

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE MOROVIS

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**RIVERA – RODRIGUEZ & CO.
CERTIFIED PUBLIC ACCOUNTANTS**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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RIVERA-RODRÍGUEZ & CO.
BUSINESS CONSULTANTS / CERTIFIED PUBLIC ACCOUNTANTS

**To the Honorable Mayor
and Municipal Assembly
Municipality of Morovis
Morovis, Puerto Rico**

Member:

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Private Companies Practice Section
Management Consulting Services Division
National Litigation Support Services Association
National Association of Certified Valuation Analyst
National Association of Certified Fraud Examiners
Construction Industry CPAs/Consultants Association

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

We have audited the financial statements of the Municipality of Morovis as of and for the year ended June 30, 2003, and have issued our report thereon dated January 29, 2004, which was qualified because insufficient audit evidence exists to support Municipality of Morovis' disclosures with respect to the general fixed assets balances. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Morovis' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements 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 instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 03-01, 03-02, 03-03 and 03-04.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Morovis' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

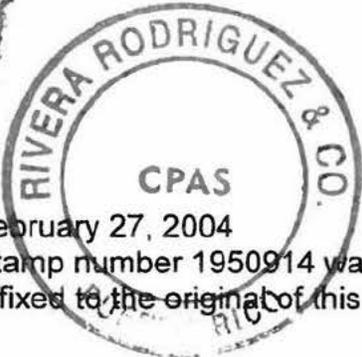
**To the Honorable Mayor
and Municipal Assembly
Municipality of Morovis
Page 2**

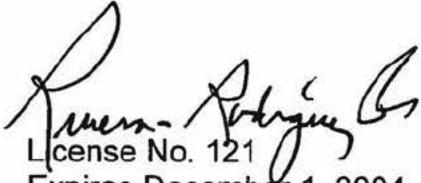
Internal Control over Financial Reporting (Continued)

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Morovis' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions and recommendations as items 1 and 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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.


February 27, 2004
Stamp number 1950914 was
affixed to the original of this report.


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Expires December 1, 2004.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
JUNE 30, 2003**

1. ACCOUNTING SYSTEM

We noted that the Municipality of Morovis is not keeping an accounting system as required by General Accepted Accounting Principles. At present time, the Municipality records the transactions in the general, debt service, capital project and special funds. These funds are kept under the cash basis method. Also, the system used to record the purchase orders and contracts is not adequate; because it does not provide for segregation between accounts payable and encumbrances. In order to prepare the basic financial statements, including the Government – Wide financial statements and Fund Financial Statements as required by the provision of the Governmental Accounting Standard Board (“GASB”) Statement No. 34, we realized several adjusting entries to convert them to an accrual and modified accrual basis of accounting, respectively.

Recommendation

We recommend to the Municipality of Morovis that in coordination with the Municipal Revenue Collection Center and the Commissioner Office of Municipal Affairs, implement an accounting system, which should provide as minimum the following:

- ❖ The Municipality’s operations accounted for through several separate funds, accounting in each of them, the related assets, liabilities, and fund balances for purpose of the Fund Financial Statements preparation.
- ❖ Segregation of the encumbrances from accounts payable.
- ❖ Major funds reported separately from others non-major funds.
- ❖ The registration of the accounts payable and accrued expenses when the debt is incurred and the amount is determinable, including the repayments of the principal of long-term debts.
- ❖ The Municipality’s property and equipment and infrastructure assets reconciled with their respective subsidiary.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SCHEDULE OF REPORTABLE CONDITIONS AND
RECOMMENDATIONS (CONTINUED)
JUNE 30, 2003**

2. FIXED ASSETS

During the audit we noted that:

- a. There is no supervision process established in order to verify if each department keeps adequate control of the property that is under their responsibility.
- b. There is no adequate record for the infrastructure assets.
- c. Expenditures for financing charges of issued long-term debts, and financing charges related to property, plant and equipment had not been recorded in the property ledger.
- d. There is no supervision process to verify if each department keeps adequate control of the inventory of property.

Recommendation

To improve the internal controls in the area of property, the following procedures should be implemented by the Property Custodian in coordination with the Finance Director:

- a. It is recommended to take a physical inventory once a year. All Municipal property must be properly identified. Any discrepancies found should be investigated and proper action taken.
- b. The Department of Property must perform periodical surprise physical observations and/or verification of the related assets to determine their existence and condition.
- c. It is recommended to reconcile periodically the expenditures recorded by the Finance Department and the amount recorded by the Department of Property. Any discrepancies found should be investigated.



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BUSINESS CONSULTANTS / CERTIFIED PUBLIC ACCOUNTANTS

**To the Honorable Mayor
and Municipal Assembly
Municipality of Morovis
Morovis, Puerto Rico**

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

Compliance

We have audited the compliance of Municipality of Morovis with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Municipality of Morovis' 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 Morovis' management. Our responsibility is to express an opinion on Municipality of Morovis' 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 Morovis' 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 Morovis' compliance with those requirements.

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

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**To the Honorable Mayor
and Municipal Assembly
Municipality of Morovis
Page 2**

Internal Control over Compliance

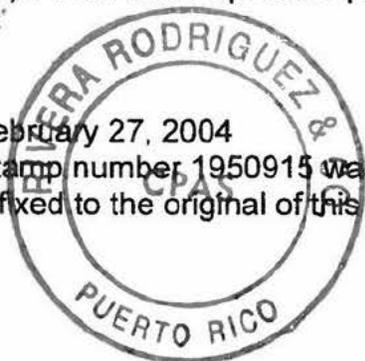
However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 03-01, 03-02, 03-03 and 03-04.

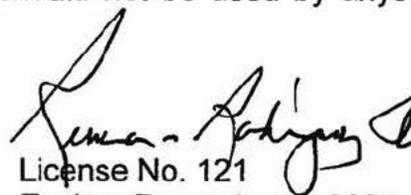
The management of Municipality of Morovis is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Morovis'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

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

This report is intended solely for the information and use of the 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.

February 27, 2004
Stamp number 1950915 was
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License No. 121
Expires December 1, 2004.

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

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Morovis.
- b. There were reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Morovis were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditors' report on compliance for the major federal award programs for Municipality of Morovis expresses an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Morovis are reported in section number 3 of this schedule.
- g. The programs tested as major programs included:

CDBG – CFDA No.14.228
CHILD CARE – CFDA No. 10.558
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Morovis was determined to be a low-risk audit.

2. FINDINGS – FINANCIAL STATEMENTS AUDIT

See Schedule of Reportable Conditions and Recommendation on Pages 3 to 4.

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

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
CDBG CFDA No. 14.228	Condition 03-01 Cash Management	

For the fiscal year ended June 30, 2003, the Municipality received Community Development Block Grants funds in the amount of \$855,202. These funds were received under the Request for Advance basis. To determine compliance with cash management requirements, we tested six advances amounting to \$716,794 (84%). After such test, we noted that the time elapsed from the transfer date through the disbursement date ranged from 7 to 177 days. Additionally, as of June 30, 2003, only \$178 has been disbursed from an advance received on April 24, 2003 in the amount of \$192,619.

Cause

The Municipality does not have a formally structured cash management system to effectively manage the timing between the receipt of Community Development Block Grants funds and the ultimate disbursement of these funds.

Effect

Due to the significance of the federal funds involved, the Municipality could be exposed to significant administrative actions by the grantor, including the assessment of interest cost on funds that were not expended within the required period. Additionally, the continued occurrence of this condition may result in the following:

- The Municipality may be transferred from the advance payment method to the reimbursement payment method, which requires the Municipality to request the reimbursement of federal funds only after the programs expenditures are disbursed.

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

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
CDBG CFDA No. 14.228	<p>Condition 03-01 (Continued) Cash Management (Continued)</p>	

Effect (Continued)

- Future payment requests may be routed to an office of the Chief Financial Officer, HUD representative for approval.
- The ability of the Municipality to manage federal awards in compliance with laws, regulations, and provisions of the grant could be questioned.

Criteria

Section (a) of 24 CFR 570.502, "Applicability of uniform administrative requirements" establishes that recipients and subrecipients that are governmental entities shall comply with the requirements and standards of 24 CFR 85, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments".

24 CFR 85.20 (b)(7) of the "Standards for financial management systems" establishes that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used.

Recommendation

The Municipality shall request only the amount of funds necessary to meet its immediate cash needs in order to prevent excess cash balances. Establishing more reliable and thorough cash forecasting procedures and subjecting such forecasts to the formal review and approval of Municipality's management should meet this objective.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT (CONTINUED)

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<p>CDBG CFDA No. 14.228</p>	<p>Condition 03-02 Davis-Bacon Act</p> <p>We found that the required copies of the certified payrolls by the contractors are not being submitted to the Municipality of review.</p> <p><u>Cause</u></p> <p>Inadequate follow-up by Program Officials in order to ascertain that the contractors submit periodically the certified payrolls to the Municipality.</p> <p><u>Effect</u></p> <p>Davis Bacon requirements are not being followed by the Municipality.</p> <p><u>Criteria</u></p> <p>Non-federal entities subject to the A-102 Common Rule and OMB circular A-110 require the contractors or subcontractors to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll according to 29 CFR sections 5.5 and 5.6.</p> <p><u>Recommendation</u></p> <p>Adequate follow up procedures should be observed by Program Officials in order to ascertain that contractors submit the copies of the certified payroll.</p>	

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

**3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT (CONTINUED)**

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
Child & Adult Care Food Program CFDA No. 10.558	Condition 03-03 Period of Availability of Federal Funds	

To test compliance with the period of availability of federal funds requirements, we obtained the Annual Closing Report submitted to the Family Department of the Commonwealth of Puerto Rico for the Child and Adult Care Food Program for the fiscal year ended June 30, 2003. According to said report, the Municipality had obligations amounting to \$402,592. As of the date of our test, we noted that the Municipality liquidated \$227,326 within 90 days after the end of the period of availability. However, the remaining balance of \$175,266 was not liquidated within the allowed time period. Since the obligations were incurred within the period of availability, are properly supported, and relate to allowable activities, no costs were questioned.

Cause

The municipality does not have formal policies and procedures to ensure that the budgetary process considers period of availability requirements and does not provide for the identification and communication of cut-off requirements.

Effect

The Municipality is exposed to penalties and sanctions from the grantor due to noncompliance with this requirement, including returning to the grantor the amount of funds involved. Additionally, the ability of the Municipality to manage federal awards in compliance with laws, regulations, and provisions of the grant could be questioned.

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

**3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT (CONTINUED)**

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<p>Child & Adult Care Food Program CFDA No. 10.558</p>	<p>Condition 03-03 (Continued) Period of Availability of Federal Funds (Continued)</p> <p><u>Criteria</u></p> <p>Section 23(b) of the Common Rule establishes that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period or the federal agency extended deadline.</p> <p><u>Recommendation</u></p> <p>To provide reasonable assurance that obligations are liquidated within the allowed time period, the Municipality shall establish formal policies and procedures to ensure:</p> <ol style="list-style-type: none"> a. That the budgetary process considers period of availability requirements as to obligation and disbursement of federal funds and provides for the identification and communication of cut-off requirements; b. Timely identification and communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditure, including automated notifications of pending deadlines; c. Periodic reporting of budgeted and actual expenditures and unliquidated balances to appropriate levels of management for its review before and after cut-off dates; and d. Timely requests for extensions of the due dates. The Municipality shall request from the grantor approval for liquidating obligations after its liquidation deadline to avoid future instances of noncompliance. 	

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

**3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT (CONTINUED)**

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
Child & Adult Care Food Program CFDA No. 10.558	Condition 03-04 Eligibility	

In testing compliance with Eligibility for Free or Reduced Price Meals requirement, we selected 43 participants to test its eligibility. From that sample, we noted one case (2%) on which the participant's household application did not meet the eligibility criteria as compared to the USDA's published Income Eligibility Guidelines.

Cause

This condition occurred due to a mathematical error made during the analysis of sources of income submitted by the participant's household.

Effect

The Municipality could be exposed to administrative actions or cost disallowances due to the participants' ineligibility for free or reduced price meals benefits.

Criteria

7 CFR 226.23(e)(4) establishes that when information furnished by the family of participants enrolled in a pricing program does not meet the eligibility criteria for free or reduced price meals, pricing program officials shall provide written notice to each family denied free or reduced-price benefits.

Recommendation

We recommend the Municipality to correct the eligibility verification of the ineligible participant and determine the effect of any contingent liability to the grantor for any services provided to such ineligible participant resulting from the error of the verification procedures.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT (CONTINUED)

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
Child & Adult Care Food Program CFDA No. 10.558	Condition 03-04(Continued) Eligibility (Continued)	

Recommendation (Continued)

Additionally, the Municipality should seek reimbursement of the federal funds disbursed in relation to the ineligible participant.

We also recommend the Municipality to implement review procedures at the supervisory levels to avoid this condition in the future. The Supervisor reviewing the application may document this procedure by dating and initialing the participant's household application.

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Pass-through the Office of the Commissioner of Municipal Affairs:		
Community Development Block Grant	14.228	\$ 756,908
Direct program:		
Section 8 – Voucher	14.855	<u>292,704</u>
Subtotal U.S. Department of HUD		<u>1,049,612</u>
U.S. Department of Agriculture		
Pass-through the Office of the Child Services and Community Developments:		
Child Care	10.558	603,500
Nutrition Assistance for Puerto Rico	10.566	<u>59,492</u>
Subtotal U.S. Department of Agriculture		<u>662,992</u>
Department of Homeland Security		
Public Assistance Grant	83.544	<u>109,936</u>
TOTAL FEDERAL DISBURSEMENTS		<u><u>\$1,822,540</u></u>

The accompanying note is an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2003**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Morovis and is presented on the 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.

Total federal disbursements per schedule of Federal Awards	\$1,822,540
Total non-federal expenditures accounted for in other Governmental Funds of the General Purpose Financial Statements	<u>744,710</u>
Total expenditures accounted for in Other Governmental Funds of the General Purpose Financial Statements	<u>\$2,567,250</u>

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

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

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
CDBG CFDA No. 14.228	Condition 01-1 The program does not have adequate control procedures for the cash management.	Condition still Prevails; see Finding 03-01
CDBG CFDA No. 14.228	Condition 02-1 The program does not have adequate control procedures for the cash management.	Condition still Prevails; see Finding 03-01

EXHIBIT



Estado Libre Asociado de Puerto Rico
Municipio de Morovis

Oficina de Programas Federales

CORRECTIVE ACTION PLAN

March 25, 2004

Cognizant Agency for Audit:
Housing and Urban Development

The Municipality of Morovis respectfully submits the following corrective action plan for the year ended June 30, 2003.

Name and address of independent public accounting firm: Rivera – Rodríguez & Co., PO Box 21476, San Juan, PR 00926.

Audit period: Fiscal year ended June 30, 2003.

The findings from the June 30, 2003 schedule of findings and questioned costs are discussed below.

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

Finding 03-01: SBGP-CFDA No. 14.228

Reportable Condition: The program does not have adequate procedures for the cash management. (Repeated condition)

Corrective Action Planned

The Municipality will minimize the time that elapses between draw down of funds and the payout of funds for program purposes.

Completion Date

We will implement corrective measures during fiscal year 2003-2004.

Finding 03-02: SBGP-CFDA No. 14.228

Reportable Condition: Contractors are not sending their certified payrolls to the Municipality for review.

Corrective Action Planned

The Municipality will require from the contractors the certified payrolls for each project before disbursement of federal funds is made. Also for payments already made the required certified payrolls will be requested in order to comply with DAVIS BACON.

Completion Date

We will implement corrective measures during fiscal year 2003-2004.

Persons responsible for corrective action:

<u>Name</u>	<u>Position</u>
<u>ANA ROSADO</u>	<u>CONTADORA</u>
<u>ROBERTO BERRIOS</u>	<u>DIRECTOR</u>

Findings – Federal Award Program Audits, Child & Adult Care Food Program

Finding 03-03: CFDA No.10.558 - Child & Adult Care Food Program

Reportable Condition

The program did not liquidate all obligations incurred under the award within 90 days after the end of the funding period.

Corrective Action Planned

The Municipality will ascertain that pending obligations are liquidated within the required time period. An extension of time will be requested from the pass-through grantor with sufficient time if pending obligations cannot be liquidated within the required 90 days.

Completion Date

We will implement corrective measures for the program year ending on September 30, 2004.

Persons responsible for corrective action:

<u>Name</u>	<u>Position</u>
<u>HETOR SANTOS</u>	<u>CONTADOR</u>
<u>KAREN COLON</u>	<u>DIRECTORA</u>

Finding 03-04: CFDA No.10.558 - Child & Adult Care Food Program

Reportable Condition

In one case an enrolled participant did not meet the income eligibility criteria to participate in the program.

Corrective Action Planned

Thorough reviews of each individual application will be made before final determinations of eligibility are made.

Completion Date

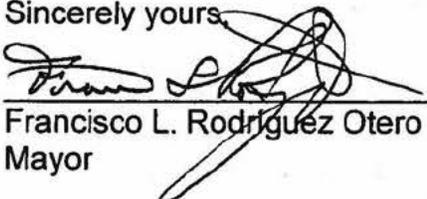
We will implement corrective measures for the program year ending on September 30, 2004.

Persons responsible for corrective action:

<u>Name</u>	<u>Position</u>
<u>HECTOR SANTOS</u>	<u>CONTADOR</u>
<u>KAREN COLON</u>	<u>DIRECTORA</u>

If the Cognizant of Oversight Agency for Audit has questions regarding this plan, please call Ms. Ana Arroyo at (787) 862-2155.

Sincerely yours,


Francisco L. Rodríguez Otero
Mayor

**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates On or After January 1, 2001**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

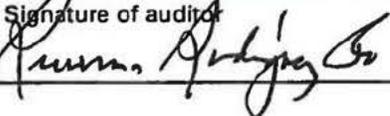
<p>1. Fiscal period ending date for this submission</p> <p>Month Day Year Fiscal Period End Dates Must 6 / 30 / 2003 Be On or After January 1, 2001</p>	<p>2. Type of Circular A-133 audit</p> <p>1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit</p>									
<p>3. Audit period covered</p> <p>1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other - _____ Months 2 <input type="checkbox"/> Biennial</p>	<p>FEDERAL GOVERNMENT USE ONLY</p> <p>4. Date received by Federal clearinghouse</p>									
<p>5. Employer Identification Number (EIN)</p> <p>a. Auditee EIN <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center;"> <tr><td>6</td><td>6</td><td>0</td><td>4</td><td>3</td><td>3</td><td>7</td><td>8</td><td>2</td></tr> </table></p> <p>b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No</p> <p><i>If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)</i></p>		6	6	0	4	3	3	7	8	2
6	6	0	4	3	3	7	8	2		

<p>6. AUDITEE INFORMATION</p> <p>a. Auditee name MUNICIPALITY OF MOROVIS</p> <p>b. Auditee address (Number and street) PO BOX 655 City MOROVIS State ZIP + 4 Code 0 0 6 8 7 -</p> <p>c. Auditee contact Name FRANCISCO RODRIGUEZ Title MAYOR</p> <p>d. Auditee contact telephone (787) 862 - 1624 / 3610</p> <p>e. Auditee contact FAX (Optional) (787) 862 - 6992</p> <p>f. Auditee contact E-mail (Optional)</p>	<p>7. AUDITOR INFORMATION (To be completed by auditor)</p> <p>a. Auditor name RIVERA - RODRIGUEZ & CO.</p> <p>b. Auditor address (Number and street) PO BOX 21476 City SAN JUAN State ZIP + 4 Code 0 0 9 2 8 -</p> <p>c. Auditor contact Name RAFAEL E. RIVERA RODRIGUEZ Title MANAGING PARTNER</p> <p>d. Auditor contact telephone (787) 754 - 7096</p> <p>e. Auditor contact FAX (Optional) (787) 753 - 1880</p> <p>f. Auditor contact E-mail (Optional)</p>
---	---

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of certifying official  Date Month Day Year
1 / 1 /
Printed Name/Title of certifying official
FRANCISCO RODRIGUEZ, MAYOR

Signature of auditor  Date Month Day Year
3 / 27 / 04

PART I GENERAL INFORMATION - Continued

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
 1 Yes - Identify Cognizant Agency in Part I, Item 9 2 No - SKIP to Part II, Item 1

9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.

- | | | | |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ __ .520(b)) \$ 300,000

4. Did the auditee qualify as a low-risk auditee? (§ __ .530) 1 Yes 2 No

5. Is a reportable condition disclosed for any major program? (§ __ .510(a)(1)) 1 Yes 2 No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (§ __ .510(a)(1)) 1 Yes 2 No

7. Are any known questioned costs reported? (§ __ .510(a)(3) or (4)) 1 Yes 2 No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ __ .315(b)) 1 Yes 2 No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

- | | | | |
|--|--|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input checked="" type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9)

Count total number of boxes marked above and submit this number of reporting packages 3

PART III FEDERAL PROGRAMS - Continued

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²							
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CDBG	\$ 756,908.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	C, D	03-01, 03-02
1	4 .855	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 - VOUCHER	\$ 292,704.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE	\$ 603,500.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	H, E	03-03, 03-04
1	0 .566	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NUTRITION ASSISTANCE FOR PUERTO RICO	\$ 59,492.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8	3 .544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANT	\$ 109,936.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED →				\$ 1,822,540.00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § __, 510(a)) reported for each Federal program.

- | | | | |
|------------------------------------|---|--|----------|
| A. Activities allowed or unallowed | F. Equipment and real property management | K. Real property acquisition and relocation assistance | O. None |
| B. Allowable costs/cost principles | G. Matching, level of effort, earmarking | L. Reporting | P. Other |
| C. Cash management | H. Period of availability of Federal funds | M. Subrecipient monitoring | |
| D. Davis - Bacon Act | I. Procurement and suspension and debarment | N. Special tests and provisions | |
| E. Eligibility | J. Program income | | |

⁴ N/A for NONE

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

**RIVERA – RODRIGUEZ & CO.
CERTIFIED PUBLIC ACCOUNTANTS**

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

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RIVERA-RODRÍGUEZ & CO.
BUSINESS CONSULTANTS / CERTIFIED PUBLIC ACCOUNTANTS

**To the Honorable Mayor
and Municipal Assembly
Municipality of Morovis
Morovis, Puerto Rico**

Member:

American Institute of Certified Public Accountants
Private Companies Practice Section
Management Consulting Services Division
National Litigation Support Services Association
National Association of Certified Valuation Analyst
National Association of Certified Fraud Examiners
Construction Industry CPAs/Consultants Association

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Municipality of Morovis, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Municipality of Morovis' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 opinion.

We were unable to obtain evidence supporting the amount of approximately \$5 million of infrastructure and property and equipment assets included as part of the net capital assets recorded in the Statement of Net Assets nor were we able to satisfy ourselves as to this amount by other auditing procedures. This amount represents 25 percent of the total capital assets net and 14 percent of the total assets.

In our opinion except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the evidence supporting the amount of approximately \$5 million included as part of the net capital assets recorded in the Statements of Net Asset, or had we been able to satisfy ourselves as to this amount by other auditing procedures, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Morovis as of June 30, 2003, and the results of its operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor
and Municipal Assembly
Municipality of Morovis
Morovis, Puerto Rico
Page 2

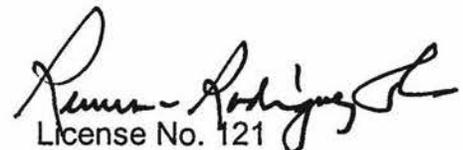
As described in Note 1 to the basic financial statements, the Municipality of Morovis has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of June 30, 2003.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries to the management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



January 29, 2004

Stamp number 1931207 was
affixed to the original of this report.


License No. 121
Expires December 1, 2004.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
MANAGEMENT DISCUSSION AND ANALYSIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Management of the Municipality of Morovis (the Municipality) implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments, for the fiscal year ended on June 30, 2003. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the following goals:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the Municipality's financial activity
- Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- Identify any material deviations from the financial plan (the approved budget) and
- Identify individual fund issues or concerns.

Because fiscal year 2002-2003 represents the first year in which the Municipality implemented the provisions of the Governmental Accounting Standards (GASB) Statement No. 34, this discussion and analysis provides few comparisons with the previous year. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

FINANCIAL HIGHLIGHTS

- The Municipality's assets exceeded its liabilities by \$23.5 million (net assets).
- The net assets increase by \$24,896.
- In the fund financial statements, the governmental activities revenue increased \$2.2 million (or 15%) and governmental activities' expenditures increased \$4.7 million (or 44%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase on fund balance of \$41,155.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$437,506.
- The Municipality issued bonds amounting to \$6.9 million to finance capital improvements, to paid legal claim settlement and for the redemption of long-term debt.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

OVERVIEW OF THE FINANCIAL STATEMENTS

The Managements's Discussion and Analysis introduces the Municipality's financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

This new financial statements change 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.

Government -Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality as a whole is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. Within the basic financial statements, fund financial statements provide detailed information about the Municipality's most significant funds, not the Municipality's as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The Municipality's funds are all included in Governmental Funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

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.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure - roads, bridges, etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2002, the Municipality commenced the reporting of infrastructure assets. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's net assets (excess of assets over liabilities) totaled \$23,594,399 million at the end of fiscal year 2002-2003, compared to \$23,469,503 at the end of the previous fiscal year. The largest portion of the Municipality's net assets is the investment in capital assets, net of related debt.

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

Current and non-current assets	\$ 12,722,579
Capital assets	<u>20,727,189</u>
Total assets	<u>33,449,768</u>
Current liabilities	1,824,053
Noncurrent liabilities	<u>8,131,316</u>
Total liabilities	<u>9,955,369</u>
Net Assets:	
Investment in capital assets	19,307,189
Restricted	7,042,504
Unrestricted	<u>(2,855,294)</u>
Total net assets	<u>\$23,494,399</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Changes in Net Assets

The Municipality's net assets increase by \$24,896. Approximately 40% percent of the Municipality's total revenue came from taxes, while 36 percent resulted from grants and contributions, including federal aid. Charges for services provided 13 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public ways and facilities, public assistance, and health and sanitation.

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

Program revenues:	
Charges for services	\$ 1,872,050
Operating grants and contributions	3,141,971
Capital grants and contributions	2,107,100
General revenues:	
Property taxes	5,431,962
Municipal license tax	302,601
Grants and contributions not restricted to specific programs	23,000
Interest and investment earning	279,965
Miscellaneous	<u>1,487,327</u>
Total revenues	14,645,976
Expenses:	
General government	8,560,269
Public safety	780,608
Public ways and facilities	1,967,102
Health and sanitation	822,767
Culture and recreation	288,568
Public assistance	2,079,499
Interest on long-term debt	<u>122,267</u>
Total expenses	<u>14,621,080</u>
Change in net assets	24,896
Net assets, beginning of year	<u>23,469,503</u>
Net assets, end of year	<u>\$23,494,399</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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 funds balances of \$11 million, an increase of \$1.8 million in comparison with the prior year. There are reservations of fund balance amounting to \$10.1 million. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$307,376), 2) to pay debt service (\$318,353) or 3) to pay for capital projects (\$9.5 million). Accordingly, \$851,764 constitute unreserved fund balance, which is available for appropriation for the general purposes of the funds.

Within the governmental funds, it is included the general fund which is the primary operating fund of the Municipality. As of June 30, 2003, the general fund has \$1.2 million on fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund budget for fiscal year 2002-2003 was 9 million, \$1.5 million over the previous year amended budget.

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The no significant variance between budget and actual results was reflected for the year ended June 30, 2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$28.5 million, net of accumulated depreciation of \$7.8 million, leaving a net book value of \$20.7 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 4% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$2.1 million approximately for the year. Depreciation charges for the year totaled \$1 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 purpose and cannot be used for any other purposes. As of June 30, 2003 the Municipality has \$2.8 million of unexpended proceeds from bond issuances that are committed to future construction activities.

**Summary of Capital Assets
Net of Accumulated Depreciation
June 30, 2003**

Non-depreciable assets	\$ 4,207,111
Depreciable assets	<u>16,520,078</u>
Total	<u>\$ 20,727,189</u>

Debt Administration

At the end of the fiscal year, the Municipality have general long-term debt obligation outstanding of \$8.2 million.

**Summary of Long-Term Debt
June 30, 2003**

Accrued compensated absences	\$ 394,585
Bonds payable	7,768,000
Liability for claims and judgments	68,000
Property tax advances	<u>64,131</u>
Total	<u>\$ 8,294,716</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt Administration (Continued)

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity."

The Municipality's operating Legal Margin available to issue additional general obligation notes as of June 30, 2003, was calculated by Government Development Bank of Puerto Rico ("GDB") to equal \$436,516.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on state contributions and federal grants as well as licenses and permits, municipal tax and property taxes to carry out the government activities.

For the fiscal year 2003-2004, the Municipal Legislature approved a General Fund budget of \$8 million, \$1 million less than the previous amended 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 at (787) 862-2155.

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

	Governmental Activities
ASSETS	
Cash in banks; including certificates of deposits	\$ 7,583,857
Cash with fiscal agent	4,130,794
Account receivable:	
Interest receivable	47,702
Due from other agencies	927,244
Deferred charges	32,982
Capital assets, net of accumulated depreciation	20,727,189
Total assets	33,449,768
 LIABILITIES	
Accounts payable and accrued liabilities	522,955
Due to other agencies	606,319
Deferred revenues	531,379
General long-term debts:	
Due within one year	163,400
Due in more than one year	8,131,316
Total liabilities	9,955,369
 NET ASSETS	
Invested in capital assets	19,307,189
Restricted for:	
Capital projects, net of related debt	6,724,151
Debt service	318,353
Unrestricted	(2,855,294)
Total net assets	\$ 23,494,399

The accompanying notes are an integral part of this financial statement.

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Primary government:					
Governmental activities:					
General Government	\$ 8,560,269	\$ 1,858,556	\$ 723,568	\$ 88,991	\$ (5,889,154)
Public safety	780,608	8,000	8,928		(763,680)
Public ways and facilities	1,967,102		48,610	2,018,109	99,617
Health and Sanitation	822,767				(822,767)
Culture and Recreation	288,568	5,494			(283,074)
Public assistance	2,079,499		2,360,865		281,366
Interest on long term debt	122,267				(122,267)
Total governmental activities	\$ 14,621,080	\$ 1,872,050	\$ 3,141,971	\$ 2,107,100	(7,499,959)
General revenues:					
Property taxes					5,431,962
Municipal license tax					302,601
Grants and contributions not restricted to specific programs					23,000
Interest and investment earning					279,965
Miscellaneous					1,487,327
Total general revenues					<u>7,524,855</u>
Change in net assets					24,896
Net assets - beginning					<u>23,469,503</u>
Net assets - ending					<u>\$ 23,494,399</u>

The accompanying notes are an integral part of this financial statement.

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

	<u>General</u>	<u>Debt Services</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Cash in banks; including certificates of deposits of \$5,412,027	\$ 1,914,158	\$ -	\$ 4,983,406	\$ 686,293	\$ 7,583,857
Cash with fiscal agent	-	318,353	3,812,441		4,130,794
Accounts receivable:					
Interest receivable	-	-	47,702	-	47,702
Due from other agencies	927,244	-	-	-	927,244
Due from other funds	1,800,473	-	2,472,000	-	4,272,473
Total assets	<u>\$ 4,641,875</u>	<u>\$ 318,353</u>	<u>\$ 11,315,549</u>	<u>\$ 686,293</u>	<u>\$ 16,962,070</u>
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 506,995	\$ 15,960	\$ 522,955
Due to other funds	2,472,000	-	1,070,891	729,582	4,272,473
Due to other agencies	606,319	-	-	-	606,319
Deferred revenues	329,507	-	-	201,872	531,379
Total Liabilities	<u>3,407,826</u>	<u>-</u>	<u>1,577,886</u>	<u>947,414</u>	<u>5,933,126</u>
FUND BALANCES:					
Reserve for:					
Encumbrances	121,164	-	186,212	-	307,376
Debt service	-	318,353	-	-	318,353
Capital projects	-	-	9,551,451	-	9,551,451
Unreserved	1,112,885	-	-	(261,121)	851,764
Total fund balances	<u>1,234,049</u>	<u>318,353</u>	<u>9,737,663</u>	<u>(261,121)</u>	<u>11,028,944</u>
Total liabilities and fund balances	<u>\$ 4,641,875</u>	<u>\$ 318,353</u>	<u>\$ 11,315,549</u>	<u>\$ 686,293</u>	<u>\$ 16,962,070</u>

The accompanying notes are an integral part of this financial statement.

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

Total fund balance - total governmental funds		\$ 11,028,944
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		20,727,189
Long-term liabilities, included bonds payable, are not the current period and accordingly are not reported as fund liabilities:		
Bonds payable	7,768,000	
Accrued compensated absences	394,585	
Liability for claims and judgments	68,000	
Property tax advances	64,131	
Total long-term liabilities		(8,294,716)
The unamortized balance of the bonds issuance cost is reported in the government - wide statement of net assets		32,982
Net assets of governmental activities		\$ 23,494,399

The accompanying notes are an integral part of this financial statement.

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

	General	Debt Services	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 5,222,321	\$ 209,641	\$ -	\$ -	\$ 5,431,962
Municipal license taxes	302,601	-	-	-	302,601
License and permits	1,080,138	-	-	-	1,080,138
Inter-governmental revenues:					
State contributions	525,293	-	2,050,109	1,125,240	3,700,642
Federal grants and contributions	-	-	-	1,896,115	1,896,115
Charges for services and rents	465,966	-	-	-	465,966
Interest, fines, and penalties	233,523	-	47,702	-	281,225
Other revenues	1,487,327	-	-	-	1,487,327
Total revenues	9,317,169	209,641	2,097,811	3,021,355	14,645,976
EXPENDITURES					
Current:					
General Government	7,823,978	-	-	441,595	8,265,573
Public safety	719,885	-	-	-	719,885
Public ways and facilities	541,887	-	517,177	38,526	1,097,590
Health and Sanitation	786,356	-	-	26,883	813,239
Culture and Recreation	269,328	-	-	5,891	275,219
Public assistance	-	-	-	2,054,355	2,054,355
Capital outlays	-	-	2,049,317	-	2,049,317
Debt service:					
Principal	-	156,000	-	-	156,000
Interest	-	122,267	-	-	122,267
Bond issuance costs	-	-	32,982	-	32,982
Total expenditures	10,141,434	278,267	2,599,476	2,567,250	15,586,427
Excess (deficiency) of revenues over expenditures	(824,265)	(68,626)	(501,665)	454,105	(940,451)
OTHER FINANCING SOURCES (USES)					
Transfer in	865,420	2,472,000	-	-	3,337,420
Transfer out	-	-	(2,472,000)	(865,420)	(3,337,420)
Legal claims settlement	-	(1,500,000)	-	-	(1,500,000)
Bond redemption	-	(972,000)	(1,589,333)	-	(2,561,333)
Bonds proceed	-	-	6,882,018	-	6,882,018
Total other financing sources (uses)	865,420	-	2,820,685	(865,420)	2,820,685
Net change in fund balance	41,155	(68,626)	2,319,020	(411,315)	1,880,234
FUND BALANCES - BEGINNING	1,192,894	386,979	7,418,643	150,194	9,148,710
FUND BALANCES - ENDING	\$ 1,234,049	\$ 318,353	\$ 9,737,663	\$ (261,121)	\$ 11,028,944

The accompanying notes are an integral part of this financial statement.

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

Net change in fund balances - total governmental funds		\$1,880,234
<p>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. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
		1,025,054
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		(2,631,703)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This adjustents combines the net change of two balances:</p>		
Accrued compensated absences	205,689	
Liability for claims and judgments	43,000	(248,689)
Change in net assets of governmental activities		\$ 24,896

The accompanying notes are an integral part of this financial statement.

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

	General Fund				Debt Service Fund			
	Budget amounts		Actual	Variance with Final Budget Positive (Negative)	Budget amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 5,335,110	\$ 5,294,843	\$ 5,222,321	\$ (72,522)	\$ 251,217	\$ 251,217	\$ 209,641	\$ (41,576)
Municipal license taxes	400,000	353,713	302,601	(51,112)	-	-	-	-
License and permits	391,800	1,036,713	1,080,138	43,425	-	-	-	-
Inter-governmental revenues:								
State contributions	611,018	500,344	525,293	24,949	-	-	-	-
Charges for services and rents	450,990	465,926	465,966	40	-	-	-	-
Interest, fines, and penalties	228,500	280,523	233,524	(47,000)	-	-	-	-
Other revenues	80,700	1,083,253	1,138,017	54,764	-	-	-	-
Total revenues	7,498,118	9,015,316	8,967,860	(47,456)	251,217	251,217	209,641	(41,576)
EXPENDITURES								
Current:								
General Government	4,923,204	6,578,490	6,212,897	365,593	-	-	-	-
Public safety	901,092	732,161	719,885	12,276	-	-	-	-
Public ways and facilities	574,570	561,621	541,887	19,734	-	-	-	-
Health and Sanitation	835,892	866,436	786,356	80,080	-	-	-	-
Culture and Recreation	263,360	276,608	269,328	7,280	-	-	-	-
Debt service:								
Principal and interest					251,217	251,217	278,267	(27,050)
Total expenditures	7,498,118	9,015,316	8,530,353	484,963	251,217	251,217	278,267	(27,050)
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ 437,506	\$ 437,506	\$ -	\$ -	\$ (68,626)	\$ (68,626)

The accompanying notes are an integral part of this financial statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Municipality of Morovis, Puerto Rico (Municipality) was incorporated in 1818. 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 personality, 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.

b. Summary of Significant Accounting Policies

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

For the fiscal year ended June 30, 2003, the Municipality implemented GASB Statement No. 33 (GASB 33), Accounting and Financial Reporting for Nonexchange Transactions; GASB Statement No. 34 (GASB 34), Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments; GASB Statement No.36 (GASB 36), Recipient Reporting for Certain Shared Non exchange Revenues (and amendment of GASB 33); GASB Statement No. 37 (GASB 37), Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus; GASB Statement No. 38 (GASB 38), Certain Financial Statements Disclosures; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

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

b. Summary of Significant Accounting Policies (Continued)

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

- Management's Discussion and Analysis – GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of management's discussion and analysis (MD&A).
- Government – Wide Financial Statements – The new reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- Statement of Net Assets – The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- Statement of Activities – The new government – wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- Budgetary comparison schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

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

b. Summary of Significant Accounting Policies (Continued)

GASB 33, as amended by GASB 36, establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

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

c. 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 primary government and its component units, if any.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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 or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

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

d. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus. 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 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service Fund

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

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

**d. Measurement Focus, Basis of Accounting and Financial Statement
Presentation (Continued)**

2) Debt Service Fund (Continued)

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, 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.

e. Cash, Cash Equivalents, 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 and certificate of deposit 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 (GBD). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the general 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.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

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

f. Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions. Intergovernmental receivables in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

g. Interfund Receivables and Payables

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

h. 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 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	40-60 years
Building improvements	20-40 years
Land improvements	15-40 years
Machinery and equipment	5-10 years
Vehicles	5-20 years
Infrastructure	40-60 years

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

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

i. Reservation of Fund Balance

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

1. Encumbrances

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

2. Debt Service

Represents net assets available to finance future debt service payments.

3. Capital Project Funds

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.

j. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2003 amounted to approximately \$188,754. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$163,263 for workers compensation insurance covering the Municipality's employees.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

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

k. Compensated absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Sick leave is recorded as 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.

l. Reporting Entity

In evaluating the Municipality as a reporting entity, management has addressed all potential component units which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statements.

The basic criteria for including a component unit within the Municipality's reporting entity are the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

- Selection of Governing Authority
- Designation of Management
- Ability to Influence Operations Significantly

Accountability for Fiscal Matters

- Budgetary Authority
- Surplus/Deficit
- Responsibility for Debt
- Fiscal Management
- Revenue Characteristics

Factors other than oversight which may significantly influence the entity relationship are:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

I. Reporting Entity (Continued)

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality of Morovis indicate that the reporting entity consists of all funds included in the basic financial statements, therefore no organizations, activities or functions were excluded from the reporting entity.

m. 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. Actual results could differ from those estimates.

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 Assembly prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Assembly. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Assembly.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

a. Budgetary Control (Continued)

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 Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget is presented in the Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis).

b. Budget/GAAP Reconciliation

As described in the preceding note, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with generally accepted accounting principles.

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

	<u>General</u>
Excess of revenues over expenditures – budgetary basis	\$ 437,506
Entity differences:	
Non-budgeted transfers	865,420
Non-budgeted revenues	349,310
Non-budgeted expenses	(1,500,000)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(232,245)
Current year encumbrances recorded as expenditures for budgetary purposes	<u>121,164</u>
Excess (deficiency) of revenues over (under) expenditures – GAAP basis	<u>\$ 41,155</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

b. Budget/GAAP Reconciliation (Continued)

The budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same fiscal year of the Municipality.

Accordingly, it is not practical to present an annual comparison of budget and actual for the Special Revenue Fund.

The Municipality budget is amended by the majority vote of the Municipal Assembly. Said amendments are included in the budgetary basis.

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.

3. 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 and notes payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this \$8,294,716 difference are as follows:

Bonds payable	\$ 7,768,000
Compensated absences	394,585
Liability for claims and judgments	68,000
Advances from CRIM	<u>64,131</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$ 8,294,716</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

4. DEPOSITS AND INVESTMENTS

a. Cash in Bank and Concentration Risk

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance.

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.

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.

The Municipality maintains its cash accounts in one bank and one credit union located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) and the Public Corporation for the Supervision and Insurance of the Credit Unions of Puerto Rico up to \$100,000, respectively.

The Municipality's bank balances in commercial banks and credit union of approximately \$2.2 million were fully collateralized at June 30, 2003.

b. Cash with Fiscal Agents

An additional special tax of 1.25% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the Government Development Bank for debt service purposes. At June 30, 2003, the balance of cash retained by the Government Development Bank amounted to \$318,353.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2003, the balance of cash retained by the Government Development Bank available for the acquisition of real property amounted to \$3,812,441.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

5. PROPERTY TAXES

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) 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 Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the 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 8.33% for real property and 6.33% 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	1.50%	1.50%
Discounts made by state to taxpayer	< <u>.20%</u> >	< <u>.20%</u> >
Total	<u>8.33%</u>	<u>6.33%</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 the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The "Additional special property tax – state" is collected by the Municipal Revenue Collection Center for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

5. PROPERTY TAXES (CONTINUED)

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.

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

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.

Based on the settlement already received, during the year ended June 30, 2003, the amount collected from taxpayers and charges by CRIM exceeded the amount received in advances from CRIM for the same period by approximately \$358,375. Such amount is presented as due from other agencies in the basic financial statements.

During the fiscal year ended June 30, 2003, transactions regarding property tax advances were as follows:

Due from the Municipal Revenues Collection Center, June 30, 2002	\$ 19,300
Current year advances	(4,193,387)
Collection of property taxes	(5,585,611)
Payments made by CRIM	(1,019,285)
Adjustments	(33,864)
Due from the Municipal Revenues Collection Center, June 30, 2003	<u>(\$ 358,375)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

6. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes, which are due and uncollected at June 30, 2003. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Morovis, 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 Morovis are as follows:

Financing institution	=	1.50%
Other organizations:		
Below \$100,000	=	.30%
From \$100,001 to \$200,000	=	.40%
Over \$200,000	=	.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 \$531,379, corresponding to the next fiscal year municipal license.

7. INTERFUND TRANSACTIONS

Represent the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due-from) and inter-fund payable (due-to) balances.

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

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
General Fund:		
Special Revenue Fund	\$ 729,582	\$ -
Capital Project Fund	1,070,891	2,472,000
Special Revenue Fund		
General Fund	-	729,582
Capital Project		
General Fund	<u>2,472,000</u>	<u>1,070,891</u>
	<u>\$ 4,272,473</u>	<u>\$ 4,272,473</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

8. DUE FROM OTHER AGENCIES

Represents contributions due from local agencies:

	General Fund
Municipal Revenue Collection Center	\$ 358,375
Authority of Electric Energy	568,869
Total	\$ 927,244

9. CAPITAL ASSETS

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

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
<i>Capital asset, not being depreciated:</i>				
Land	\$ 3,718,333	\$ -	\$ -	\$ 3,718,333
Construction in progress	-	488,778	-	488,778
Total capital assets not being depreciated	3,718,333	488,778	-	4,207,111
<i>Capital asset, being depreciated:</i>				
Buildings	3,227,030	-		3,227,030
Building improvements	2,545,931	427,911		2,973,842
Site improvements	5,141,153	228,577		5,369,730
Infrastructure	6,962,351	750,000		7,712,351
Equipment	442,936	28,586		471,522
Computer equipment	147,299	5,549		152,848
Furniture and office equipment	149,047	41,022		190,070
Vehicles	4,165,117	74,005	-	4,239,121
Total capital assets being depreciated	22,780,864	1,555,650	-	24,336,514

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

9. CAPITAL ASSETS (CONTINUED)

Less accumulated depreciation for:

Buildings	(561,789)	(47,673)	(609,462)
Building improvements	(97,618)	(78,588)	(176,206)
Site improvements	(1,099,591)	(185,202)	(1,284,793)
Infrastructure	(2,453,712)	(317,692)	(2,771,404)
Equipment	(231,889)	(42,309)	(274,198)
Computer equipment	(75,523)	(16,327)	(91,850)
Furniture and office equipment	(83,718)	(19,174)	(102,892)
Vehicles	(2,188,332)	(317,299)	(2,505,631)
Total accumulated depreciation	(6,792,172)	(1,024,264)	(7,816,436)
Total capital assets being depreciated, net	<u>15,988,692</u>	<u>531,386</u>	<u>16,520,078</u>
Governmental activities capital assets, net	<u>\$ 19,707,025</u>	<u>\$ 1,020,164</u>	<u>\$ -</u>

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

General government	\$ 46,007
Public safety	60,723
Public ways facilities	869,512
Health and Sanitation	9,528
Culture and Recreation	13,349
Public Assistance Health and welfare	<u>25,144</u>
Total depreciation expense	<u>\$ 1,024,263</u>

10. DUE TO OTHER AGENCIES

The composition of this account as of June 30, 2003 is as follows:

	<u>General Fund</u>
Electric Energy Authority	\$ 523,713
Retirement System	46,595
General Services Administration	30,795
Puerto Rico Telephone Company	<u>5,216</u>
	<u>\$ 606,319</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

11. GENERAL LONG-TERM DEBTS

General long-term debt obligations at June 30, 2003 are as follows:

Bonds

\$370,000 series of 1982 - 83, payable in annual installments of \$5,000 to \$25,000 until January 1, 2007, interest at 5.00%.	\$ 94,000
\$210,000 series of 1985 - 86, payable in annual installments of \$5,000 to \$15,000 until January 1, 2010, interest at 5%.	89,000
\$720,000 series of 1998 - 99, payable in annual installments of \$10,000 to \$65,000 until July 1, 2023, interest at 7%.	670,000
\$2,125,000 series of 2002 – 03, payable in annual installments of \$35,000 to \$165,000 until July 1, 2027, interest at 6.50%.	2,125,000
\$2,485,000 series of 2002 – 03, payable in annual installments of \$30,000 to \$190,000 until July 1, 2027, interest at 6.50%.	2,485,000
\$2,305,000 series of 2002 – 03, payable in annual installments of \$40,000 to \$180,000 until July 1, 2027, interest at 6.50%.	2,305,000

Other Long-term debts

Property tax advance – Prior year payable in annual installments of \$10,400, until September 1, 2010.	<u>64,131</u>
	<u>\$ 7,832,131</u>

The annual requirement for the amortization of general long-terms debt after June 30, 2003 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 153,000	\$ 409,481
2005	174,000	477,019
2006	186,000	466,442
2007	198,000	455,166
2008	183,000	443,167
2009-2013	1,064,000	2,028,099
2014-2018	1,430,000	1,641,898
2019-2023	1,955,000	1,112,090
2024-2028	<u>2,425,000</u>	<u>404,821</u>
	<u>\$7,768,000</u>	<u>\$7,438,183</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

11. GENERAL LONG-TERM DEBTS (CONTINUED)

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds Payable	<u>\$3,619,000</u>	<u>\$6,915,000</u>	<u>\$2,766,000</u>	<u>\$7,768,000</u>	<u>\$ 153,000</u>
Advances from CRIM	74,531	-	10,400	64,131	10,400
Claims and judgments	111,000	-	43,000	68,000	-
Compensated absences	<u>600,274</u>	<u>-</u>	<u>205,689</u>	<u>394,585</u>	<u>-</u>
	<u>785,805</u>	<u>-</u>	<u>259,089</u>	<u>526,716</u>	<u>10,400</u>
Long-term liabilities	<u>\$4,404,805</u>	<u>\$ 6,915,000</u>	<u>\$3,025,089</u>	<u>\$8,294,716</u>	<u>\$ 163,400</u>

12. INTERGOVERNMENTAL REVENUES

Intergovernmental revenue sources consist of contributions received from the Electronic Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., and U.S. Department of Agriculture.

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$531,379 in the general fund related to the municipal license tax collected in fiscal years 2002-2003 that will be earned in fiscal year 2003-2004.

b. Federal Government

The deferred revenues presented as federal governments 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

14. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the General Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's 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.

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

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability, a member must have at least ten (10) years of service. No benefit is payable if the participant receives a refund of his accumulated contributions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

14. RETIREMENT PLAN (CONTINUED).

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.77% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality contributions are 9.275% of gross salary. Contribution's requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2003 was \$154,565. The Municipality's total payroll for all employees was approximately \$4 millions.

c. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Information on funding progress for the three last years is presented below:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net assets available for benefits as a percentage of total pension benefit obligation	N/A	N/A	N/A
Unfunded pension benefit obligation as a percentage of annual covered payroll	N/A	N/A	N/A
Employer contributions (not actuarial determined) as a percentage of annual covered payroll	9%	9%	9%

N/A = Not available

Trend information prior to 2003 is not available

For a ten-year trend information, refer to the separately issued financial statements of the Employee's Retirement System as of and for the year ended June 30, 2003.

15. CONTINGENCIES

- a. The Municipality receives Federal and State 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 believed that any required reimbursements would not be material.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003**

16. COMMITMENTS

The Municipality of Morovis had several outstanding or planned construction projects as of June 30, 2003. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amount to approximately \$8,000,000.