019	-
Prior year encumbrances	(5,903)	-
Entity differences:		
Non-budgeted transfers	106,470	(73,726)
Non-budgeted revenues	1,926,084	-
Non-budgeted expenses	(<u>1,615,486</u>)	<u>-</u>
Excess of revenues over expenditures - GAAP basis	\$ <u>496,454</u>	(<u>\$18,759</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 the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

and payable in the current period and therefore are not reported in the funds. The details of the approximately \$7.8 million difference are as follows:

Bonds payable	\$3,070,000
Landfill obligation	2,067,918
Compensated absences	1,034,480
Note payable	1,330,650
ASES	<u>379,375</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$7,882,423</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 \$1,909,700 in the general fund were fully collateralized at June 30, 2004. In addition, the HUD Programs, Capital Projects, and other governmental funds, maintain deposits with commercial banks of approximately \$440,900, 542,800, and \$271,800, respectively, that were fully collateralized.

The deposits at GDB of approximately \$543,000 that are restricted principally for capital projects, and the \$581,800 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
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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 6.08% 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

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amounts, the Department of Treasury assumes payment of the basic tax to the 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 \$482,113. 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 2003-04, 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, 2004, the amount collected from taxpayers and charges by CRIM of approximately \$5.7 million, less than the advances received by the Municipality for

**COMMONWEALTH OF PUERTO RICO
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the same period by \$5.6 million. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements for \$11,620.

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, 2004. 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 \$670,941, 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	\$ 19,434
HUD - Section 8	126,036
Puerto Rico Electric Power Authority	<u>110,490</u>
	<u>\$255,960</u>

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2004, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 45,265
General	HUD	<u>95,385</u>
		<u>\$140,650</u>

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2004 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$ 3,976
General Fund	Debt Service	77,703
General Fund	Capital Project	<u>28,767</u>
		<u>\$110,446</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.

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10. CAPITAL ASSETS

Capital asset activity for the Municipality for the year ended June 30, 2004 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,257,711	\$ -	\$ -	\$ 2,257,711
Construction in progress	5,263,417	610,687	3,953,988	1,920,116
Total capital assets, not being depreciated	<u>7,521,128</u>	<u>610,687</u>	<u>3,953,988</u>	<u>4,177,827</u>
Capital assets, being depreciated:				
Buildings and building improvements	9,304,755	4,395,264		13,700,019
Furniture and fixture	630,255	37,407		667,662
Vehicles	5,057,898	137,758		5,195,656
Total capital assets, being depreciated	<u>14,992,908</u>	<u>4,570,429</u>	<u>-</u>	<u>19,563,337</u>
Less accumulated depreciation for:				
Buildings and building improvements	1,578,861	262,071		1,840,932
Furniture and fixture	345,652	48,634		394,286
Vehicles	2,929,863	282,130		3,211,993
Total accumulated depreciation	<u>4,854,376</u>	<u>592,835</u>	<u>-</u>	<u>5,447,211</u>
Total capital assets, being depreciated, net	<u>10,138,532</u>	<u>3,977,594</u>	<u>-</u>	<u>14,116,126</u>
Governmental activities capital assets, net	<u>\$ 17,659,660</u>	<u>\$ 4,588,281</u>	<u>\$ 3,953,988</u>	<u>\$ 18,293,953</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Capital asset activity for Moca Housing Project, a discretely presented component unit, for the year ended June 30, 2004 was as follows:

<u>Component Unit-Moca Housing Project</u>	<u>Balance June 30, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Governmental Activities:				
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	2,081,414	28,975		2,110,389
Building equipment	325,188	2,548		327,736
Furniture and fixtures	38,560	1,437		39,997
Equipment	14,284	-		14,284
Total capital assets, being depreciated	<u>2,528,362</u>	<u>32,960</u>	<u>-</u>	<u>2,561,322</u>
Less accumulated depreciation	1,574,995	85,953		1,660,948
Total accumulated depreciation	<u>1,574,995</u>	<u>85,953</u>	<u>-</u>	<u>1,660,948</u>
Total capital assets, being depreciated, net	<u>953,367</u>	<u>(52,993)</u>	<u>-</u>	<u>900,374</u>
Moca Housing Project capital assets, net	<u>\$ 1,014,267</u>	<u>\$ (52,993)</u>	<u>\$ -</u>	<u>\$ 961,274</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2004 are as follows:

Puerto Rico Water and Sewer Authority	\$ 9,814
Retirement System Administration	63,942
Puerto Rico Treasury Department	2,311
Puerto Rico Department of Family	<u>2,283</u>
Total	<u>\$78,350</u>

12. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$670,941 in the general fund related to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

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 \$162,622 in the HUD Program is related to the Section 8 Program and \$230,208 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, 2004**

14. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2004 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%.	\$2,205,000
\$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%.	420,000
\$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>445,000</u>
Total bonds payable	<u>3,070,000</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%.	819,000
\$213,000 series of 1986, payable in annual installments of \$2,662.50 until July 1, 2004; interest at 8%.	21,300
\$105,286 series of 1987, payable in annual installments of \$1,316.08 until July 1, 2007 with interest at 8%.	<u>15,793</u>
Total notes payable	<u>856,093</u>
Total long-term liabilities	<u>\$3,926,093</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note Payable

Note payable of \$474,557 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 of \$379,375 will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.

The annual debt service requirements for the bonds payable and note payable at June 30, 2004, are as follows:

	<u>Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 115,000	\$ 190,393	\$ 213,830	\$ 65,024
2006	125,000	189,951	224,207	54,112
2007	135,000	182,352	222,953	43,013
2008	145,000	174,094	229,102	32,147
2009	155,000	165,144	9,535	20,988
2010-2014	1,020,000	659,259	54,939	97,679
2015-2019	930,000	283,256	69,333	83,285
2020-2024	250,000	107,575	87,498	65,119
2025-2029	195,000	26,025	110,423	42,194
2030-2034	-	-	108,830	13,263
	<u>\$3,070,000</u>	<u>\$1,978,049</u>	<u>\$1,330,650</u>	<u>\$516,824</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

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>
2005	\$ 47,613
2006	52,080
2007	59,577
2008	62,309
2009	67,660
Thereafter	<u>843,660</u>
	<u>\$1,132,899</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, 2004. 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, 2004.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Long-term liability activity for the year ended June 30, 2004 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>
Governmental Activities:					
Bonds payable	\$ 3,170,000	\$ -	\$ 100,000	\$ 3,070,000	\$ 115,000
Notes payable	1,174,987	375,545	219,882	1,330,650	213,830
Total long-term debt	<u>4,344,987</u>	<u>375,545</u>	<u>319,882</u>	<u>4,400,650</u>	<u>328,830</u>
Other long-term liabilities:					
ASES		379,375		379,375	164,809
Landfill obligation	2,067,918			2,067,918	-
Compensated absences	1,276,980		242,500	1,034,480	42,471
Total other liabilities, governmental activities	<u>3,344,898</u>	<u>379,375</u>	<u>242,500</u>	<u>3,481,773</u>	<u>207,280</u>
Total noncurrent liabilities, governmental activities	<u>\$ 7,689,885</u>	<u>\$ 754,920</u>	<u>\$ 562,382</u>	<u>\$ 7,882,423</u>	<u>\$ 536,110</u>
Component Unit:					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Moca Housing Project mortgage payable	<u>\$ 1,176,668</u>	<u>\$ -</u>	<u>\$ 43,769</u>	<u>\$ 1,132,899</u>	<u>\$ 47,613</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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

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 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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 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 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, 2004 was approximately \$338,000. The Municipality's payroll for employees covered by ERS was approximately \$3.6 million. The Municipality total payroll for all employees was approximately \$4.9 million.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2004, 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 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, 2004 was approximately \$18,000.
- 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

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. (See Note 14).

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, 2004. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$416,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

21. RESTATEMENTS

On July 1, 2003, the Municipality recorded a prior-period adjustments in the accompanying government-wide and fund financial statements to correct prior year accounting errors consisting of a net understatement of liabilities as of June 30, 2003 amounting to \$1,250,281.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor Pass/Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development		
Direct Programs		
Section 8 Vouchers	14.871	\$ 257,779
Pass-through Commonwealth of Puerto Rico/ Commissions Office of Municipal Affairs Community Development Block Grant-States Program		
SBGP	14.228	<u>1,081,825</u>
Subtotal U.S. Department of HUD		<u>1,339,604</u>
U.S. Department of Agriculture		
Pass-through Governor's Office of Child Services and Community Development: Child and Adult Care Food Program	10.558	<u>24,975</u>
Subtotal U.S. Department of Agriculture		<u>24,975</u>
U.S. Department of Justice		
Public Safety Partnership and Community Policing Grants (COPS)	16.710	<u>86,809</u>
Subtotal U.S. Department of Justice		<u>86,809</u>
Federal Emergency Management Agency (FEMA)		
Pass-through Commonwealth of Puerto Rico Governor Authorized Representative Office Public Assistance Grant	83.544	<u>38,932</u>
Subtotal FEMA		<u>38,932</u>
TOTAL		<u>\$1,490,320</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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>Expenditures</u>
Expenditures as per basic financial statements:	
Housing and Urban Development Programs	\$1,339,604
Others Governmental Funds	<u>150,716</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$1,490,320</u>



ORTIZ, RODRIGUEZ, RIVERA & CO.

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**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 financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Municipality of Moca as of and for the year ended June 30, 2004, which collectively comprise Municipality's basic financial statements and have issued our report thereon dated December 17, 2004. 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 17, 2004.

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.

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
December 17, 2004

The stamp 2000967 was affixed
to the original of this report





ORTIZ, RODRIGUEZ, RIVERA & CO.

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**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, 2004. 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 and 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' 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, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which describe in the accompanying Schedule of Findings and Questioned Cost as item 04-01 and 04-02.

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 17, 2004

The stamp 2000968 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, 2004**

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. Audit findings relative to the major fund award programs for the Municipality of Moca are reported in number 3 of this schedule.
- 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<p>Community Development Block Grants/ States Program CFDA No. 14.228</p>	<p>Condition 04-01</p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.</p> <p><u>Recommendation</u></p> <p>The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p>requested when they are going to be disbursed immediately after receipt, or within three (3) business days.</p>	
<p>Community Development Block Grants/ States Program CFDA No. 14.228</p>	<p>Condition 04-02</p> <p>The Municipality did not comply with the requirement of maintained an accurate property subsidiary ledger and realized a physical inventory of the property and equipment that should be taken at least once every two years and reconciled to the property records.</p> <p><u>Criteria</u></p> <p>The Municipality is not compliance with the requirements contained in the A-102 Common Rule and 24 CFR, Subpart J 570.506 (4) B (V) with requires that the recipient realized a physical inventory and maintained and appropriate property records.</p> <p><u>Cause</u></p> <p>The above situation occurred because the Municipality has not established an appropriate control system, maintained equipment records and maintained a physical inventory to safe guard the property and ensures that are being used for the program purpose.</p> <p><u>Effect</u></p> <p>The continued failure to establish internal controls over compliance with the above requirements expose the Municipality to unauthorized use or disposition of the programs' property and equipment.</p>	<p style="text-align: center;"><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>The Municipality should immediately perform a physical inventory of the program's property and equipment to update its property records. All missing equipment should be reported to the federal government for proper disposition, together with the counting and updating of the property, plant and equipment subsidiary ledger.</p>	

**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, 2004**

The Municipality has not prior year findings.

EXHIBIT I

CORRECTIVE ACTION PLAN

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



Estado Libre Asociado de Puerto Rico
GOBIERNO DE PUERTO RICO
MUNICIPIO AUTONOMO DE MOCA
Oficina Programas Federales
Apartado 1571, Moca, P.R. 00676

CORRECTIVE ACTION PLAN

December 17, 2004

Cognizant or Oversight Agency for Audit:

Municipality of Moca respectfully submits the following corrective action plan for the year ended June 30, 2004

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2004

The findings from the June 30, 2004 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 04-1: Community Development Block Grants/ States Program - CFDA No. 14.228

Reportable Condition: See Condition 04-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Action Taken

The Municipality of Moca has created a new control for the request of federal funds by establishing an effective system that should minimize the time between the receipt of funds and their disbursements. However, we need to clarify that in several occasions companies are contracted before disbursements are made and do not pickup such funds until many days after.

Finding 04-2: Community Development Block Grants/ States Program - CFDA No. 14.228

Reportable Condition: See Condition 04-2

Recommendation

The Municipality should immediately perform a physical inventory of the program's property and equipment to update its property records. All missing equipment should be reported to the federal government for proper disposition, together with the counting and updating of the property, plant and equipment subsidiary ledger.

Action Taken

The Municipality will make the internal controls necessary to perform the physical inventory of property and equipment to update the property records.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Nelson Quiñones Cotté at (787) 877-3390.

Cordially,

Nelson Quiñones Cotté
Federal Programs Director