

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

**MUNICIPIO DE MOROVIS**  
**AUDITORIA 2003-2004**  
**30 DE JUNIO DE 2004**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES  
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004**

**BAKER TILLY, RIVERA – RODRIGUEZ, PSC  
CERTIFIED PUBLIC ACCOUNTANTS**

*Morovis*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004

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**BAKER TILLY**  
**RIVERA-RODRIGUEZ**

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

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### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Morovis, as of and for the year ended June 30, 2004, which collectively comprise the Municipality of Morovis' basic financial statements 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 paragraphs three and fifth, 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.

As discussed in Note 8 to the financial statements, management has not recorded most of the general infrastructure assets in governmental activities for the year ended June 30, 2004 and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable, although, the final amount is considered material. In addition, we were unable to obtain sufficient and competent evidential matters 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 23 percent of the total capital assets net, and 15 percent of the total assets as of June 30, 2004.

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

In our opinion, because of the material effects of the matter discussed in the preceding paragraph related to the unrecognized general infrastructure assets, the Statement of Net Assets and the Statement of Activities do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality of Morovis, as of June 30, 2004, and the changes in financial position thereof for the year then ended.

The accounting records of the Municipality of Morovis related to interfund transactions are not adequate. Accordingly, we were unable to obtain sufficient evidence to support and to satisfy ourselves about the amount recorded in each major fund and the aggregate remaining fund information as due from/ due to other funds, stated at \$2,346,933 in the total governmental funds column of the Balance Sheet – governmental funds.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had the accounting records been adequate or had we been able to obtain the evidence supporting the amount recorded in each major fund and the aggregate remaining fund information as due from/ due to other funds, stated at \$2,346,933 in the total governmental funds column of the Balance Sheet – governmental funds, or had we been able to satisfy ourselves as to this amount by other auditing procedures, the fund financial statements present fairly, in all material respects, the respective financial position of each major funds, and the aggregate remaining fund information of the Municipality of Morovis as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15 to the financial statements, the Municipality of Morovis has expended certain federal grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of these matters, which have been reported to appropriate federal officials, is uncertain at this time. Accordingly, no provision for any liability has been made in the financial statements for possible federal claims for refunds of those grant monies.

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

November 22, 2004  
Stamp Number 20230600  
affixed to the original of this report.



*Robert Telly, Rivera-Rodriguez, PSC*  
License No. 121  
Expires December 1, 2006.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
MANAGEMENT DISCUSSION AND ANALYSIS  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of the 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 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) a
- Identify individual fund issues or concerns.

**FINANCIAL HIGHLIGHTS**

- The Municipality's assets exceeded its liabilities by \$20.6 million (net assets).
- In the fund financial statements, the governmental activities revenue decreased \$1.1 million (or 12%) although, governmental activities' expenditures also decreased for the amount of \$2.5 million (or 25%).
- On a budgetary basis, actual revenues exceeded actual expenditures by \$313,929.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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, 2004**

**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, 2004**

**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 \$20,602,809 million at the end of fiscal year 2004. 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, 2004**

Current and non-current assets	\$ 11,220,451
Capital assets	<u>21,143,519</u>
Total assets	<u>32,363,970</u>
Current liabilities	3,456,470
Noncurrent liabilities	<u>8,304,691</u>
Total liabilities	<u>11,761,161</u>
Net Assets:	
Investment in capital assets, net of related debt	25,168,056
Restricted	4,751,954
Unrestricted	<u>( 9,317,201)</u>
Total net assets	<u>\$20,602,809</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Municipality's net assets decrease by \$5,111,190. Approximately 49% 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 8% 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 safety, and health and sanitation.

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

Program revenues:	
Charges for services	\$ 1,118,471
	992,738
Operating grants and contributions	4,160,765
Capital grants and contributions	705,754
General revenues:	
Property taxes	6,037,772
Municipal license tax	581,970
Interest and investment earnings	363,046
Miscellaneous	<u>507,662</u>
Total revenues	13,475,440
Expenses:	
General government	9,504,413
Public safety	1,046,859
Public ways and facilities	4,647,046
Health and sanitation	1,732,541
Culture and recreation	592,253
Public assistance	482,961
Interest on long-term debt	<u>580,557</u>
Total expenses	<u>18,586,630</u>
Change in net assets	( 5,111,190)
Net assets, beginning of year	<u>25,713,999</u>
Net assets, end of year	<u><u>\$ 20,602,809</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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 \$7,950,307. There are reservations of fund balance amounting to approximately \$9.1 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 (\$145,172), 2) to pay debt service (\$105,135) or 3) to pay for capital projects (\$8,849,571). The negative fund balances unreserved was the result of several interfund transfers performed during the year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The final General Fund budget for fiscal year 2004 was \$8,625,650.

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.

There is a significant positive variance of \$313,929 between budget and actual results in the budgetary basis reflected for the year ended June 30, 2004.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The investment in capital assets recognized for the year amounts to \$1,396,385 which consist of 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. Depreciation charges for the year totaled \$980,055.

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.

**Summary of Capital Assets  
Net of Accumulated Depreciation  
June 30, 2004**

Non-depreciable assets	\$ 5,603,496
Depreciable assets, net	<u>15,540,023</u>
<b>Total</b>	<b><u>\$21,143,519</u></b>

**Debt Administration**

At the end of the fiscal year, the Municipality have general long-term debt obligations outstanding of \$9,153,489.

**Summary of Long-Term Debt  
June 30, 2004**

Accrued compensated absences	\$ 979,758
Bonds payable	8,120,000
Property tax advances	<u>53,731</u>
<b>Total</b>	<b><u>\$9,153,489</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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, 2004**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash in banks; including certificates of deposits	\$ 6,839,381
Cash with fiscal agent	2,864,117
Account receivable:	
Interest receivable	23,662
Due from other agencies	1,493,291
Capital assets, net of accumulated depreciation	<u>21,143,519</u>
<b>Total assets</b>	<u><u>32,363,970</u></u>
 <b>LIABILITIES</b>	
Accounts payable and accrued liabilities	1,616,714
Due to other agencies	149,221
Deferred revenues	841,737
General long-term debts:	
Due within one year	848,798
Due in more than one year	<u>8,304,691</u>
<b>Total liabilities</b>	<u><u>11,761,161</u></u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	25,168,056
Restricted for:	
Capital projects, net of related debt	4,646,819
Debt service	105,135
Unrestricted	<u>(9,317,201)</u>
<b>Total net assets</b>	<u><u>\$ 20,602,809</u></u>

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 2004**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>Primary government:</b>				
<b>Governmental activities:</b>				
General Government	\$ 9,504,413	\$ 1,118,471	\$ 3,397,123	\$ (4,988,819)
Public safety	1,046,859	-	-	(1,046,859)
Public ways and facilities	4,647,046	-	-	(3,941,292)
Health and Sanitation	1,732,541	-	506,566	(1,225,975)
Culture and Recreation	592,253	-	-	(592,253)
Public assistance	482,961	-	257,076	(225,885)
Interest on long term debt	580,557	-	-	(580,557)
<b>Total governmental activities</b>	<b>\$ 18,586,630</b>	<b>\$ 1,118,471</b>	<b>\$ 4,160,765</b>	<b>(12,601,640)</b>
<b>General revenues:</b>				
Property taxes				6,037,772
Municipal license tax				581,970
Interest and investment earnings				363,046
Miscellaneous				507,662
<b>Total general revenues</b>				<b>7,490,450</b>
Change in net assets				(5,111,190)
Net assets - beginning				25,713,999
Net assets - ending				<b>\$ 20,602,809</b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>Debt Services</u>	<u>Capital Projects</u>	<u>Child Care Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>						
Cash in banks; including certificates of deposits of \$4,991,114	\$ 442,683	\$ -	\$ 5,210,429	\$ 323,721	\$ 862,548	\$ 6,839,381
Cash with fiscal agent	-	434,625	2,429,492	-	-	2,864,117
Accounts receivable:						
Interest receivable	-	-	23,662	-	-	23,662
Due from other agencies	125,733	-	28,004	919,647	419,907	1,493,291
Due from other funds	1,046,811	-	1,300,122	-	-	2,346,933
<b>Total assets</b>	<b>\$ 1,615,227</b>	<b>\$ 434,625</b>	<b>\$ 8,991,709</b>	<b>\$ 1,243,368</b>	<b>\$ 1,282,455</b>	<b>\$ 13,567,384</b>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>LIABILITIES:</b>						
Accounts payable and accrued liabilities	\$ 107,125	\$ 329,490	\$ -	\$ 12,427	\$ 974,432	\$ 1,423,474
Due to other funds	1,295,122	-	108,810	910,461	32,540	2,346,933
Due to other agencies	149,221	-	-	-	-	149,221
Deferred revenues	476,317	-	33,328	911,210	276,594	1,697,449
<b>Total Liabilities</b>	<b>2,027,785</b>	<b>329,490</b>	<b>142,138</b>	<b>1,834,098</b>	<b>1,283,566</b>	<b>\$ 5,617,077</b>
<b>FUND BALANCES:</b>						
Reserve for:						
Encumbrances	145,172	-	-	-	-	145,172
Debt service	-	105,135	-	-	-	105,135
Capital projects	-	-	8,849,571	-	-	8,849,571
Deficiency	(557,730)	-	-	(590,730)	(1,111)	(1,149,571)
<b>Total fund balances</b>	<b>(412,558)</b>	<b>105,135</b>	<b>8,849,571</b>	<b>(590,730)</b>	<b>(1,111)</b>	<b>7,950,307</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,615,227</b>	<b>\$ 434,625</b>	<b>\$ 8,991,709</b>	<b>\$ 1,243,368</b>	<b>\$ 1,282,455</b>	<b>\$ 13,567,384</b>

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, 2004

Total fund balance - total governmental funds		\$ 7,950,307
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		21,143,519
The short term portion of the liability to CRIM for previous year advances is not recorded in the fund financial statement but is reported in the statement of net assets		(10,400)
Long-term liabilities, included bonds payable, are not due and payable in the current period and accordingly are not reported as fund liabilities:		
CRIM	43,331	
Bonds payable	8,273,000	
Accrued compensated absences	979,758	
Total long-term liabilities		(9,296,089)
Deferred Revenues represent amounts not collected shortly after close of fiscal year as per modified accrual basis however, they are considered revenues according to the full accrual basis of accounting		855,712
Payments of principal on loans and bonds are considered as expenditures in the governmental funds. However, they are reductions of long term debt for the governmental activities		153,000
The amount due for interest on bonds not reported in the governmental funds.		(193,240)
Net assets of governmental activities		\$ 20,602,809

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 2004**

	<u>General</u>	<u>Debt Services</u>	<u>Capital Projects</u>	<u>Child Care Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Property taxes	\$ 5,726,070	\$ 311,702	\$ -	\$ -	\$ -	\$ 6,037,772
Municipal license taxes	581,970	-	-	-	-	581,970
License and permits	599,950	-	-	-	-	599,950
Inter-governmental revenues:						
State contributions	163,440	-	-	45,408	2,403,704	2,612,552
Federal grants and contributions	-	-	705,754	461,158	357,076	1,523,988
Charges for services and rents	392,788	-	-	-	-	392,788
Interest, fines, and penalties	218,989	2,731	140,869	162	295	363,046
Other revenues	444,255	32,666	-	25,619	5,122	507,662
<b>Total revenues</b>	<b>8,127,462</b>	<b>347,099</b>	<b>846,623</b>	<b>532,347</b>	<b>2,766,197</b>	<b>12,619,728</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
General Government	4,565,617	-	80,409	-	4,090,219	8,736,245
Public safety	864,769	-	-	-	128,558	993,327
Public ways and facilities	746,016	-	2,554,667	-	518,026	3,818,709
Health and Sanitation	966,085	-	-	728,356	7,486	1,701,927
Culture and Recreation	257,462	-	-	-	320,991	578,453
Public assistance	149,452	-	-	-	329,776	479,228
<b>Debt service:</b>						
Principal	-	173,000	-	-	-	173,000
Interest	-	387,317	-	-	-	387,317
<b>Total expenditures</b>	<b>7,549,401</b>	<b>560,317</b>	<b>2,635,076</b>	<b>728,356</b>	<b>5,395,056</b>	<b>16,868,206</b>
Excess (deficiency) of revenues over (under) expenditures	578,061	(213,218)	(1,788,453)	(196,009)	(2,628,859)	(4,248,478)
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfer in	1,312,302	-	1,000,000	50,000	3,912,855	6,275,157
Transfer out	(3,536,970)	-	(536,772)	(278,775)	(1,922,640)	(6,275,157)
Bonds proceed	-	-	505,000	-	-	505,000
<b>Total other financing sources (uses)</b>	<b>(2,224,668)</b>	<b>-</b>	<b>968,228</b>	<b>(228,775)</b>	<b>1,990,215</b>	<b>505,000</b>
Net change in fund balances	(1,646,607)	(213,218)	(820,225)	(424,784)	(638,644)	(3,743,478)
<b>FUND BALANCES - BEGINNING</b>	<b>1,234,049</b>	<b>318,353</b>	<b>9,669,796</b>	<b>(165,946)</b>	<b>637,533</b>	<b>11,693,785</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ (412,558)</b>	<b>\$ 105,135</b>	<b>\$ 8,849,571</b>	<b>\$ (590,730)</b>	<b>\$ (1,111)</b>	<b>\$ 7,950,307</b>

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 YEAR ENDED JUNE 30, 2004**

Net change in fund balances – total governmental funds.		(\$3,743,478)
The proceeds from the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(	505,000)
Interest on long term debt is recorded as expenditure when it becomes due and payable. However, interest expense is recognized in the statement of activities when incurred.	(	193,240)
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 as depreciation expense.	(	980,055)
Deferred Revenues represent amounts not collected shortly after close of fiscal year as per modified accrual basis, however they are considered revenues according to the full accrual basis of accounting.		855,712
Repayment of principal on long term debt is considered as expenditure in this fund financial statement but it is considered as a reduction of long term debt for government wide purposes.		153,000
The following liabilities are not recorded in the governmental funds but are considered expenses in the government wide statements:		
Accrued compensated absences	644,398	
CRIM	<u>53,731</u>	
		( 698,129)
Change in net assets of governmental activities		<u>(\$5,111,190)</u>

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, 2004

	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		
<b>REVENUES</b>								
Property taxes	\$ 5,295,531	\$ 5,726,070	\$ 5,726,070	\$ -	\$ 261,518	\$ 261,518	\$ 347,099	\$ 85,581
Municipal license taxes	562,173	552,340	581,970	29,630	-	-	-	-
License and permits	700,000	595,719	599,950	4,231	-	-	-	-
Inter-governmental revenues:								
State contributions	743,721	732,307	732,307	-	-	-	-	-
Charges for services and rents	391,084	383,461	392,788	9,327	-	-	-	-
Interest, fines, and penalties	225,500	198,006	200,652	2,646	-	-	-	-
Other revenues	133,843	437,747	437,747	-	-	-	-	-
<b>Total revenues</b>	<b>8,051,852</b>	<b>8,625,650</b>	<b>8,671,484</b>	<b>45,834</b>	<b>261,518</b>	<b>261,518</b>	<b>347,099</b>	<b>85,581</b>
<b>EXPENDITURES</b>								
<b>Current:</b>								
General Government	4,856,109	5,561,025	5,480,277	80,748	-	-	-	-
Public safety	1,046,946	875,417	848,877	26,540	-	-	-	-
Public ways and facilities	677,665	762,774	698,879	63,895	-	-	-	-
Health and Sanitation	1,002,082	1,013,633	937,640	75,993	-	-	-	-
Culture and Recreation	327,887	261,301	243,376	17,825	-	-	-	-
Public Assistance	141,163	151,500	148,506	2,994	-	-	-	-
<b>Debt service:</b>								
Principal and interest	-	-	-	-	261,518	261,518	560,317	(298,799)
<b>Total expenditures</b>	<b>8,051,852</b>	<b>8,625,650</b>	<b>8,357,555</b>	<b>268,095</b>	<b>261,518</b>	<b>261,518</b>	<b>560,317</b>	<b>(298,799)</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 313,929</b>	<b>\$ 313,929</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (213,218)</b>	<b>\$ (213,218)</b>

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, 2004**

**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, 2004, 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, 2004**

**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, 2004**

**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, 2004**

**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, 2004**

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

**d. Measurement Focus, Basis of Accounting and Financial Statement  
Presentation (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, 2004

**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, 2004

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, 2004 amounted to approximately \$230,200. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$237,300 for workers compensation insurance covering the Municipality's employees.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004

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:

- Scope of Public Service
- Special Financing Relationships

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOROVIS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

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

**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.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**a. Budgetary Control**

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal 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, 2004

**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 (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2004 is presented below for the general fund.

	<u>General</u>
Excess of revenues over expenditures – budgetary basis	\$ 313,929
Entity differences:	
Non-budgeted transfers	( 2,224,668)
Non-budgeted revenues	389,345
Non-budgeted expenses	( 149,221)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	( 121,164)
Current year encumbrances recorded as expenditures for budgetary purposes	<u>145,172</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses – GAAP basis	<u>(\$1,646,607)</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOROVIS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

**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 Legislature. 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. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004**

**3. DEPOSITS AND INVESTMENTS (CONTINUED)**

**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, 2004, the balance of cash retained by the Government Development Bank amounted to \$434,625.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2004, the balance of cash retained by the Government Development Bank available for the acquisition of real property amounted to \$2,429,492.

**4. 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	< .20% >	< .20% >
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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004**

**4. PROPERTY TAXES (CONTINUED)**

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.

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, 2004, the amount collected from taxpayers and charges by CRIM exceeded the amount received in advances from CRIM for the same period by approximately \$125,733. Such amount is presented as due from other agencies in the basic financial statements.

COMMONWEALTH OF PUERTO RICO  
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**4. PROPERTY TAXES (CONTINUED)**

During the fiscal year ended June 30, 2004, transactions regarding property tax advances were as follows:

Due from the Municipal Revenues Collection	
Center, June 30, 2003	\$ 358,375
Current year advances	4,378,130
Collection of property taxes	( 5,712,143)
Other Adjustments	<u>1,101,371</u>
 Due from the Municipal Revenues Collection	
Center, June 30, 2004	<u>\$ 125,733</u>

**5. MUNICIPAL LICENSE TAX**

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes, which are due and uncollected at June 30, 2004. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations 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 \$317,720, corresponding to the next fiscal year municipal license.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004

**6. 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, 2004, are as follows:

	<u>Due from Other Funds</u>
<b>General Fund:</b>	
Special Revenue Fund	\$ 1,023,149
Capital Project Fund	23,662
<b>Capital Project:</b>	
General Fund	1,295,122
Special Revenue Funds	<u>5,000</u>
	<u>\$ 2,346,933</u>
	 <u>Due to Other Funds</u>
<b>General Fund:</b>	
Capital Project Fund	\$ 1,295,122
<b>Special Revenue Fund:</b>	
General Fund	27,540
Capital Project Fund	5,000
<b>Child care Fund:</b>	
General Fund	910,461
<b>Capital Project Fund:</b>	
General Fund	<u>108,810</u>
	<u>\$ 2,346,933</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOROVIS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2004**

**7. DUE FROM OTHER AGENCIES**

Represents contributions due from local agencies:

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Child Care Fund</u>	<u>Other Funds</u>	<u>Total</u>
Municipal Revenue Collection Center	\$125,733	\$ -	\$ -	\$ -	\$ 125,733
OCAM	-	28,004	-	-	28,004
ACUDEM	-	-	919,647	-	919,647
Highway and Transportation Authority	-	-	-	212,267	212,267
Department of Labor & Human Resources	-	-	-	143,313	143,313
Department of Education	-	-	-	64,327	64,327
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$125,733</u>	<u>\$28,004</u>	<u>\$919,647</u>	<u>\$419,907</u>	<u>\$1,493,291</u>

**8. CAPITAL ASSETS**

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

<b>Governmental Activities:</b>	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
<i>Capital asset, not being depreciated:</i>				
Land	\$ 3,718,333	\$ -	\$ -	\$ 3,718,333
Construction in progress	<u>488,778</u>	<u>1,396,385</u>	<u>-</u>	<u>1,885,163</u>
Total capital assets not being depreciated	<u>4,207,111</u>	<u>1,396,385</u>	<u>-</u>	<u>5,603,496</u>
<i>Capital asset, being depreciated:</i>				
Buildings	3,227,030	-	-	3,227,030
Building improvements	2,973,842	-	-	2,973,842
Site improvements	5,369,730	-	-	5,369,730
Infrastructure	7,712,351	-	-	7,712,351
Equipment	471,522	-	-	471,522
Computer equipment	152,848	-	-	152,848
Furniture and office equipment	190,070	-	-	190,070
Vehicles	<u>4,239,121</u>	<u>-</u>	<u>-</u>	<u>4,239,121</u>
Total capital assets being depreciated	<u>24,336,514</u>	<u>-</u>	<u>-</u>	<u>24,336,514</u>

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

**8. CAPITAL ASSETS (CONTINUED)**

Less accumulated depreciation for:

Buildings	( 609,462)	( 51,008)	-	( 660,470)
Building improvements	( 176,206)	( 88,205)	-	( 264,411)
Site improvements	( 1,284,793)	( 192,491)	-	( 1,477,284)
Infrastructure	( 2,771,404)	( 276,630)	-	( 3,048,034)
Equipment	( 274,198)	( 35,058)	-	( 309,256)
Computer equipment	( 91,850)	( 14,404)	-	( 106,254)
Furniture and office equipment	( 102,892)	( 19,582)	-	( 122,474)
Vehicles	<u>( 2,505,631)</u>	<u>( 302,677)</u>	-	<u>( 2,808,308)</u>
 Total accumulated depreciation	 <u>( 7,816,436)</u>	 <u>( 980,055)</u>	 -	 <u>( 8,796,491)</u>
 Total capital assets being depreciated, net	 <u>16,520,078</u>	 <u>( 980,055)</u>	 -	 <u>15,540,023</u>
 Governmental activities capital assets, net	 <u>\$20,727,189</u>	 <u>\$416,330</u>	 <u>\$ -</u>	 <u>\$21,143,519</u>

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

General government	\$ 50,039
Public safety	53,532
Public ways facilities	828,337
Health and Sanitation	30,614
Culture and Recreation	13,800
Public Assistance Health and welfare	<u>3,733</u>
 Total depreciation expense	 <u>\$ 980,055</u>

The municipality has not recorded most of the general infrastructure assets for the year ended June 30, 2004 in governmental activities and accordingly has not recorded depreciation expense on those assets.

**9. DUE TO OTHER AGENCIES**

The composition of this account as of June 30, 2004 is as follows:

	<u>General Fund</u>
Retirement System	\$ 55,250
Electric Energy Authority	51,444
General Services Administration	15,371
State Insurance Fund	13,172
Puerto Rico Telephone Company	10,688
Sewer Authority	<u>3,296</u>
	 <u>\$ 149,221</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004**

**10. GENERAL LONG-TERM DEBTS**

General long-term debt obligations at June 30, 2004 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%.	\$ 72,000
\$210,000 series of 1985 - 86, payable in annual installments of \$5,000 to \$15,000 until January 1, 2010, interest at 5%.	78,000
\$720,000 series of 1998 - 99, payable in annual installments of \$10,000 to \$65,000 until July 1, 2023, interest at 7%.	655,000
\$2,125,000 series of 2003 - 03, payable in annual installments of \$35,000 to \$165,000 until July 1, 2027, interest at 6.50%.	2,090,000
\$2,485,000 series of 2003 - 03, payable in annual installments of \$30,000 to \$190,000 until July 1, 2027, interest at 6.50%.	2,455,000
\$2,305,000 series of 2003 - 03, payable in annual installments of \$40,000 to \$180,000 until July 1, 2027, interest at 6.50%.	2,265,000
\$505,000 Series of 2003-04, payable in annual installments of 10,000 to \$40,000 until July 1, 2029, interest at 6.0%	505,000

**Other Long-term debts**

Property tax advance - Payable in annual installments of \$10,400, until September 1, 2010.	<u>53,731</u>
	<u>\$ 8,173,731</u>

The annual requirement for the amortization of general long-terms debt after June 30, 2004 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 174,000	\$ 477,019
2006	196,000	496,442
2007	208,000	484,566
2008	193,000	471,967
2009-2013	1,124,000	2,162,499
2014-2018	1,510,000	1,754,998
2019-2023	2,065,000	1,196,990
2024-and thereafter	<u>2,650,000</u>	<u>455,671</u>
	<u>\$8,120,000</u>	<u>\$7,500,152</u>

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

**10. GENERAL LONG-TERM DEBTS (CONTINUED)**

General long-term liability activity for the year ended June 30, 2004 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	\$7,768,000	\$ 505,000	\$153,000	\$8,120,000	\$ 174,000
Advances from CRIM	64,131	-	10,400	53,731	10,400
Claims and judgments	68,000	-	68,000	-	-
Compensated absences	<u>394,585</u>	<u>585,173</u>	<u>-</u>	<u>979,758</u>	<u>664,398</u>
	<u>526,716</u>	<u>585,173</u>	<u>78,400</u>	<u>1,033,489</u>	<u>674,798</u>
Long-term liabilities	<u>\$8,294,716</u>	<u>\$1,090,173</u>	<u>\$ 231,400</u>	<u>\$9,153,489</u>	<u>\$ 848,798</u>

**11. 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.

**12. DEFERRED REVENUES**

a. Municipal License Tax

Deferred revenues of \$317,720 is recorded in the general fund related to the municipal license tax collected in fiscal years 2003-2004 that will be earned in fiscal year 2004-2005.

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  
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**13. FUND EQUITY**

There are some reclassifications in the beginning balances reported by the Capital Project fund and the aggregate remaining fund information mainly due to the classification of the Child Care fund as major fund during this year and other fund balances classifications in accordance with the criteria of the GASB No. 34, as amended by GASB No.37.

**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.

**COMMONWEALTH OF PUERTO RICO  
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**14. RETIREMENT PLAN (CONTINUED)**

**a. Plan Description (Continued)**

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.

**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, 2004 was \$264,146. 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>2004</u>	<u>2003</u>	<u>2002</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	9.275%	9%	9%

N/A = Not available

Trend information prior to 2004 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, 2004.

**COMMONWEALTH OF PUERTO RICO**  
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**JUNE 30, 2004**

**15. CONTINGENCY**

The department of Federal Programs of the Municipality has expended certain federal grant fund of the program SBGP in a manner that may have violated certain of the laws and regulations that govern the grant in relation to the allowable costs and allowable activities provisions that can result in questioned costs in accordance with the Circular A-133. Although, the possible outcome of these matters is uncertain at this time.

**16. COMMITMENTS**

The Municipality of Morovis had several outstanding or planned construction projects as of June 30, 2004. These projects are evidenced by contractual commitments with contractors.