

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES  
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL  
ÁREA DE ARCHIVO DIGITAL

**MUNICIPIO DE MOCA**  
**AUDITORÍA 2008-2009**  
30 DE JUNIO DE 2009

10/01/0122

RECIBIDO  
UNIDAD DE CORREO  
10 JAN 14 AM 8:37

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2009**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**TABLE OF CONTENTS**

	<u>Pages</u>
<b>PART I - FINANCIAL SECTION</b>	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis .....	3-8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	9
Statement of Activities.....	10
Fund Financial Statements-Governmental Funds	
Balance Sheet .....	11-12
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	15
Statement of Revenues and Expenditures - Budget and Actual - General and Debt Service Funds.....	16
Notes to Basic Financial Statements .....	17-45

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**TABLE OF CONTENTS (CONTINUED)**

	<u>Pages</u>
<b>PART II – SINGLE AUDIT SECTION</b>	
Schedule of Expenditures of Federal Awards .....	46
Notes to Schedule of Expenditures of Federal Awards .....	47
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	48-49
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 .....	50-52
Schedule of Findings and Questioned Costs .....	53
Schedule of Status of Prior Year Audit Findings and Questioned Costs .....	54-55

ORTIZ, RIVERA, 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



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis Rivera Zúñiga  
CPA Zoraida Cruz Claudio

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants

## 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, 2009, 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, 2009. 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 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. 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, discretely presented component unit, each major fund and the aggregate remaining fund information of the Municipality of Moca as of June 30, 2009, 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 November 24, 2009 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  
November 24, 2009

*Ortiz, Rivera, Rivera & Co.*

The stamp 2459309 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, 2009. 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 \$ 69,062.*
- *In the fund financial statements, general fund balances decreased by \$1,880,454.*
- *Capital expenditures amounted to \$ 1,968,312.*

**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, 2009 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, 2009. 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 \$ 16,254,548 at June 30, 2009.*

### **Municipality of Moca Condensed Statement of Net Assets June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Current assets	\$ 7,643,513	\$ 7,278,024
Capital assets	22,398,030	21,711,334
<b>Total assets</b>	<u>30,041,543</u>	<u>28,989,358</u>
Current liabilities	3,522,814	3,743,628
Noncurrent liabilities	10,264,181	9,060,244
<b>Total liabilities</b>	<u>13,786,995</u>	<u>12,803,872</u>
Invested in capital assets, net of related debt	17,898,030	17,916,334
Restricted	3,233,023	576,908
Unrestricted	<u>(4,876,505)</u>	<u>(2,307,756)</u>
<b>Total net assets</b>	<u>\$ 16,254,548</u>	<u>\$ 16,185,486</u>

*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:*

### *Changes in Net Assets*

*The Municipality's net assets increased by \$69,062. Approximately 52 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 19 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works.*

**Municipality of Moca**  
**Condensed Statement of Activities**  
**June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Program revenues		
Charges for services	\$ 3,718,796	\$ 4,047,423
Licenses and Permits		
Operating grants and contributions	1,475,461	1,362,933
Capital grants and contributions		
General revenues		
Property taxes	2,682,964	3,493,075
Municipal license tax	842,879	1,022,739
Grants and contributions not restricted to specific programs	9,542,309	7,054,361
Interest, fines and penalties	86,603	239,335
Miscellaneous	<u>163,697</u>	<u>973,902</u>
 Total revenues	 <u>18,512,709</u>	 <u>18,193,768</u>
 Expenses		
General government	7,519,795	8,092,642
Public safety	1,081,455	983,296
Public works	7,987,430	5,706,083
Culture	216,840	341,582
Recreation	917,720	1,270,811
Health and welfare	526,731	739,200
Interest on long-term debt	<u>193,676</u>	<u>563,453</u>
 Total expenses	 <u>18,443,647</u>	 <u>17,697,067</u>
 Change in net assets	 69,062	 496,701
 Net assets, beginning of year	 <u>16,185,486</u>	 <u>15,688,785</u>
 Net assets, end of year	 <u>\$ 16,254,548</u>	 <u>\$ 16,185,486</u>

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

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

### ***Governmental Funds***

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

*As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$ 5,084,524, an increase of \$ 552,116 in comparison with the prior year. There are reservations of fund balance. This is the fund balance that is not available for new spending because it has already been committed to pay debt service (\$ 669,937).*

*The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2009, the general fund has a superavit of \$128,256. The superavit decreased by \$1,880,454 during fiscal year ended June 30, 2009.*

### ***Notes to the Financial Statements***

*The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.*

### ***Required Supplementary Information***

*The statements are followed by the required supplementary information that contains the budgetary comparison schedule for the General and Debt Service Funds.*

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### ***Capital Assets***

*The Municipality's investment in capital assets as of June 30, 2009, amounts to \$36.2 million, net of accumulated depreciation of \$16.4 million, leaving a net book value of \$19.8 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 12% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$1.9 million for the year. Depreciation charges for the year totaled \$1.2 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, 2009 the Municipality*

has \$964,288 of unexpended proceeds from bond issuances that are committed to future construction activities.

*Long-Term Debt*

At year-end, the Municipality had \$ 10,811,461 in general and special bonds and notes and other long term debts. Such amount represents an increase of 13 percent with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2009 and 2008:

**Municipality of Moca  
Outstanding Long-term Debt  
June 30, 2009 and 2008**

	2009	2008
General and special obligations	\$ 6,311,880	\$ 4,980,442
Other long term debts:		
Landfill obligation	2,475,000	2,475,000
CRIM-LIMS	88,159	119,960
Compensated absences	1,936,422	1,950,204
 <b>Total</b>	 <b>\$ 10,811,461</b>	 <b>\$ 9,525,606</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2009-2010 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates.

The Municipality applied a conservative approach in the development of budget estimates for the 2009-2010 fiscal year. The Municipality estimates that the amounts available for appropriations in the General Fund for the fiscal year 2010 will be \$12.3, a decrease of approximately 3% with respect to prior year final budget.

**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, 2009**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Moca Housing Project</u>
Cash (Notes 2 and 5)	\$ 4,341,119	\$ 44,123
Cash with fiscal agent (Notes 2 and 5)	2,567,644	
Accounts receivable:		
Landfill	255,708	
Other	74,400	
Due from other agencies (Note 9)	361,150	
Other assets		15,677
Restricted funds	43,492	233,189
Capital assets, net (Note 11)	22,398,030	719,408
	<u>\$ 30,041,543</u>	<u>\$ 1,012,397</u>
<b><u>Liabilities and Net Assets</u></b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 825,034	\$ 172,217
Due to other agencies (Note 12)	253,682	
General obligations:		
Bonds	455,000	
Interest	119,980	
Deferred revenues:		
Municipal license tax (Note 13)	831,564	
Federal government (Note 13)	73,729	
Noncurrent liabilities: (Note 15)		
Due within one year	547,280	74,150
Due in more than one year	10,264,181	771,628
Accrued interest	416,545	
Total liabilities	<u>13,786,995</u>	<u>1,017,995</u>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	17,898,030	
Restricted for:		
Debt service	669,937	
Capital projects	2,563,086	
Unrestricted	(4,876,505)	(5,598)
Total net assets	<u>16,254,548</u>	<u>(5,598)</u>
Total liabilities and net assets	<u>\$ 30,041,543</u>	<u>\$ 1,012,397</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, 2009**

<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>Primary Government Governmental Activities</u>	<u>Component Unit Moca Housing Project</u>
<b>Primary Government:</b>					
General government	\$ 7,519,795	\$ 2,200,218	\$ -	\$ (5,319,577)	\$ -
Public safety	1,081,455			(1,081,455)	
Public works	7,987,430		1,077,532	(6,909,898)	
Culture	216,840			(216,840)	
Recreation	917,720			(917,720)	
Health and welfare	526,731		397,929	(128,802)	
Interest on long-term debt	193,676			(193,676)	
Total primary government	<u>\$ 18,443,647</u>	<u>\$ 2,200,218</u>	<u>\$ 1,475,461</u>	<u>\$ (14,767,968)</u>	<u>-</u>
<b>Component Unit:</b>					
Moca Housing Project	582,944	467,389			(115,555)
Total component unit	<u>\$ 582,944</u>	<u>\$ 467,389</u>	<u>\$ -</u>	<u>-</u>	<u>(115,555)</u>
<b>General revenues:</b>					
Property taxes (Note 6)				2,682,964	
Municipal license tax (Note 7)				842,879	
Sales and uses tax (Note 8)				1,518,578	
Grants and contributions not restricted to specific programs				9,542,309	
Interest and investment earnings				86,603	
Miscellaneous				163,697	
Total general revenues				<u>14,837,030</u>	<u>-</u>
Change in net assets				69,062	(115,555)
Net assets at beginning of year				16,185,486	109,957
Net assets at end of year				<u>\$ 16,254,548</u>	<u>\$ (5,598)</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2009

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 556,914	\$ 238,749	\$ -	\$ 3,545,456	\$ 4,341,119
Cash with fiscal agent (Notes 2 and 5)			1,244,917	1,322,727	2,567,644
Cash restricted		43,492			43,492
Accounts receivable:					
Landfill	255,708				255,708
Other receivables	74,400				74,400
Due from agencies (Note 9)	90,176	270,974			361,150
Due from other funds (Note 10)	557,373				557,373
	<u>557,373</u>	<u>270,974</u>	<u>1,244,917</u>	<u>4,868,183</u>	<u>5,920,637</u>
Total assets	<u>\$ 1,534,571</u>	<u>\$ 553,215</u>	<u>\$ 1,244,917</u>	<u>\$ 4,868,183</u>	<u>\$ 8,200,886</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2009

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 343,285	\$ 185,236	\$ -	\$ 296,513	\$ 825,034
Due to other agencies (Note 12)	231,466	22,216			253,682
Due to other funds (Note 10)		147,578		409,795	557,373
General obligations:					
Bonds			455,000		455,000
Interest			119,980		119,980
Deferred revenues (Note 13):					
Municipal license tax	831,564				831,564
Federal government		73,729			73,729
Total liabilities	<u>1,406,315</u>	<u>428,759</u>	<u>574,980</u>	<u>706,308</u>	<u>3,116,362</u>
<b>Fund Balances</b>					
Reserved for:					
Encumbrances	819,356				819,356
Debt service			669,937		669,937
Capital project				2,563,086	2,563,086
Unreserved fund balance (Deficit)	(691,100)	124,456		1,598,789	1,032,145
Total fund balance	<u>128,256</u>	<u>124,456</u>	<u>669,937</u>	<u>4,161,875</u>	<u>5,084,524</u>
Total liabilities and fund balance	<u>\$ 1,534,571</u>	<u>\$ 553,215</u>	<u>\$ 1,244,917</u>	<u>\$ 4,868,183</u>	<u>\$ 8,200,886</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, 2009**

Total fund balances - governmental funds \$ 5,084,524

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 22,398,030
  
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (11,228,006)

Net assets of governmental activities \$ 16,254,548

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, 2009**

	General	Housing and Urban Development Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes (Note 6)	\$ 2,218,449	\$ -	\$ 464,515	\$ -	\$ 2,682,964
Municipal license taxes (Note 7)	842,879				842,879
Sales and uses tax (Note 8)			359,140	1,159,438	1,518,578
Licenses and permits	394,222				394,222
Charges for service and rents	1,805,996				1,805,996
Intergovernmental revenues (Note 14):					
Federal grants and contributions		1,341,340		134,121	1,475,461
State contributions	6,384,100			3,158,209	9,542,309
Interest, fines, and penalties	82,099		4,504		86,603
Other revenues	129,544	3,404		30,749	163,697
Total revenues	<u>11,857,289</u>	<u>1,344,744</u>	<u>828,159</u>	<u>4,482,517</u>	<u>18,512,709</u>
<b>EXPENDITURES</b>					
General government	6,717,056			199,752	6,916,808
Public safety	867,242			134,581	1,001,823
Public works	5,100,807	115,167		2,303,094	7,519,068
Culture	198,604				198,604
Recreation	840,540				840,540
Health and welfare	233,479	271,814			505,293
Capital outlays		665,067		1,303,245	1,968,312
Debt service:					
Principal retirement			505,360		505,360
Interest and other			309,785		309,785
Total expenditures	<u>13,957,728</u>	<u>1,052,048</u>	<u>815,145</u>	<u>3,940,672</u>	<u>19,765,593</u>
Excess (Deficiency) of revenues over expenditures	<u>(2,100,439)</u>	<u>292,696</u>	<u>13,014</u>	<u>541,845</u>	<u>(1,252,884)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Loan proceeds				1,805,000	1,805,000
Transfers in	304,504		84,519		389,023
Transfers out	<u>(84,519)</u>		<u>(4,504)</u>	<u>(300,000)</u>	<u>(389,023)</u>
Total other financing sources (uses)	<u>219,985</u>	<u>-</u>	<u>80,015</u>	<u>1,505,000</u>	<u>1,805,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>(1,880,454)</u>	<u>292,696</u>	<u>93,029</u>	<u>2,046,845</u>	<u>552,116</u>
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	<u>2,008,710</u>	<u>(168,240)</u>	<u>576,908</u>	<u>2,115,030</u>	<u>4,532,408</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 128,256</u>	<u>\$ 124,456</u>	<u>\$ 669,937</u>	<u>\$ 4,161,875</u>	<u>\$ 5,084,524</u>

*On file as of 2/10*

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, 2009**

Net change in fund balances - total governmental funds \$ 552,116

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. 1,968,312
- 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. (1,281,616)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (1,805,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of 505,362
- Change in accrued interest expense which does not require the use of current financial resources. 116,107
- 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:  
  - Accrued vacations and bonus 13,781

Changes in net assets of governmental activities \$ 69,062

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
<b>REVENUES</b>								
Property taxes	\$ 2,055,999	\$ 2,055,999	\$ 2,128,273	\$ 72,274	\$ 615,963	\$ 615,963	\$ 464,515	\$ (151,448)
Municipal license taxes	1,000,000	1,000,000	920,471	(79,529)				
Licenses and permits	372,500	372,500	394,223	21,723				
Sales and use taxes	600,000	600,000	300,000	(300,000)			359,140	359,140
Charges for service and rents	1,970,000	1,970,000	1,764,467	(205,533)				
Intergovernmental revenues:								
State contributions	6,370,068	6,370,068	6,387,578	17,510				
Interest, fines, and penalties	165,000	165,000	86,604	(78,396)			4,504	4,504
Other revenues	195,000	195,000	684,923	489,923				
Total revenues	<u>12,728,567</u>	<u>12,728,567</u>	<u>12,666,539</u>	<u>(62,028)</u>	<u>615,963</u>	<u>615,963</u>	<u>828,159</u>	<u>212,196</u>
<b>EXPENDITURES</b>								
General government	7,195,992	8,159,922	6,776,680	1,383,242				
Public safety	908,528	891,728	874,646	17,082				
Public works	3,245,133	3,717,292	3,607,850	109,442				
Culture	214,258	209,476	202,372	7,104				
Health and welfare	327,340	398,741	244,130	154,611				
Recreation	837,316	923,822	883,610	40,212				
Debt service:								
Principal				-	327,747	327,747	505,360	(177,613)
Interest				-	288,216	288,216	309,785	(21,569)
Total expenditures	<u>12,728,567</u>	<u>14,300,981</u>	<u>12,589,288</u>	<u>1,711,693</u>	<u>615,963</u>	<u>615,963</u>	<u>815,145</u>	<u>(199,182)</u>
<b>OTHER FINANCING SOURCES</b>								
Reprogramming funds		1,572,414		(1,572,414)				
Total other financing sources	<u>-</u>	<u>1,572,414</u>	<u>-</u>	<u>(1,572,414)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of expenditures over (under) revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,251</u>	<u>\$ 77,251</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,014</u>	<u>\$ 13,014</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, 2009**

**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 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- Statement of Program Activities - The 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 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," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist 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.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

accountable should be reported as component units. A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

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

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

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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:

- 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.

- 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.

- 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.

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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

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

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

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

**e. Interfund Receivables and Payables**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**f. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets' sidewalks, and drainage system), are reported in the applicable governmental or component units columns in the government-wide financial statements.

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

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

**g. Reservation of Fund Balance**

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

- Encumbrances

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

- Debt Service

Represents net assets available to finance future debt service payments.

- 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, 2009 amounted to approximately \$224,466. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$279,836 for workers' compensation insurance covering all municipal employees.

**i. Compensated Absences**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**j. Use of Estimates**

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

**k. Future Adoption of Accounting Pronouncements**

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
51	Accounting and Financial Reporting for Intangible Assets	2009-10
53	Accounting and Financial Reporting for Derivative Instruments	2009-10
54	Fund Balance Reporting and Governmental Fund Type Definitions	2010-11

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**a. Budgetary Control**

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

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

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

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year is 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, 2009 representing the original budget.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2009 is presented below for the general and debt service funds:

	<u>General Fund</u>	<u>Debt Service</u>
Excess of revenues over expenditures-budgetary basis	\$ 77,251	\$ 13,014
Entity differences:		
Non-budgeted expenditures	(1,362,942)	
Non-budgeted transfers in	304,504	84,519
Non-budgeted transfers out	(84,519)	(4,504)
Reprogramming funds	(1,265,000)	
Timing differences:		
Current year encumbrances recorded as expenditures for budgetary basis	819,356	
Prior year encumbrances	<u>(369,104)</u>	<u>                    </u>
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	<u>\$ (1,880,454)</u>	<u>\$ 93,029</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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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 and payable in the current period and therefore are not reported in the funds. The details of the approximately \$11.2 million differences are as follows:

Bonds payable	\$ 4,500,000
Landfill obligation	2,475,000
Compensated absences	1,936,422
Note payable	1,811,880
Accrued interest	416,545
CRIM-LIMS	<u>88,159</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$ 11,228,006</u>

**5. DEPOSITS - CUSTODIAL CREDIT RISK**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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 deposits at GDB of approximately \$1,322,728 that are restricted principally for capital projects and general fund, and the \$1,244,917 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)

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

up to \$250,000. 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.

**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 8.58% for real property and 6.58% 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	1.75%	1.75%
Discounts made by state to tax payer	<u>(0.2%)</u>	<u>(0.2%)</u>
	<u>8.58%</u>	<u>6.58%</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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the 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 a 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.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2008-09, 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, for the year ended June 30, 2009, the amount collected from taxpayers and charges by CRIM received by the Municipality is less than amount advanced by CRIM for the same period by approximately \$6,303. Such amount is presented as due to CRIM in the government wide financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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, 2009. 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 \$831,564, corresponding to the next fiscal year municipal license.

**8. SALES AND USE TAXES**

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Municipal Revenues Collection Center (General Fund)	\$ 90,176
HUD - SBGP	<u>270,974</u>
 Total	 <u><u>\$ 361,150</u></u>

**10. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2009, are as follows:

Receivable Fund	Payable Fund	Amount
General	Other Governmental Funds	\$ 409,795
General	HUD-SBGP	<u>147,578</u>
		 <u><u>\$ 557,373</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2009 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General Fund	\$ 84,519
General Fund	Debt Service	4,504
General Fund	Other Governmental Funds	<u>300,000</u>
		<u>\$ 389,023</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**11. CAPITAL ASSETS**

Capital asset activity for the Municipality for the year ended June 30, 2009 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,575,456	\$ -	\$ -	\$ 2,575,456
Construction in progress	97,714			97,714
Total capital assets, not being depreciated	<u>2,673,170</u>	<u>-</u>	<u>-</u>	<u>2,673,170</u>
Capital assets, being depreciated:				
Buildings and building improvements	17,818,598	20,876		17,839,474
Furniture and fixture	905,182	125,509		1,030,691
Vehicles and equipment	7,522,388	477,315		7,999,703
Infrastructure	7,946,548	1,344,612		9,291,160
Total capital assets, being depreciated	<u>34,192,716</u>	<u>1,968,312</u>	<u>-</u>	<u>36,161,028</u>
Less accumulated depreciation for:				
Buildings and building improvements	3,964,256	407,408		4,371,664
Furniture and fixture	585,153	71,636		656,789
Vehicles and equipment	4,765,304	624,698		5,390,002
Infrastructure	5,839,839	177,874		6,017,713
Total accumulated depreciation	<u>15,154,552</u>	<u>1,281,616</u>	<u>-</u>	<u>16,436,168</u>
Total capital assets, being depreciated, net	<u>19,038,164</u>	<u>686,696</u>	<u>-</u>	<u>19,724,860</u>
Governmental activities capital assets, net	<u>\$ 21,711,334</u>	<u>\$ 686,696</u>	<u>\$ -</u>	<u>\$ 22,398,030</u>

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

General government	\$ 616,768
Public safety	79,631
Recreation	18,236
Public works	<u>566,981</u>
Total depreciation expense-governmental activities	<u>\$ 1,281,616</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Capital asset activity for Moca Housing Project, a discretely presented component unit, for the year ended June 30, 2009 was as follows:

<u>Component Unit-Moca Housing Project</u>	<u>Balance June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
Capital assets, not being depreciated:				
Land	\$ 60,900	\$ -	\$ -	\$ 60,900
Total capital assets, not being depreciated	<u>60,900</u>	<u>-</u>	<u>-</u>	<u>60,900</u>
Capital assets, being depreciated:				
Land improvements	68,916			68,916
Buildings and building improvements	2,110,388			2,110,388
Building equipment	351,656	1,454		353,110
Furniture and fixtures	45,417	1,386		46,803
Equipment	14,284			14,284
Total capital assets, being depreciated	<u>2,590,661</u>	<u>2,840</u>	<u>-</u>	<u>2,593,501</u>
Less accumulated depreciation	1,883,708	51,285		1,934,993
Total accumulated depreciation	<u>1,883,708</u>	<u>51,285</u>	<u>-</u>	<u>1,934,993</u>
Total capital assets, being depreciated, net	<u>706,953</u>	<u>(48,445)</u>	<u>-</u>	<u>658,508</u>
Moca Housing Project capital assets, net	<u>\$ 767,853</u>	<u>\$ (48,445)</u>	<u>\$ -</u>	<u>\$ 719,408</u>

**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2009 are as follows:

Puerto Rico Retirement System Administration	\$ 93,392
Puerto Rico Electric Power Authority	59,946
Puerto Rico Water and Sewer Authority	76,352
Puerto Rico General Services Administration	1,776
U. S. Department of Housing and Urban Development	<u>22,216</u>
Total	<u>\$ 253,682</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**13. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of \$831,564 in the general fund related to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

**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 \$73,729 in the HUD Program is related to the Section 8 Existing Program.

**14. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, payments in lieu of taxes from the Puerto Rico Electric Power Authority and federal financial assistance received from the federal government.

The general fund intergovernmental revenues are as follows:

Puerto Rico Electric Power Authority	\$1,807,315
Puerto Rico Treasury Department (Christmas Bonus)	198,510
Equalization Fund (.20 hundredth)	<u>4,378,275</u>
 Total	 <u><u>\$6,384,100</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**15. LONG-TERM DEBTS**

Bonds and other long-term liabilities outstanding at June 30, 2009 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%.	\$ 1,630,000
\$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%.	370,000
\$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%.	395,000
\$265,000 series of 2006, payable in annual installments of \$5,000 to \$25,000 until July 1, 2030, interest ranging from 6.25% to 7.25%.	245,000
\$635,000 series of 2007, payable in annual installments of \$25,000 to \$65,000 until July 1, 2021, interest ranging from 6.60% to 7.25%.	555,000
\$415,000 series of 2008, payable in annual installments of \$5,000 to \$35,000 until July 1, 2032, interest from 6.48% to 7.50%.	405,000
\$915,000 series of 2008, payable in annual installments of \$15,000 to \$75,000 until July 1, 2032, interest from 5.40% to 7.50%.	900,000
Total bonds payable	<hr style="width: 100%;"/> <b>4,500,000</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Notes**

<p>\$385,000 series of 2006, payable in annual installments of \$45,000 to \$65,000 until July 1, 2012; interest ranging from 4.23% to 5.33%.</p>	<p>\$ 185,000</p>
<p>\$835,000 series of 2008, payable in annual installments of \$95,000 to \$150,000 until July 1, 2008, interest ranging from 6.48% to 7.50%.</p>	<p>640,000</p>
<p>\$890,000 series of 2008, payable in annual installments of \$100,000 to \$160,000 until July 1, 2015, interest ranging from 5.40% to 7.50%.</p>	<p>790,000</p>
<p>Note payable to CRIM (Financing of delinquent accounts) - On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$260,193 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non revolving line of credit bearing interest of 6.5% for the first five years and variable for the next 25 years at 125 points over London Interbank offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years will be financed through .48% of the net increase of the subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for 25 years period.</p>	<p>196,880</p>
<p>Total notes payable</p>	<p><u>1,811,880</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Other Long-term Liabilities**

Note payable to CRIM (LIMS) - On June 27, 2001, the Municipality entered into a financing agreement with the CRIM in the amount of \$286,847 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$38,472, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center

\$ 88,159

Total other long-term liabilities

\$ 88,159

The annual debt service requirements for the bonds payable and note payable at June 30, 2009, are as follows:

	<b>Bonds</b>		<b>Note Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2010	\$ 225,000	\$ 299,686	\$ 288,560	\$ 116,859
2011	250,000	288,802	303,560	108,310
2012	275,000	272,722	323,560	87,380
2013	295,000	254,998	278,560	65,023
2014	315,000	235,467	303,560	44,240
2015-2019	1,425,000	842,710	202,800	54,594
2020-2024	715,000	493,682	42,800	29,284
2025-2029	670,000	257,852	42,800	15,974
2030-2034	330,000	48,625	25,680	3,194
	<u>\$4,500,000</u>	<u>\$ 2,994,544</u>	<u>\$ 1,811,880</u>	<u>\$ 524,858</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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:

<b><u>Year Ended June 30,</u></b>	<b><u>Amount</u></b>
2010	\$ 74,150
2011	81,007
2012	88,498
2013	104,359
2014	105,631
Thereafter	<u>392,133</u>
	<u><u>\$ 845,778</u></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 \$2.5 million as the Municipality's estimated current cost for landfill closure as of June 30, 2009. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The balance of closure and postclosure costs of \$2.5 million are reported in the statement of net assets because it will not be funded with available expendable financial resources at June 30, 2009.

Long-term liability activity for the year ended June 30, 2009 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 3,795,000	\$ 915,000	\$ 210,000	\$ 4,500,000	\$ 225,000
Notes payable	1,185,441	890,000	263,561	1,811,880	288,560
Total long-term debt	4,980,441	1,805,000	473,561	6,311,880	513,560
<b>Other long-term liabilities:</b>					
Landfill obligation	2,475,000			2,475,000	
CRIM - LIMS	119,960		31,801	88,159	33,720
Compensated absences	1,950,203		13,781	1,936,422	
Total other liabilities, governmental activities	4,545,163	-	45,582	4,499,581	33,720
Total noncurrent liabilities, governmental activities	<u>\$ 9,525,604</u>	<u>\$ 1,805,000</u>	<u>\$ 519,143</u>	<u>\$ 10,811,461</u>	<u>\$ 547,280</u>
<b>Component Unit:</b>					
Moca Housing Project mortgage payable	<u>\$ 913,932</u>	<u>\$ -</u>	<u>\$ 68,154</u>	<u>\$ 845,778</u>	<u>\$ 74,150</u>

**16. 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, 2009**

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 fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

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

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

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

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, 2009 was approximately \$414,144. The Municipality's payroll for employees covered by ERS was approximately \$4.3 million. The Municipality total payroll for all employees was approximately \$6.9 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOCA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**17. 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.

**18. 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, 2009 was approximately \$18,220.
- 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, 2009**

**19. 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 \$2,475,000. (See Note 15).

**20. 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.

**21. COMMITMENTS**

The Municipality of Moca had several outstanding or planned construction projects as of June 30, 2009. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental fund that amounted to approximately \$656,540.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Direct Program:		
Section 8 Vouchers Program	14.871	\$ 271,814
Pass-through State -Commonwealth of Puerto Rico/Commissions Office of Municipal Affairs - Community Development Block Grant - States Program SBGP	14.228	<u>780,234</u>
Subtotal U.S. Department of HUD		<u>1,052,048</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through the Puerto Rico Elderly Commission:		
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	27,322
Special Programs for the Aging Title III, Part E, National Family Caregivers Support	93.052	<u>10,043</u>
Subtotal U.S. Department of HHS		<u>37,365</u>
<b>U.S. Department of Homeland Security</b>		
Pass-through Department of Justice of Puerto Rico State Domestic Preparedness Equipment Support Program		
	97.004	<u>134,120</u>
Subtotal U.S. Department of DHS		<u>134,120</u>
<b>TOTAL</b>		<u>\$ 1,223,533</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**2. BASIS OF PRESENTATION**

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

	<u><b>Expenditures</b></u>
Expenditures as per basic financial statements:	
Housing and Urban Development Programs	\$ 1,052,048
Federal expenditures included within the other nonmajor governmental funds	<u>171,485</u>
Total expenditures per schedule of expenditures of federal awards	<u><u>\$ 1,223,533</u></u>



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis Rivera Zúñiga  
CPA Zoraida Cruz Claudio

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants

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

To the Honorable Mayor and  
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 the Municipality of Moca, as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Moca' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a control deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatements of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Moca' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

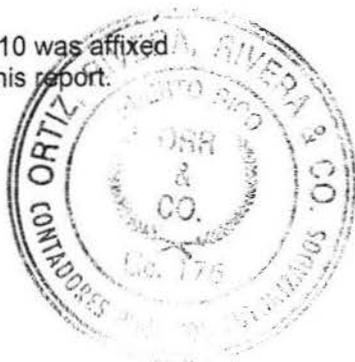
We noted certain matters that we have reported to management of the Municipality of Moca in a separate letter dated November 24, 2009.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management 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  
November 24, 2009

Ortiz, Rivera, Rivera & Co.

The stamp 2459310 was affixed to the original of this report.





ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis Rivera Zúñiga  
CPA Zoraida Cruz Claudio

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants

**INDEPENDENT AUDITORS' 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, 2009. Municipality of Moca's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Moca's management. Our responsibility is to express an opinion on Municipality of Moca's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Moca's compliance with those requirements and performing

such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Moca compliance with those requirements.

In our opinion, the Municipality of Moca complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2009.

#### Internal Control over Compliance

The management of Municipality of Moca is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Moca 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the audit committee, Commissioner Office of Municipal Affairs, management 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  
November 24, 2009

*Ortiz, Rivera, Rivera & Co.*

The stamp 2459311 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, 2009**

**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 significant deficiencies on internal control.
- c. No instances of noncompliance material to the financial statements of Municipality of Moca were disclosed during the audit.
- d. There were no significant deficiencies 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 federal 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 low-risk auditee.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

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

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOCA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p>Community Development Block Grants/States Program, CFDA No. 14.228</p>	<p><b>Condition 08-01</b></p> <p>The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7).</p>	<p><b>No. 14.228</b></p> <p>Condition was corrected.</p>