

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**MUNICIPIO DE MOROVIS**  
**AUDITORIA 2004-2005**

30 DE JUNIO DE 2005

UNIVERSITY OF PUERTO RICO  
OFFICE OF THE COMPTROLLER  
SAN JUAN, P.R. 00925

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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Services Division

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Morovis, as of and for the year ended June 30, 2005, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The accounting record of the Municipality of Morovis related to interfund transactions are not adequate. Accordingly, we were unable to obtain sufficient evidence to support and satisfy ourselves about the amount recorded in each major funds and the aggregate remaining funds information as due from/due to other funds, stated at \$4,643,997 in the total governmental funds column of the balance sheet.

Based on our audit, except by the interfund accounts balances, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Morovis as of June 30, 2005, and the respective

changes in financial position, thereof and the respective budgetary comparison for the General and Debt Service Funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2005 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

San Juan, Puerto Rico  
December 12, 2005

*Ortiz, Rodriguez, Rivera & Co.*

The stamp 2101432 was affixed  
to the original of this report.



## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

The Municipality of Morovis (the "Municipality") discussion and analysis has been designed with the followings goals:

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

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

### ***FINANCIAL HIGHLIGHTS***

- The Municipality net assets increased by \$ 3,194,275.
- Fund balance of general fund decreased by \$ 1,208,234.
- Capital outlays amounted to \$ 4,041,065.

### ***USING THIS ANNUAL REPORT***

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

#### **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.

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 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. Thus, revenues and expenses are reported in the Statement of Activities 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**

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

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

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

## **Infrastructure Assets**

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], 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 condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time. The Municipality has elected to depreciate infrastructure assets instead of using the modified approach.

## **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 totaled \$21.7 million at the end of 2005, compared to \$18.6 million at the end of the previous year.

The largest portion of the Municipality's net assets consists of the investment made throughout the years in capital assets such as land, buildings, equipment and infrastructure. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt

service represents another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

**Municipality of Morovis**  
**Condensed Statement of Net Assets**  
**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Current assets	\$ 3,662,938	\$ 10,685,620
Capital assets	31,147,090	21,143,519
Total assets	<u>34,810,028</u>	<u>31,829,139</u>
Current liabilities	2,472,928	3,456,470
Noncurrent liabilities	10,588,873	9,818,717
Total liabilities	<u>13,061,801</u>	<u>13,275,187</u>
Invested in capital assets, net of related debt	23,361,090	25,168,056
Restricted	1,029,084	4,751,954
Unrestricted	<u>(2,641,947)</u>	<u>(11,366,058)</u>
Total net assets	<u>\$ 21,748,227</u>	<u>\$ 18,553,952</u>

**Changes in Net Assets**

The net assets increased by \$3,194,175 in comparison with prior year. Approximately 11 percent of the Municipality's total revenue came from taxes while 52 percent resulted from grants and contributions, including federal aid. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and health and welfare.

**Condensed Statement of Activities**  
**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Program revenues		
Charges for services	\$ 1,998,968	\$ 1,118,471
Operating grants and contributions	1,299,021	4,160,765
Capital grants and contributions	788,563	705,754
General revenues		
Property taxes	6,717,926	6,037,772
Municipal license tax	609,180	581,970
specific programs	2,352,105	-
Interest, fines and penalties	107,969	363,046
Miscellaneous	4,809,956	507,662
	<u>18,683,688</u>	<u>13,475,440</u>
Expenses		
General government	9,801,917	11,553,270
Public safety	985,212	1,046,859
Public housing and welfare	1,300,336	4,647,046
Culture and recreation	463,868	592,253
Health and sanitation	-	1,732,541
Economic Development	2,014,773	482,961
Interest on long-term debt	923,307	580,557
	<u>15,489,413</u>	<u>20,635,487</u>
Change in net assets	3,194,275	(7,160,047)
Net assets, beginning of year	<u>18,553,952</u>	<u>25,713,999</u>
Net assets, end of year	<u>\$ 21,748,227</u>	<u>\$ 18,553,952</u>

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

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

**Governmental Funds**

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$1.2 million, a decrease of \$6.7 million in comparison with the prior year. There are

reservations of fund balance amounting to \$1.5 million. This is the fund balance that is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year \$0.5 million and 2) to pay debt service \$0.3 million and 3) to pay for capital projects \$0.7 million.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2005, the general fund has a balance of \$(2.6) million. The fund balance decreased by \$2.2 million during fiscal year 2005.

The key factor in the decrease of the fund balance of the general fund was higher than expected general government expenditures which were mainly caused by the change in the management of the Municipality.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipality Council revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances. Also, during fiscal year 2004-2005 the budget was amended in order to increase the expenditures of the Municipality using the unrestricted fund balance, amounted \$576,061. The expenditures that were significantly increased included professional services, maintenance of buildings and equipment, waste disposal, non-professional services, capital projects and miscellaneous among others.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Municipality's investment in capital assets as of June 30, 2005, amounts to \$37.1 million, net of accumulated depreciation of \$6 million, leaving a net book value of \$31.1 million. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, 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, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 35 % in terms of net book value. Actual expenditures to purchase or construct capital assets were \$11 million 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 purposes and cannot be used for any other purposes. As of June 30, 2005 the Municipality has \$0.7 million of unexpended proceeds from bond issuances that are committed to future construction activities.

### **Debt Administration**

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." Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2005-2005 fiscal year.

The most significant change between the budget for fiscal year 2004-2005 and the one for fiscal year 2005-2006 are the following:

- Decrease in Municipal License Tax revenue of \$45,469.
- Increase in Other revenues of \$56,523.
- Increase in General Government expenditures of \$920,540.

The decrease in Municipal License Tax and License and Permits revenues is expected mainly due to decreased economic activity.

Increase in General Government expenditures is due to increases to employee's salaries, increased cost of the capital projects.

### **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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPIO DE MOROVIS  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

<u>Assets</u>	<u>Governmental Activities</u>
Cash (Notes 2 and 5)	\$ 1,367,246
Cash with fiscal agent (Notes 2 and 5)	1,184,413
Due from other agencies (Note 8)	1,111,279
Capital assets, net (Note 10)	31,147,090
 Total assets	 <u>\$ 34,810,028</u>
 <u>Liabilities and Net Assets</u>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 814,622
Due to other agencies (Note 11)	314,823
General obligations:	
Bonds	55,000
Interest	66,773
Deferred revenues:	
Municipal license tax (Note 12)	369,732
Federal government (Note 12)	326,229
Claims and judgements	50,000
Accrued interest	475,749
Noncurrent liabilities: (Note 14)	
Due within one year	455,585
Due in more than one year	10,133,288
Total liabilities	<u>13,061,801</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	23,361,090
Restricted for:	
Debt service	340,029
Capital projects	689,055
Unrestricted	(2,641,947)
Total net assets	<u>21,748,227</u>
 Total liabilities and net assets	 <u>\$ 34,810,028</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue Revenue and Changes in Net Assets Primary Government Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary Government:</b>					
General government	\$ 9,801,917	\$ 1,998,968	\$ -	\$ -	\$ (7,802,949)
Public safety	985,212				(985,212)
Public housing and welfare	1,300,336		788,563		(511,773)
Culture and education	463,868				(463,868)
Economic development	2,014,773		1,299,021		(715,752)
Interest on long-term debt	923,307				(923,307)
Total primary government	<u>\$ 15,489,413</u>	<u>\$ 1,998,968</u>	<u>\$ 2,087,584</u>	<u>\$ -</u>	<u>\$ (11,402,861)</u>
General revenues:					
Property taxes					1,355,136
Municipal license tax					609,180
Grants and contributions not restricted to specific programs					7,714,895
Interest and investment earnings					107,969
Miscellaneous					4,809,956
Total general revenues					<u>14,597,136</u>
Change in net assets					3,194,275
Net assets at beginning of year, as restated (Note 20)					<u>18,553,952</u>
Net assets at end of year					<u>\$ 21,748,227</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2005**

<u>Assets</u>	<u>General</u>	<u>Child Care Fund</u>	<u>Special Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 523,593	\$ 155,021	\$ 308,484	\$ -	\$ 74,015	\$ 306,133	\$ 1,367,246
Cash with fiscal agent (Notes 2 and 5)				461,802	722,611		1,184,413
Due from agencies (Note 8)		950,229			53,566	107,484	1,111,279
Due from other funds (Note 9)	1,220,282		3,418,715		5,000		4,643,997
<b>Total assets</b>	<b>\$ 1,743,875</b>	<b>\$ 1,105,250</b>	<b>\$ 3,727,199</b>	<b>\$ 461,802</b>	<b>\$ 855,192</b>	<b>\$ 413,617</b>	<b>\$ 8,306,935</b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2005

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Child Care Fund</u>	<u>Special Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>							
Accounts payable and accrued liabilities	\$ 163,589	\$ 6,918	\$ 379,049	\$ -	\$ 31,846	\$ -	\$ 581,402
Due to other agencies (Note 11)	314,823						314,823
Due to other funds (Note 9)	3,413,715	947,949			85,148	197,185	4,643,997
General obligations:							
Bonds				55,000			55,000
Interest				66,773			66,773
Deferred revenues (Note 12):							
Municipal license tax	369,732						369,732
Federal government		947,949			49,143		997,092
Claims and judgements	50,000						50,000
<b>Total liabilities</b>	<u>4,311,859</u>	<u>1,902,816</u>	<u>379,049</u>	<u>121,773</u>	<u>166,137</u>	<u>197,185</u>	<u>7,078,819</u>
<b>Fund Balances</b>							
Reserved for:							
Encumbrances	517,698						517,698
Debt service				340,029			340,029
Capital project					689,055		689,055
Unreserved fund balance (deficiency)	(3,085,682)	(797,566)	3,348,150			216,432	(318,666)
<b>Total fund balance</b>	<u>(2,567,984)</u>	<u>(797,566)</u>	<u>3,348,150</u>	<u>340,029</u>	<u>689,055</u>	<u>216,432</u>	<u>1,228,116</u>
<b>Total liabilities and fund balance</b>	<u>\$ 1,743,875</u>	<u>\$ 1,105,250</u>	<u>\$ 3,727,199</u>	<u>\$ 461,802</u>	<u>\$ 855,192</u>	<u>\$ 413,617</u>	<u>\$ 8,306,935</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPIO DE MOROVIS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

Total fund balances - governmental funds	\$ 1,228,116
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	31,147,090
• Some of the Municipality's tax and other revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures.	670,863
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. <b>(Note 4)</b>	<u>(11,297,842)</u>
Net assets of governmental activities	<u>\$ 21,748,227</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General	Child Care Fund	Special Fund	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property taxes (Note 6 )	\$ 1,097,817	\$ -	\$ -	\$ 257,319	\$ -	\$ -	\$ 1,355,136
Municipal license taxes (Note 7)	609,180						609,180
Licenses and permits	1,489,956						1,489,956
Charges for service and rents	509,012						509,012
Intergovernmental revenues (Note 13):							
Federal grants and contributions		184,849			1,114,172	973,412	2,272,433
State contributions	5,362,790		2,352,105				7,714,895
Interest, fines, and penalties	99,658	924		6,808		579	107,969
Other revenues	125,277	19,919					145,196
Total revenues	<u>9,293,690</u>	<u>205,692</u>	<u>2,352,105</u>	<u>264,127</u>	<u>1,114,172</u>	<u>973,991</u>	<u>14,203,777</u>
<b>EXPENDITURES</b>							
General government	6,734,204		2,006,847			780,472	9,521,523
Public safety	787,256						787,256
Public housing and welfare	284,336	412,528				307,330	1,004,194
Culture and education	313,801					12,930	326,731
Economic development	1,746,148						1,746,148
Capital outlays			4,041,065		2,298,752		6,339,817
Debt service:							
Principal retirement				217,910			217,910
Interest and other				447,558			447,558
Total expenditures	<u>9,865,745</u>	<u>412,528</u>	<u>6,047,912</u>	<u>665,468</u>	<u>2,298,752</u>	<u>1,100,732</u>	<u>20,391,737</u>
Deficiency of revenues under expenditures	<u>(572,055)</u>	<u>(206,836)</u>	<u>(3,695,807)</u>	<u>(401,341)</u>	<u>(1,184,580)</u>	<u>(126,741)</u>	<u>(6,187,360)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	5,750		6,556,019	641,929		53,067	7,256,765
Transfers out	(641,929)		(53,067)	(5,694)	(6,441,105)	(114,970)	(7,256,765)
Total other financing sources (uses)	<u>(636,179)</u>	<u>-</u>	<u>6,502,952</u>	<u>636,235</u>	<u>(6,441,105)</u>	<u>(61,903)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(1,208,234)</u>	<u>(206,836)</u>	<u>2,807,145</u>	<u>234,894</u>	<u>(7,625,685)</u>	<u>(188,644)</u>	<u>(6,187,360)</u>
<b>FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 20)</b>							
	<u>(1,359,750)</u>	<u>(590,730)</u>	<u>541,005</u>	<u>105,135</u>	<u>8,314,740</u>	<u>405,076</u>	<u>7,415,476</u>
<b>FUND BALANCE AT END OF YEAR</b>							
	<u>\$ (2,567,984)</u>	<u>\$ (797,566)</u>	<u>\$ 3,348,150</u>	<u>\$ 340,029</u>	<u>\$ 689,055</u>	<u>\$ 216,432</u>	<u>\$ 1,228,116</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPIO DE MOROVIS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds \$(6,187,360)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 6,339,817
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (1,001,006)
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. 4,479,911
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 217,910
- Change in accrued interest expense which does not require the use of current financial resources. (475,749)
- Some expenditures reported in the governmental funds do not require the use of current financial resources; therefore, are not reported as expense in statement of activities.
  - Accrued vacations and bonus (39,980)
  - Compensated absences (139,268)

Changes in net assets of governmental activities \$ 3,194,275

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOROVIS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)
	Original	Final			Original	Final		
<b>REVENUES</b>								
Property taxes	\$ 1,097,818	\$ 1,097,818	\$ 1,097,818	\$ -	\$ 337,201	\$ 337,201	\$ 264,126	\$ (73,075)
Municipal license taxes	632,958	632,958	587,489	(45,469)				
Licenses and permits	1,491,004	1,491,004	1,489,956	(1,048)				
Charges for service and rents	462,031	462,031	462,881	850				
Intergovernmental revenues:								
State contributions	5,360,711	5,360,711	5,360,711	-				
Interest, fines, and penalties	87,075	87,075	154,651	67,576				
Other revenues	87,332	87,332	143,855	56,523				
<b>Total revenues</b>	<b>9,218,929</b>	<b>9,218,929</b>	<b>9,297,361</b>	<b>78,432</b>	<b>337,201</b>	<b>337,201</b>	<b>264,126</b>	<b>(73,075)</b>
<b>EXPENDITURES</b>								
General government	5,426,973	5,813,663	5,637,204	176,459				
Public safety	1,099,561	852,046	784,497	67,549				
Public works	2,029,234	1,936,960	1,929,823	7,137				
Public Housing and welfare	317,485	283,573	283,113	460				
Recreation	345,676	332,687	331,553	1,134				
Debt service:								
Principal and interest				-	337,201	337,201	235,950	101,251
<b>Total expenditures</b>	<b>9,218,929</b>	<b>9,218,929</b>	<b>8,966,190</b>	<b>252,739</b>	<b>337,201</b>	<b>337,201</b>	<b>235,950</b>	<b>101,251</b>
Excess of revenues over expenditures (expenditures over revenues)	\$ -	\$ -	\$ 331,171	\$ 331,171	\$ -	\$ -	\$ 28,176	\$ 28,176

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**1. ORGANIZATION**

The Municipality of Morovis, Puerto Rico (Municipality) was founded 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 identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture, and recreation as well as many other general and administrative services.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

- **Management's Discussion and Analysis** - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- **Government - Wide Financial Statements** - The reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOROVIS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

**a. Reporting Entity**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

columns separate from the Municipality's balances and transactions. Based on the aforementioned criteria, the Municipality has not component units

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOROVIS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Child Care Program

Child Care is used to account for revenues sources for the related activities that promote school readiness by enhancing the social and cognitive development of low-income children, including children of federally recognized reservations and children of migratory farm workers, through the provisions of comprehensive health, educational, nutritional, social and other services; and to involve parents in their children's learning and to help parents make progress toward their educational, literacy and employment goals.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

3) Special Fund

This fund is used to account for financial resources derived from capital and operating grants awarded each year by the Commonwealth's Senate and House of Representatives (the Commonwealth's Legislature). The purpose of the amounts awarded by the Commonwealth's Legislature vary from year to year, but are generally restricted to (1) partially subsidize certain qualifying administrative and operational activities of the Municipality, (2) provide specific multipurpose services to citizens and (3) finance the acquisition or construction of capital assets approved by the Commonwealth's Legislature.

4) Debt Service Fund

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

5) Capital Projects Fund

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

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

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

**e. Interfund Receivables and Payables**

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

**f. Capital Assets**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 usefully lives:

	<u>Useful Life</u>
Building	40-60 years
Buildings and building improvements	20-40 years
Land improvement	15-40 years
Machinery and equipment	5-10 years
Vehicles	5-20 years
Infrastructure	40-60 years

**g. Reservation of Fund Balance**

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

1) Encumbrances

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

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**h. Risk Financing**

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2005 amounted to approximately \$213,156. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$199,092 for workers' compensation insurance covering all municipal employees.

**i. Compensated Absences**

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

**j. Use of Estimates**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**k. Future Adoption of Accounting Pronouncements**

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
43	Financial Reporting for Post-employment Benefit Other than Pension Plans	2005-06
44	Economic Condition Reporting: The Statistical Section - an amendment on NCGA Statement I	2005-06
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2008-09
46	Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34.	2005-06
47	Accounting for Termination Benefits	2005-06

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

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**a. Budgetary Control**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

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

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

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

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

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2005 representing the original budget.

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2005 is presented below for the general and debt service funds:

	<b>General</b>
Excess of revenues over expenditures - budgetary basis	\$ 331,171
Entity differences: Non-budgeted expenditures	( 1,911,931)
Timing differences: Prior year encumbrances recorded as current year expenditures for GAAP basis	( 145,172)
Current year encumbrances recorded as expenditures for budgetary basis	<u>517,698</u>
Deficiency of revenues over expenditures - GAAP basis	( <u>\$1,208,234</u> )

**c. Legal Compliance**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$11.3 million difference are as follows:

Bonds payable	\$ 7,786,000
CRIM	40,560
Compensated absences	1,119,026
Note payable	759,770
ASES	883,517
Accrued interest	475,749
Christmas bonus	<u>233,220</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$11,297,842</u>

**5. DEPOSITS - CUSTODIAL CREDIT RISK**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collaterals are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The deposits at GDB of approximately \$722,611 that are restricted principally for capital projects, and the \$461,802 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**6. PROPERTY TAXES**

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

The rates are 8.83% for real property and 6.83% 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	2.00%	2.00%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>8.83%</u>	<u>6.83%</u>

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$790,120. This amount will be repaid through advances from property taxes (refer to Note 14).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2004-05, but not the final settlement as the six months period after a fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2005, the amount collected from taxpayers and charges by CRIM of approximately \$5.712 million, less than the advances received by the Municipality for

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

the same period by \$5.726 million. Such amount is presented as intergovernmental payable in the general fund in the basic financial statements for \$13,512.

**7. MUNICIPAL LICENSE TAX**

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2005. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of 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:

Savings and loans associations	= 1.50%
Financing institution	= 1.40%
Other organizations	= .50%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$369,732, corresponding to the next fiscal year municipal license.

**8. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

HUD - SBGP	\$ 53,566
Puerto Rico Labor Department	107,484
Puerto Rico Department of Family	<u>950,229</u>
	<u>\$1,111,279</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**9. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2005, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Child Care	\$ 947,949
General	Capital	85,148
General	Other Governmental Funds	187,185
Capital	Other Governmental Funds	5,000
Special Fund	Other Governmental Funds	5,000
Special Fund	General	<u>3,413,715</u>
		<u>\$4,643,997</u>

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2005 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$ 641,929
General Fund	Debt Service	5,694
Special Fund	Capital	6,441,049
General Fund	Capital	56
Special Fund	Other Governmental Funds	114,970
Other Governmental Funds	Special Revenue	<u>53,067</u>
		<u>\$7,256,765</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**10. CAPITAL ASSETS**

Capital asset activity for the Municipality for the year ended June 30, 2005 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 5,349,697	\$ -	\$ -	\$ 5,349,697
Construction in progress	9,317,200	9,357,087	-	18,674,287
Total capital assets, not being depreciated	<u>14,666,897</u>	<u>9,357,087</u>	<u>-</u>	<u>24,023,984</u>
Capital assets, being depreciated:				
Buildings and building improvements	6,016,193	14,238		6,030,431
Furniture and fixture	170,805	12,482		183,287
Vehicles and equipment	4,910,421	278,355		5,188,776
Infrastructure	430,664	1,342,415		1,773,079
Total capital assets, being depreciated	<u>11,528,083</u>	<u>1,647,490</u>	<u>-</u>	<u>13,175,573</u>
Less accumulated depreciation for:				
Buildings and building improvements	1,308,315	150,671		1,458,986
Furniture and fixture	131,460	23,565		155,025
Vehicles and equipment	3,518,116	758,192		4,276,308
Infrastructure	93,570	68,578		162,148
Total accumulated depreciation	<u>5,051,461</u>	<u>1,001,006</u>	<u>-</u>	<u>6,052,467</u>
Total capital assets, being depreciated, net	<u>6,476,622</u>	<u>646,484</u>	<u>-</u>	<u>7,123,106</u>
Governmental activities capital assets, net	<u>\$ 21,143,519</u>	<u>\$ 10,003,571</u>	<u>\$ -</u>	<u>\$ 31,147,090</u>

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

General government	\$ 101,146
Public safety	197,956
Public housing and welfare	296,142
Culture and education	137,137
Economic development	<u>268,625</u>
	<u>\$1,001,006</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**11. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2005 are as follows:

Puerto Rico Water and Sewer Authority	\$ 5,810
Puerto Rico Electric Power Authority	49,365
Retirement System Administration	56,119
Puerto Rico Treasury Department	58,014
Puerto Rico Labor Department	26,071
General Services Administration	57,317
CRIM	<u>62,127</u>
Total	<u>\$314,823</u>

**12. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of \$369,732 in the general fund related to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.

**b. Federal Government**

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. The balance of \$947,949 is related to the Child Care Program and \$49,143 for Capital Project Funds.

**13. INTERGOVERNMENTAL REVENUES**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**14. LONG-TERM DEBTS**

Bonds and other long-term liabilities outstanding at June 30, 2005 are as follows:

**Bonds**

\$370,000 series of 1982, payable in annual installments of \$5,000 to \$25,000 until January 1, 2007, interest at 5%.	\$ 49,000
\$210,000 series of 1986, payable in annual installments of \$5,000 to \$15,000 until January 1, 2010, interest at 5%.	67,000
\$720,000 series of 1999, payable in annual installments of \$10,000 to \$65,000 until January 1, 2023, interest at 7%.	625,000
\$2,125,000 series of 2003, payable in annual installments of \$35,000 to \$165,000 until January 1, 2027, interest at 6.5%.	2,010,000
\$2,485,000 series of 2003, payable in annual installments of \$30,000 to \$190,000 until July 1, 2027, interest at 6.55%.	2,360,000
\$2,305,000 series of 2003, payable in annual installments of \$40,000 to \$180,000 until July 1, 2022, interest at 6.5%.	2,180,000
\$505,000 series of 2004, payable in annual installments of \$10,000 to \$40,000 until July 1, 2029, interest at 6%.	<u>495,000</u>
Total bonds payable	<u>\$7,786,000</u>

**Note Payable**

Note payable of \$759,770 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$58,250 including interest at 6.1875%.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**Other Long-term Debt**

Property tax advance - payable in annual installments of \$10,400, until September 1, 2010.

\$40,560

**Due to Puerto Rico Health Insurance Administration**

Due to the Puerto Rico Health Insurance Administration represents the municipal contribution related to the Health Care Reform corresponding to the period from December 1, 1995 through June 30, 1997. This balance of \$883,517 will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.

The annual debt service requirements for the bonds payable and note payable at June 30, 2005, are as follows:

	<u>Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 206,000	\$ 428,912	\$ 11,414	\$ 46,837
2007	218,000	457,495	12,131	46,120
2008	208,000	445,062	12,893	45,358
2009	214,000	432,886	13,703	44,548
2010	230,000	420,291	14,564	43,687
2011-2015	1,335,000	1,884,070	87,751	203,771
2016-2020	1,820,000	1,429,802	119,008	172,244
2021-2025	2,380,000	805,114	161,949	130,253
2026-2030	1,175,000	118,525	218,889	72,363
2031-2035	-	-	107,468	8,481
	<u>\$7,786,000</u>	<u>\$6,422,157</u>	<u>\$ 759,770</u>	<u>\$813,662</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Long-term liability activity for the year ended June 30, 2005 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Adjustments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>						
Bonds payable	\$ 8,120,000	\$ -	\$ 194,000	\$ (140,000)	\$ 7,786,000	\$ 206,000
Notes payable			10,739	770,509	759,770	11,414
Total long-term debt	8,120,000	-	204,739	630,509	8,545,770	217,414
<b>Other long-term liabilities:</b>						
ASES				883,517	883,517	
Advances from CFIM	53,731		13,171		40,560	13,171
Compensated absences	979,758	355,018	215,750		1,119,026	225,000
Total other liabilities	1,033,489	355,018	228,921	883,517	2,043,103	238,171
Total noncurrent liabilities	\$ 9,153,489	\$ 355,018	\$ 433,660	\$ 1,514,026	\$ 10,588,873	\$ 455,585

**15. RETIREMENT PLAN**

**a. Plan Description**

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

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

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

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

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

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2005 was approximately \$280,051. The Municipality's payroll for employees covered by ERS was approximately \$3 million. The Municipality total payroll for all employees was approximately \$5.6 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2005, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**16. RISK MANAGEMENT**

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

who is responsible for purchasing all property and casualty insurance policies of all municipalities.

**17. LEASES**

**Operating Leases**

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2005 was approximately \$7,424.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

**18. CONTINGENCIES**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**19. COMMITMENTS**

The Municipality of Morovis had several outstanding or planned construction projects as of June 30, 2005. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$199,128.

**20. FUND BALANCE AND NET ASSETS RESTATEMENTS**

**a. Fund Balances**

The beginning funds balances of the general fund and the special fund has been restated to correct an understatement of the due to and due from other funds, respectively, in the amounts of \$947,192. In addition, in the capital projects, the beginning balances were restated to correct an overstatement of cash of \$534,831. The following schedule reconciles the fund balance at July 1, 2004 as previously reported to the beginning fund balance, as restated:

<u>Fund</u>	<u>Prior Period Adjustments</u>		<u>Balance at Beginning of Year, as Restated</u>
	<u>Balance at Beginning of Year, as Previously Reported</u>	<u>Correction of Errors</u>	
General Fund	\$ (412,558)	\$ (947,192)	\$ (1,359,750)
Special Fund	(406,187)	947,192	541,005
Capital Projects	8,849,571	(534,831)	8,314,740
	<u>\$ 8,030,826</u>	<u>\$ (534,831)</u>	<u>\$ 7,495,995</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**b. Net Assets**

The following summarizes changes to the net assets as previously reported in the prior year government-wide statements:

	<u>Amount</u>
Net assets at beginning of year as previously reported	\$20,067,978
Restatements:	
Understatement of long-term debts	( <u>1,514,026</u> )
Net assets at beginning of year as restated	<u>\$18,553,952</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Section 8 Housing Choice Vouchers Pass-through Commissioner Office of Municipal Affairs - Community Development	14.871	\$ 307,331
State Block Grant Program - SBGP	14.228	1,178,461
Subtotal U.S. Department of HUD		<u>1,485,792</u>
<b>U.S. Department of Agriculture</b>		
Pass-through Governor's Office of Child Services and Community Development		
Child and Adult Care Food Program	10.558	33,691
Subtotal U.S. Department of Agriculture		<u>33,691</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through the Office of Administration for Children and Families		
Child and Care and Development Block Grant	93.575	412,528
Subtotal U.S. Department of HHS		<u>412,528</u>
<b>TOTAL</b>		<u>\$ 1,932,011</u>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Morovis' federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**2. BASIS OF PRESENTATION**

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u><b>Expenditures</b></u>
Total federal expenditures per schedule	\$ <u>1,932,011</u>
Federal expenditures per basic financial statements included within:	
Child and Care and Development Block Grant	\$ 412,528
Federal expenditures included in capital projects funds	1,178,461
Federal expenditures included in other governmental funds	<u>341,022</u>
Total	\$ <u>1,932,011</u>



ORTIZ, RODRIGUEZ, RIVERA & CO.

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Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Morovis as of and for the year ended June 30, 2005, which collectively comprise the Municipality of Morovis' basic financial statements, and have issued our report thereon dated December 12, 2005. The report on the balance sheet-governmental funds was qualified because the accounting records relate to interfund transactions are not adequate. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material

weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Municipality of Morovis, in a separate letter dated December 12, 2005.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Municipality of Morovis in a separate letter dated December 12, 2005.

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

San Juan, Puerto Rico  
December 12, 2005

*Ortiz, Rodriguez, Rivera & Co.*

The stamp 2101433 was affixed to the original of this report.





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

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

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

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, 2005. Municipality of Morovis' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of 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, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which describe in the accompanying Schedule of Findings and Questioned Cost as item 05-1 and 05-5.

Internal Control over Compliance

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

San Juan, Puerto Rico  
December 12, 2005

*Ortiz, Rodriguez, Rivera & Co.*

The stamp 2101434 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses an qualified opinion on the basic financial statements of the Municipality of Morovis.
- b. There were no 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 auditor's report on compliance with requirements applicable to federal award programs for Municipality of Morovis express an unqualified opinion.
- f. Audit findings relative to the major fund award programs for the Municipality of Morovis are reported in number 3 of this schedule.
- g. The programs tested as major programs included:  
  
SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Morovis was determined to be a high-risk auditee.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**a. SBGP - CFDA No. 14.228**

● **Condition 05-01**

The program did not comply with the procedures require for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees.

Cause

The program does not have adequate control procedures for the cash management.

Effect

The continued occurrence of this condition may expose the Municipality to the assessment of interest costs on the excess cash on hand, which would be paid from local funds.

Criteria

The 24CFR 85.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Recommendation

The disbursements of funds should be made for not more than three days after received, in order to comply with the cash management requirement.

Questioned Costs

\$ -0-

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

● **Condition 05-2**

The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the construction project selected for testing, we noted that the contract does not have the prevailing wage rate clause updated. In addition, the contract selected did not have the certified payrolls.

Criteria

The Davis Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7).

Cause

The program's management failed to monitor the laborers employed by contractors to assure they are paid the prevailing wage rates and includes the certified payrolls.

Effect

The continued failure to implement internal controls and ensure compliance with the above requirement may expose the Municipality to cost disallowances.

Recommendation

The Municipality should assure the construction contracts include the required clause by the Davis Bacon Act in order to ensure that all laborers are paid wages not less than those established.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Questioned Costs

\$ -0-

● **Condition 05-3**

The Municipality transferred funds from SBGP Program to General Fund to finance governmental activities.

Criteria

The federal law and regulations establish the various eligible activities to be financed with these funds. However, none of the sections under this Title allows the transfer of federal funds to finance other governmental activities.

Cause

The above situation occurred because the Municipality incurred in expenditures in excess of its available resource in the fund, and transferred funds to cover the payments for other activities.

This exposes the program to cost disallowances for the amounts owed and may also result in the assessment of penalties and interest costs on amounts owed to the federal program.

Recommendation

The Municipality should not permit transfers of federal funds to finance activities not approved by the federal grantor and that are not in accordance with the grant agreements.

Questioned Costs

\$ -0-

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

• **Condition 05-4**

The Municipality make disbursements related to the SBGP program prior of request of federal funds. The Municipality used the funds available on the special funds account to pay the contractor and then reimburse with the SBGP funds requested.

Criteria

The agency requires the federal funds were managing in a separate bank account. The Municipality must request a release of federal funds prior of disbursing to the contractor. The agency reviews the document related to the payment in order to approve the advance requested by the Municipality.

Cause

The Municipality failed to manage the federal funds in the corresponding account, without following the agency requisites and procedures.

Effect

The Municipality could incur in questioned costs if OCAM does not approve those projects. In case the Municipality does not comply with the federal laws and regulations, the federal agency could decrease the amount of federal funds assigned to the Municipality

Recommendation

The Municipality should implement process and improve the supervision of the employees in charge of these duties in order to avoid the disbursement of funds without the proper authorization of OCAM.

Questioned Costs

\$ -0-

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

b. **Child Care and Development Block Grant - CFDA No. 93.575**

● **Condition 05-5**

The Municipality transferred funds from Child Care and Development Block Grant Program to General Fund to finance governmental activities.

Criteria

The federal law and regulations establish the various eligible activities to be financed with these funds. However, none of the sections under this Program allows the transfer of federal funds to finance other governmental activities.

Cause

The above situation occurred because the Municipality incurred in expenditures in excess of its available resource in the fund, and transferred funds to cover the payments for other activities.

This exposes the program to cost disallowances for the amounts owed and may also result in the assessment of penalties and interest costs on amounts owed to the federal program.

Recommendation

The Municipality should not permit transfers of federal funds to finance activities not approved by the federal grantor and that are not in accordance with the grant agreements.

Questioned Costs

\$ -0-

**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, 2005**

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, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	<b>Condition 01-1</b>  The program does not have adequate control procedures for the cash management.	Condition still prevails.
SBGP CFDA No. 14.228	<b>Condition 02-2</b>  The program does not have adequate control procedures for the cash management.	Condition still prevails.
SBGP CFDA No. 14.228	<b>Condition 03-1</b>  The program does not have adequate control procedures for the cash management.	Condition still prevails.
SBGP CFDA No. 14.228	<b>Condition 03-2</b>  Davis Bacon Act requirements are not being followed by the Municipality.	Condition still prevails.
Child & Adult Care Food Program CFDA No. 10.558	<b>Condition 03-3</b>  Obligations incurred under the award were not liquidated within 90 days after the end of the finding period.	Condition still prevails.
Child & Adult Care Food Program CFDA No. 10.558	<b>Condition 03-4</b>  One participant's household application did not meet the eligibility criteria as compared to the USDA's published Income Eligibility Guidelines.	Condition was not observed.
Child & Adult Care Food Program CFDA No. 10.558	<b>Condition 04-3</b>  Obligations incurred under the award were not liquidated within 90 days after the end of the finding period.	Condition still prevails.

**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, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	<b>Condition 04-4</b>  The CDBG program lent funds to Section 8 Housing Choice Voucher Program during fiscal year 2003-2004.	Condition still prevails.
SBGP CFDA No. 14.228	<b>Condition 04-5</b>  Expenditures incurred by the program were not supported by documentation, such as approval purchase order, receiving reports, vendor invoices and cancelled checks.	Condition was corrected.
SBGP CFDA No. 14.228	<b>Condition 04-6</b>  The times elapsed from the transfer date through the disbursement date was more than 10 days.	Condition still prevails.
Section 8 Housing Choice Voucher CFDA No. 14.871	<b>Condition 04-7</b>  There was no evidence about current status of applications in the waiting list of applicants admitted.	Condition was not observed.
Section 8 Housing Choice Voucher CFDA No. 14.871	<b>Condition 04-8</b>  The payments were made late.	Condition was not observed.
Section 8 Housing Choice Voucher CFDA No. 14.871	<b>Condition 04-9</b>  The program did not conduct the annual quality control reinspection for various leased units.	Condition was not observed.

**CORRECTIVE ACTION PLAN**

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



*Estado Libre Asociado De Puerto Rico*  
*Municipio De Morovis*  
*Oficina De Programas Federales*

Sr. Eugenio Martínez Rodríguez  
Director

**CORRECTIVE ACTION PLAN**

December 12, 2005

Cognizant or Oversight Agency for Audit:

Municipality of Morovis respectfully submits the following corrective action plan for the year ended June 30, 2005

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

Audit period: Fiscal year ended June 30, 2005

The findings from the June 30, 2005 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

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

**Finding 05-1: SBGP - CFDA No. 14.228**

Reportable Condition: See Condition 05-1

Recommendation

The disbursements of funds should be made for not more than three days after received, in order to comply with the cash management requirement.

Action Taken

The Municipality will establish an internal control system on which the disbursement vouchers are authorized before requesting the federal funds to OCAM.

**Finding 05-2: SBGP - CFDA No. 14.228**

Reportable Condition: See Condition 05-2

Recommendation

The Municipality should assure the construction contracts include the required clause by the Davis Bacon Act in order to ensure that all laborers are paid wages not less than those established.

Action Taken

The Municipality will use the model contract established by OCAM, which includes the required clause of Davis Bacon Act. In addition the Municipality will interview the workers to ensure the contractor are paying the wages established by the Department of Labor.

**Finding 05-3: SBGP - CFDA No. 14.228**

Reportable Condition: See Condition 05-3

Recommendation

The Municipality should not permit transfers of federal funds to finance activities not approved by the federal grantor and that are not in accordance with the grant agreements.

Action Taken

The Municipality will establish an internal control system to discontinue unauthorized transfers between federal funds.

**Finding 05-4: SBGP - CFDA No. 14.228**

Reportable Condition: See Condition 05-4

Recommendation

The Municipality should implement process and improve the supervision of the employees in charge of these duties in order to avoid the disbursement of funds without the proper authorization of OCAM.

Action Taken

The Municipality will establish an internal control system to make cash disbursement after the federal funds are received.

**Finding 05-5: Child Care and Development Block Grant - CFDA No. 93.575**

Reportable Condition: See Condition 05-5

Recommendation

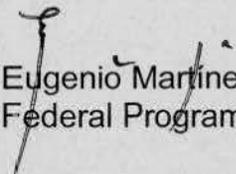
The Municipality should implement process and improve the supervision of the employees in charge of these duties in order to avoid the disbursement of funds without the proper authorization of OCAM.

Action Taken

The Municipality will establish an internal control system to discontinue unauthorized transfers between federal funds.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Eugenio Martínez at (787) 862-2155.

Cordially,

  
Eugenio Martínez  
Federal Programs Director

OFFICE OF THE COMPTROLLER  
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SINGLE AUDIT REPORT  
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 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, 2004, and have issued our report thereon dated November 22, 2004, which was adverse in the governmental activities because the unrecorded of most of the Municipality's general infrastructure assets and because the insufficient audit evidence to support the amount of \$5 million of infrastructure and equipment assets, in addition there is a qualified opinion in each major funds and aggregate remaining fund information because the insufficient evidence to support the interfund transactions. 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 tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Member:  
American Institute of Certified Public Accountants  
National Legion Support Services Association  
National Association of Certified Valuation Analysts  
National Association of Certified Fraud Examiners  
Construction Industry CPAs (Consultant) Association

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INTERNATIONAL

Baker Tilly - Rivera Rodriguez, PSC  
trading as Baker Tilly - Rivera Rodriguez

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

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.

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 finding and questioned costs as items 04-01 and 04-02.

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, of the reportable conditions described above, we consider item 04-02 to be 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 4, 2005  
Stamp number 2042705 was  
affixed to the original of this report.



*Baker Tilly, Rivera-Rodriguez, CPAs*  
License No. 121  
Expires December 1, 2006.

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



BAKER TILLY  
RIVERA-RODRIGUEZ

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

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San Juan, PR 00928-1470

Puerto Rico

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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, 2004. 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.

As described in items 04-03 thru 04-09 in the accompanying schedule of findings and questioned costs, the Municipality of Morovis did not comply with the compliance requirements that are applicable to its major federal program as described in the accompanying schedule. Compliance with such requirements is necessary, in our opinion, for the Municipality of Morovis to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the 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, 2004.

Member:  
American Institute of Certified Public Accountants  
National Litigation Support Services Association  
National Association of Certified Valuation Analysts  
National Association of Certified Fraud Examiners  
Construction Industry (CIVIC) Consultants Association

an independent member of  
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INTERNATIONAL

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

Internal Control over Compliance

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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Municipality of Morovis's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable condition is described in the accompanying schedule of findings and questioned costs as item 04 – 01.

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. Our consideration of the internal control over compliance 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 material weakness. However, we believe that the reportable condition described above, is not 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 2006  
Stamp number 20422 was  
affixed to the original of this report.



*Baker Tilly, Rivera - Rodriguez, PSC*  
License No. 121  
Expires December 1, 2006.

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

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses an adverse opinion on the governmental activities and a qualified opinion in each major fund and the aggregate remaining fund information of the government wide financial statements of the Municipality of Morovis.
- b. Two reportable conditions disclosed during the audit of the financial statements are reported. One of the conditions is reported as a material weakness.
- c. No instances of noncompliance material to the financial statements of Municipality of Morovis were disclosed during the audit.
- d. One reportable condition disclosed on internal controls over major programs.
- e. The auditors' report on compliance for the major federal award programs for Municipality of Morovis expresses a qualified opinion.
- f. Audit findings related 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
  - Housing Choice Voucher (Secc.8) CFDA No. 14.871
- 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.

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

**2. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**04-01 – ACCOUNTING SYSTEM**

**Condition:**

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 Debt Service fund is not registered in a computerized system and 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.

**Criteria:**

Generally Accepted Accounting Principles requires separate fund accounting. This will ensure the proper classification of the assets, liabilities and fund balance of each fund and provide accurate and timely information.

**Cause:**

Inadequate recordkeeping procedures and lack of internal control over financial reporting.

**Effect:**

An adequate fund accounting system is not being in place. Accounting information related to each major fund is not timely and adequately recorded as required by generally accepted accounting principles.

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

**2. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**04 – 01 ACCOUNTING SYSTEM (CONTINUED)**

**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.

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

**2. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**04 – 02 – FIXED ASSETS**

**Condition:**

The Municipality did not record additions to the Construction in Progress and Infrastructure accounts for the fiscal year 2003-2004. Also, an assessment of those construction projects that were finished during the year and subject to depreciation was not made by the Municipality's officials.

In addition, we noted the following situations:

- 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.

**Cause:**

The Municipality did not update the Capital Assets subsidiary records to recognize the additions for construction in progress and infrastructure assets acquired during fiscal year 2003-2004.

**Effect:**

The Capital Assets subsidiary records are incomplete and as a result, the amounts reported in the financial statements for Construction in Progress, Infrastructure and depreciation expense. This account represents a material amount sufficient to cause an adverse opinion in the governmental activities of the financial statements of the Municipality.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

2. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

04 – 02 – FIXED ASSETS (CONTINUED)

**Recommendation:**

The Capital assets subsidiary records should be updated to reflect the costs incurred for Infrastructure and Construction in progress. Also, periodic assessments of those construction projects that were finished and subject to depreciation should be made by municipality's officials. This will ensure that all assets subject to depreciation are included in the subsidiary records and depreciation expense is computed for those capital assets. Also, 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.

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

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
Child & Adult Care Food Program CFDA No. 10.558	Condition 04-03 Period of Availability of Federal Funds	None

As of the date of our test, we noted that the Municipality did not liquidate the obligations within 90 days after the end of the period of availability. Although, 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 can be exposed to penalties and sanctions from the grantor due to noncompliance with this requirement.

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

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
Child & Adult Care Food Program CFDA No. 10.558	Condition 04-03 (Continued) Period of Availability of Federal Funds (Continued)	None

**Criteria**

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.

**Recommendation**

To provide reasonable assurance that obligations are liquidated within the allowed time period, the Municipality shall establish formal policies and procedures to ensure:

- 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.
- 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, 2004

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
CDBG CFDA No. 14.228	<p><b>Condition 04-04</b> <b>Activities Allowed or Unallowed</b></p> <p>During our examination of the accounting records we noted that payroll costs of the section 8 Housing Choice Voucher were covered with CDBG Funds. In addition, the CDBG program loaned funds to the Section 8 Housing Choice Voucher Program during fiscal year 2003-2004.</p> <p><b><u>Cause</u></b></p> <p>Actual expenditures for administrative costs for the Section 8 Housing Choice Voucher Program exceeded its Budget limit for fiscal year 2003-2004.</p> <p><b><u>Effect</u></b></p> <p>The program incurred in unallowable activities which resulted in unallowable costs.</p> <p><b><u>Criteria</u></b></p> <p>Section 105 (a) of the Housing and Community Development Act of 1974 states the activities eligible under the CDBG State Program (State Administrative small cities program).</p> <p><b><u>Recommendation</u></b></p> <p>The Municipality should discontinue this practice and seek the reimbursement of the expenditures incurred on behalf of the Section 8 Housing Choice Voucher Program.</p>	\$ 15,238

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

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
CDBG CFDA No. 14.228	Condition 04-05 Allowable Costs/Costs Principles	\$ 22,669

Based on work performed, we identified expenditures incurred for the program that were not supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices and canceled checks.

**Cause**

Inadequate control of filing of documents by responsible officials.

**Effect**

Absence of supporting documentation regarding costs charged to the award for this program.

**Criteria**

Costs must be documented in accordance with the A-102 Common Rule for States Local and Indian Tribal governments.

**Recommendation**

Responsible Officials should establish strict control over the filing of documentation related to the program. All disbursements vouchers should be placed in locked file cabinets in order to prevent them from getting lost or misplaced.

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

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
CDBG CFDA No. 14.228	Condition 04-06 Cash Management	None

For the fiscal year ended June 30, 2004, the Municipality received Community Development Block Grants funds in the amount of \$556,160. These funds were received under the Request for Advance basis. To determine compliance with cash management requirements, we tested two advances amounting to \$294,812 (53%). After such test, we noted that the time elapsed from the transfer date through the disbursement date was more than 10 days.

**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, 2004

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
CDBG CFDA No. 14.228	Condition 04-06 (Continued) Cash Management (Continued)	

**Effect (Continued)**

- 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.

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

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
Section 8 Housing Choice Voucher CFDA No. 14.871	<b>Condition 04-07 Special Tests and Provisions</b>	<b>None</b>

**1. Selection from the waiting list**

We found that there was no evidence about the current status of the applications for ten cases in the waiting list of applicants that were not admitted to the program.

**Cause**

The program officials did not provide us evidence of the reasons why these applicants were not admitted to the program.

**Effect**

Programs officials are not maintaining documentation of the non - admission of participants to the program.

**Criteria**

Selection from the waiting list generally occurs when the PHA notifies a family list to come in to verify eligibility for admission (24CFR Sections 5.410, 982.54 (d) and 982.201 through 982.207).

**Recommendation**

Program officials should maintain adequate documentation showing the determination for the non - admitted participants.

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

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
Section 8 Housing Choice Voucher CFDA No. 14.871	Condition 04-08 Cash Management	None

Based on our disbursement test we found that the Municipality is making late payments of the Housing Assistance Payments on behalf of each family.

**Cause**

The Finance Department of the Municipality is processing the Housing Assistance payments late during each month.

**Effect**

The Municipality is not minimizing the time elapsing between the transfer of the Federal funds and the disbursement of Funds for program purposes.

**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".

**Recommendation**

The Municipality should establish strict controls over the disbursements of Housing Assistance payments to owners. Thus, procedures should be established to minimize the time elapsing between the transfer of funds and disbursements to owners.

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

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

<u>Federal Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
Section 8 Housing Choice Voucher CFDA No. 14.871	Condition 04-09 Special Tests and Provision	None

**1. Housing Quality Standards Inspections**

Based on our review of the contract files, we found that the Municipality did not conduct the annual quality control reinspection for various leased units.

**Cause**

The Section 8 program did not have a full-time Inspector to perform the annual inspections of the leased units.

**Effect**

Families could be living in unsafe or deteriorated premises and the Municipality not be aware of them. The Municipality could not take prompt and vigorous action to enforce family and owner obligations under hap contracts as a result of deficiencies encountered in the leased units.

**Criteria**

Housing Quality Standards are set forth in 24 CFR Sections 982.158 (d), 982.405 (b) and 982.404.

**Recommendation**

A full-time responsible official should be in charge of performing and documenting the annual inspections of all the leased units. For those units that fail inspections, the Municipality should take prompt and vigorous action to ascertain that the cited deficiencies are corrected within 30 calendar days of the inspection or within an approved extension.

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Pass-through the Office of the Commissioner of Municipal Affairs:		
Community Development Block Grant	14.228	\$ 651,983
Direct program:		
Section 8 – Voucher	14.855	<u>303,707</u>
Subtotal U.S. Department of HUD		<u>955,690</u>
<b>U.S. Department of Agriculture</b>		
Pass-through the Office of the Child Services and Community Developments:		
Child Care	10.558	<u>705,861</u>
Subtotal U.S. Department of Agriculture		<u>705,861</u>
<b>U.S. Department of Transportation</b>		
Formula Grants for the other than Urbanized Areas (non urbanized area Formula Program)	20.509	<u>265,334</u>
Subtotal U.S. Department of Transportation		<u>265,334</u>
<b>U.S. Department of Justice</b>		
Local Law Enforcement Block Grant (2002-LB-BX-2449)	16.592	<u>114,748</u>
Subtotal U.S. Department of Justice		<u>114,748</u>
<b>TOTAL FEDERAL DISBURSEMENTS</b>		<b><u>\$2,041,633</u></b>

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, 2004

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	\$ 2,041,633
Total non-federal expenditures accounted for in Governmental Funds of the Basic Financial Statements	<u>14,826,573</u>
Total expenditures accounted for in Governmental Funds of the Basic Financial Statements	<u>\$16,868,206</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, 2004**

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, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>CDBG CFDA No. 14.228</b>	<b>Condition 01-1</b>  The program does not have adequate control procedures for the cash management.	Condition still Prevails; see Finding 04-06
<b>CDBG CFDA No. 14.228</b>	<b>Condition 02-1</b>  The program does not have adequate control procedures for the cash management.	Condition still Prevails; see Finding 04-06
<b>CDB6 CFDA No. 14.228</b>	<b>Condition 03-1</b>  The program does not have adequate control procedures for the cash management.	Condition still Prevails; see Finding 04-06
<b>CDBG CFDA No. 14.228</b>	<b>Condition 03-02</b>  Davis Bacon act requirements are not being Followed by the Municipality.	The Davis Bacon Act requirements was reverified. No similar findings were noted. In the 2004 audit.
<b>Child &amp; Adult Care Food Program CFDA No. 10.558</b>	<b>Condition 03-03</b>  Obligations incurred under the award were not liquidated within 90 days after the end of the finding period.	Condition still Prevails; see Finding 04-03
<b>Child &amp; Adult Care Food Program CFDA No. 10.558</b>	<b>Condition 03-04</b>  One participant's household application did not meet the eligibility criteria as compared to the USDA's published Income Eligibility Guidelines.	The criteria of eligibility for participant's household was reverified. No similar finding were noted in the 2004 audit.



*Municipio de Morovis  
Oficina del Alcalde*



*Hon. Heriberto (Herito) Rodríguez Adorno  
Alcalde*

March 28, 2005

Cognizant Agency for Audit:  
Housing and Urban Development

**CORRECTIVE ACTION PLAN**

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

Baker Tilly  
Rivera – Rodríguez  
Certified Public Accountant  
P.O. Box 21476  
Rio Piedras, Puerto Rico 00928

Audit period: Fiscal year ended June 30, 2004.

The findings from the June 30, 2004 schedule of findings and questioned costs are discussed below.

**FINDINGS-FEDERAL AWARD PROGRAM AUDITS, CHILD & ADULT CARE  
FOOD PROGRAM**

**Finding 04-03: 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.

*Corrective Action Plan*  
*Continued Page 2*

Completion Date

We will implement corrective measures for the program year ending on September 30, 2005.

**Person responsible: Héctor Santos Rivera, Federal Programs Directors**

**Finding 04-06: CDBG-CFDA No. 14.228**

Reportable Condition: The program does not have adequate procedures for the cash management. (Repeat 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 the fiscal year 2004-2005.

**Finding 04-04: CDBG-CFDA No. 14.228**

Reportable Condition: During our examination of the accounting records we noted that payroll costs of the section 8 Housing Choice Voucher were covered with CDBA Funds. In addition, the CDBG program loaned funds to the Section 8 Housing Choice Voucher Program during fiscal year 2003-2004.

Corrective Action Planned

The Municipality will discontinue this practice and proceed to seek reimbursement of the expenditures incurred on behalf of the Section 8 Housing Choice Voucher Program.

Completion Date

We will implement corrective measures during fiscal year 2004-2005.

**Person responsible: Héctor Santos Rivera, Federal Programs Directors**

*Corrective Action Plan*  
*Continued Page 3*

**Finding 04-05: CDBG-CFDA No. 14.228**

Reportable Condition

Expenditures were incurred for the program that were not supported by appropriate documentation such as approved purchase orders, receiving reports, vendor invoices and canceled checks.

Corrective Action Planned

We will establish strict control over the filing of documentation related to the program. All disbursements vouchers will be placed in locked file cabinets in order to prevent them from getting lost or misplaced.

Completion Date

We will implement corrective measures during fiscal year 2004-2005.

**Person responsible: Héctor Santos Rivera, Federal Programs Directors**

**Finding 04-07: Section 8 – Housing Choice – CFDA No. 14.871 – Voucher Program**

Reportable Condition

Lack of documentation showing that policies are being followed when selections applicants from the waiting list.

Corrective Action Planned

We will perform periodic reviews of each applicant file in order to maintain them up to date with information about their current status of their applications.

Completion Date

We will implement corrective measures during fiscal year 2004-2005.

**Person responsible: Héctor Santos Rivera, Federal Programs Directors**

*Corrective Action Plan*  
*Continued Page 4*

**Finding 04-08 Section 8 – Housing Choice – CFDA Voucher Program No. 14.871**

Reportable Condition

The Municipality is paying late to the owners the Housing Assistance Payments on behalf of each family.

Corrective Action Planned

We will establish strict controls over the pay out of Housing Assistance payments. Thus, procedures will be established in the Finance Department to timely process the Housing Assistance payments to owners of the leased units.

Completion Date

We will implement corrective measures during fiscal year 2004-2005.

**Person responsible: Héctor Santos Rivera, Federal Programs Directors**

**Finding 04-09 Section 8 – Housing Choice Voucher Program CFDA No. 14.871**

Reportable Condition

The Municipality did not conduct the annual quality control reinspection for various leased units.

Corrective Action Planned

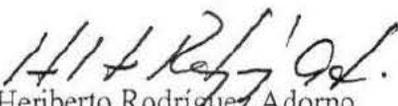
We will assign a responsible official to be in charge of performing and documentation the annual inspections of all the leased units.

Completion Date

We will implement corrective measures during fiscal year 2004-2005.

If the Cognizant of Oversight Agency for Audit has questions regarding this plan, please call Mr. Héctor Santos Rivera at (787) 862-2155, ext. 240.

Sincerely yours,

  
Heriberto Rodríguez Adorno  
Mayor

FORM **SF-SAC**  
(5-2004)

U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

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



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

**PART I**

**GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)**

<p><b>1. Fiscal period ending date for this submission</b></p> <table border="1"> <tr> <td>Month</td> <td>Day</td> <td>Year</td> </tr> <tr> <td align="center">06</td> <td align="center">/ 30</td> <td align="center">/ 2004</td> </tr> </table> <p>Fiscal Period End Dates Must Be In 2004, 2005, or 2006</p>	Month	Day	Year	06	/ 30	/ 2004	<p><b>2. Type of Circular A-133 audit</b></p> <p>1 <input checked="" type="checkbox"/> Single audit    2 <input type="checkbox"/> Program-specific audit</p>
Month	Day	Year					
06	/ 30	/ 2004					

<p><b>3. Audit period covered</b></p> <p>1 <input checked="" type="checkbox"/> Annual    2 <input type="checkbox"/> Biennial    3 <input type="checkbox"/> Other - <input type="text"/> Months</p>	<p><b>4. FEDERAL GOVERNMENT USE ONLY</b></p> <p>Date received by Federal clearinghouse</p>
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**5. Auditee Identification Numbers**

<p><b>a. Primary Employer Identification Number (EIN)</b></p> <table border="1"> <tr> <td>6</td><td>6</td><td>-</td><td>0</td><td>4</td><td>3</td><td>3</td><td>7</td><td>8</td><td>2</td> </tr> </table>	6	6	-	0	4	3	3	7	8	2	<p><b>b. Are multiple EINs covered in this report?</b>    1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No</p> <p><b>c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.</b></p>
6	6	-	0	4	3	3	7	8	2		

<p><b>d. Data Universal Numbering System (DUNS) Number</b></p> <table border="1"> <tr> <td><input type="text"/></td><td>-</td><td><input type="text"/></td><td>-</td><td><input type="text"/></td> </tr> </table>	<input type="text"/>	-	<input type="text"/>	-	<input type="text"/>	<p><b>e. Are multiple DUNS covered in this report?</b>    1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No</p> <p><b>f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.</b></p>
<input type="text"/>	-	<input type="text"/>	-	<input type="text"/>		

**6. AUDITEE INFORMATION**

<b>a. Auditee name</b> MUNICIPALITY OF MOROVIS	
<b>b. Auditee address (Number and street)</b> PO BOX 655 City MOROVIS State                      ZIP + 4 Code PR                              0 0 6 8 7 -	
<b>c. Auditee contact</b> Name HERIBERTO RODRIGUEZ ADORNO Title MAYOR	
<b>d. Auditee contact telephone</b> ( 787 ) 862 - 2155	
<b>e. Auditee contact FAX</b> ( ) -	
<b>f. Auditee contact E-mail</b>	

**7. AUDITOR INFORMATION (To be completed by auditor)**

<b>a. Auditor name</b> BAKER TILLY, RIVERA RODRIGUEZ, PSC	
<b>b. Auditor address (Number and street)</b> PO BOX 21476 City RIO PIEDRAS State                      ZIP + 4 Code PR                              0 0 9 2 8 -	
<b>c. Auditor contact</b> Name RAFAEL E. RIVERA Title PRESIDENT	
<b>d. Auditor contact telephone</b> ( 787 ) 622 - 8850	
<b>e. Auditor contact FAX</b> ( 787 ) 622 - 8855	
<b>f. Auditor contact E-mail</b>	

**9. 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.

Signature of certifying official	Date Month    Day    Year
Printed Name of certifying official	
Printed Title of certifying official	

**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 7, 8, and 9a-9f, 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 auditor	Date Month    Day    Year
Baker Tilly, Rivera Rodriguez, PSC 3/31/2005	

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

- 1. Type of audit report  
Mark either: 1  Unqualified opinion **OR**  
any combination of: 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. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1  Yes 2  No
- 2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § \_\_ .520(b)) \$ 300,000
- 3. Did the auditee qualify as a low-risk auditee? (§ \_\_ .530) 1  Yes 2  No
- 4. Is a reportable condition disclosed for any major program? (§ \_\_ .510(a)(1)) 1  Yes 2  No -SKIP to Item 6
- 5. Is any reportable condition reported as a material weakness? (§ \_\_ .510(a)(1)) 1  Yes 2  No
- 6. Are any known questioned costs reported? (§ \_\_ .510(a)(3) or (4)) 1  Yes 2  No
- 7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ \_\_ .315(b)) 1  Yes 2  No

8. 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)
- |  |  |   |  |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. 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"/> U.S. Department of 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                                       | 97 <input type="checkbox"/> Homeland Security                        | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 07 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 03 <input type="checkbox"/> Institute of Museum and Library Services | 47 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 15 <input type="checkbox"/> Interior                                 | 09 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None                             |
| 81 <input type="checkbox"/> Energy   | 16 <input type="checkbox"/> Justice                                  |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 17 <input type="checkbox"/> Labor                                    |   | <input type="checkbox"/>                                     |
|  | 09 <input type="checkbox"/> Legal Services Corporation               |   | <input type="checkbox"/>                                     |

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 Federal cognizant agency . . . . .

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

FORM SF-SAC (5-2004)

**PART III FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS		
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)	
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report <sup>3</sup> (h)			
1	4	.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 651,983 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	ABC	04-04,04-06,04-05
1	4	.855	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION B- VOUCHER	\$ 303,707 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	NC	04-07,04-09,04-08
1	0	.558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE	\$ 705,861 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	H	04-03
2	0	.509	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FORMULA GRANTS FOR OTHER THAN URBANIZE AREAS	\$ 265,334 .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	6	.592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 114,748 .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			
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →					\$ 2,041,633 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

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

<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

<sup>4</sup> 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	E. Eligibility	I. Procurement and suspension and debarment	L. Reporting
B. Allowable costs/cost principles	F. Equipment and real property management	J. Program income	M. Subrecipient monitoring
C. Cash management	G. Matching, level of effort, earmarking	K. Real property acquisition and relocation assistance	N. Special tests and provisions
D. Davis - Bacon Act	H. Period of availability of Federal funds		O. None

<sup>5</sup> N/A for NONE

**PART I** Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.													f. List the multiple DUNS covered in the report.												
1	N	/	A				21	-					1	N	/	A				21	-				
2							22	-					2						22	-					
3							23	-					3						23	-					
4							24	-					4						24	-					
5							25	-					5						25	-					
6							26	-					6						26	-					
7							27	-					7						27	-					
8							28	-					8						28	-					
9							29	-					9						29	-					
10							30	-					10						30	-					
11							31	-					11						31	-					
12							32	-					12						32	-					
13							33	-					13						33	-					
14							34	-					14						34	-					
15							35	-					15						35	-					
16							36	-					16						36	-					
17							37	-					17						37	-					
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IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.