

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

**MUNICIPIO DE MOROVIS**  
**AUDITORIA 2006-2007**  
**30 DE JUNIO DE 2007**

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UNIDAD DE CORREO  
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2007**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

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MUNICIPALITY OF MOROVIS  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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## **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, 2007, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We 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.

Based on our audit, 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, 2007, 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 14, 2007 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 9 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 14, 2007

*Ortiz, Rivera, Rivera & Co.*

The stamp 2299740 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 increase by \$ 2,382,915.
- Fund balance of general fund increased by \$ 245,710.
- Capital outlays amounted to \$ 2,365,795.

## ***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 \$20.6 million at the end of 2007, 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, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Current assets	\$ 3,158,724	\$ 1,807,505
Capital assets	<u>31,764,524</u>	<u>30,831,700</u>
Total assets	<u>34,923,248</u>	<u>32,639,205</u>
Current liabilities	3,343,456	3,298,212
Noncurrent liabilities	<u>10,999,922</u>	<u>10,468,171</u>
Total liabilities	<u>14,343,378</u>	<u>13,766,383</u>
Invested in capital assets, net of related debt	23,152,524	23,251,700
Restricted	1,482,829	681,503
Unrestricted	<u>(4,055,483)</u>	<u>(5,060,381)</u>
Total net assets	<u>\$ 20,579,870</u>	<u>\$ 18,872,822</u>

## Changes in Net Assets

The net assets increased by \$ 2,382,915 in comparison with prior year. Approximately 52 percent of the Municipality's total revenue came from taxes while 18 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, economic development, public safety and health and welfare.

**Municipality of Cataño**  
**Condensed Statement of Activities**  
**June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Program revenues		
Charges for services	\$ 748,656	\$ 822,292
Operating grants and contributions	1,393,146	896,285
Capital grants and contributions	1,592,500	851,665
General revenues		
Property taxes	7,314,883	6,698,824
Municipal license tax	661,616	597,998
Sales and use taxes	130,322	-
Grants and contributions not restricted to specific programs	2,796,558	783,536
Interest, fines and penalties	106,212	65,592
Miscellaneous	710,950	1,051,992
Total revenues	<u>15,454,843</u>	<u>11,768,184</u>
Expenses		
General government	6,517,574	7,902,657
Public safety	1,023,366	935,573
Public housing and welfare	1,275,518	1,253,509
Culture and recreation	484,888	661,559
Economic Development	3,251,045	3,365,215
Interest on long-term debt	519,537	525,076
Total expenses	<u>13,071,928</u>	<u>14,643,589</u>
Change in net assets	2,382,915	(2,875,405)
Net assets, beginning of year as restated	<u>18,196,955</u>	<u>21,748,227</u>
Net assets, end of year	<u>\$ 20,579,870</u>	<u>\$ 18,872,822</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 \$0.8 million, a decrease of \$0.1 million in comparison with the prior year. There are reservations of fund balance amounting to \$1.9 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 \$0.5 million, and
- 3) to pay for capital projects \$0.9 million.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2007, the general fund has a balance of \$(2.3) million. The fund balance increased by \$ 245,710 during fiscal year 2006-2007.

### **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.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

The Municipality's investment in capital assets as of June 30, 2007, amounts to \$40.0 million, net of accumulated depreciation of \$8.3 million, leaving a net book value of \$31.7 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 13 percent in terms of net book value. Actual expenditures to purchase or construct capital assets were \$8.9 million for the year. Depreciation charges for the year totaled \$0.7 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, 2007 the Municipality has \$0.5 million of unexpended proceeds from bond issuances that are committed to future construction activities and others \$0.9 million that are used to amortize debts.

### **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 10 percent including the sales and use taxes started during the fiscal year 2006-2007. 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 2006-2007 fiscal year. The most significant change between the budget for fiscal year 2006-2007 and the prior year are the following:

- Increase in Municipal License Tax revenue of \$ 63,618.
- New revenue by Sales and Use Taxes of \$ 130,322.
- Increase in Capital Grant and Contributions of \$ 740,835.
- Decrease in General Government expenditures of \$ 1,385,083.

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, 2007**

<u>Assets</u>	<u>Governmental Activities</u>
Cash (Notes 2 and 5)	\$ 2,001,476
Cash with fiscal agent (Notes 2 and 5)	296,882
Accounts receivable:	
Property taxes	6,710
Due from other agencies (Note 9)	853,656
Capital assets, net (Note 11)	<u>31,764,524</u>
 Total assets	 <u>\$ 34,923,248</u>
 <u>Liabilities and Net Assets</u>	
<b>Liabilities</b>	
Bank overdraft	\$ 19,297
Accounts payable and accrued liabilities	558,739
Due to other agencies (Note 12)	1,295,612
General obligations:	
Bonds	170,000
Interest	104,106
Deferred revenues:	
Municipal license tax (Note 13)	447,182
Claims and judgements	290,000
Accrued interest	458,520
Noncurrent liabilities: (Note 15)	
Due within one year	784,684
Due in more than one year	<u>10,215,238</u>
Total liabilities	<u>14,343,378</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	23,152,524
Restricted for:	
Debt service	541,011
Capital projects	941,818
Unrestricted	<u>(4,055,483)</u>
Total net assets	<u>20,579,870</u>
 Total liabilities and net assets	 <u>\$ 34,923,248</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, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) 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	\$ 6,517,574	\$ 748,656	\$ -	\$ -	\$ (5,768,918)
Public safety	1,023,366				(1,023,366)
Public housing and welfare	663,741		400,964	1,592,500	1,329,723
Culture and education	484,888		600,747		115,859
Health and sanitation	611,777				(611,777)
Economic development	3,251,045		391,435		(2,859,610)
Interest on long-term debt	519,537				(519,537)
<b>Total primary government</b>	<b>\$ 13,071,928</b>	<b>\$ 748,656</b>	<b>\$ 1,393,146</b>	<b>\$ 1,592,500</b>	<b>\$ (9,337,626)</b>
General revenues:					
Property taxes					1,676,865
Municipal license tax					661,616
Sales and use taxes					130,322
Grants and contributions not restricted to specific programs					8,434,576
Interest and investment earnings					106,212
Miscellaneous					710,950
<b>Total general revenues</b>					<b>11,720,541</b>
Change in net assets					2,382,915
Net assets at beginning of year, as restated (Note 22)					18,196,955
Net assets at end of year					<b>\$ 20,579,870</b>

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, 2007**

<b>Assets</b>	<b>General</b>	<b>SBGP Fund</b>	<b>Special Fund</b>	<b>Debt Service</b>	<b>Law 379 Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Cash (Notes 2 and 5)	\$ 78,245	\$ -	\$ 4,103	\$ 808,407	\$ 855,514	\$ 255,207	\$ 2,001,476
Cash with fiscal agent (Notes 2 and 5)	222					296,660	296,882
Accounts receivable:							
Property taxes				6,710			6,710
Due from agencies (Note 9)	251,424	302,108				300,124	853,656
Due from other funds (Note 10)	1,047,733		1,742,882				2,790,615
<b>Total assets</b>	<b>\$1,377,624</b>	<b>\$ 302,108</b>	<b>\$ 1,746,985</b>	<b>\$ 815,117</b>	<b>\$ 855,514</b>	<b>\$ 851,991</b>	<b>\$ 5,949,339</b>

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, 2007**

<b>Liabilities and Fund Balance (Deficit)</b>	<b>General</b>	<b>SBGP Fund</b>	<b>Special Fund</b>	<b>Debt Service</b>	<b>Law 379 Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Liabilities</b>							
Bank overdraft	\$ 19,297	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,297
Accounts payable and accrued liabilities	186,054	56,711	65,874			1,380	310,019
Due to other agencies (Note 12)	1,295,612						1,295,612
Due to other funds (Note 10)	1,742,882	473,520				574,213	2,790,615
General obligations:							
Bonds				170,000			170,000
Interest				104,106			104,106
Deferred revenues (Note 13):							
Municipal license tax	447,182						447,182
Total liabilities	<u>3,691,027</u>	<u>530,231</u>	<u>65,874</u>	<u>274,106</u>	<u>-</u>	<u>575,593</u>	<u>5,136,831</u>
<b>Fund Balances (Deficit)</b>							
Reserved for:							
Encumbrances	453,800						453,800
Debt service				541,011			541,011
Capital project					855,514	86,304	941,818
Unreserved fund balance (deficit)	<u>(2,767,203)</u>	<u>(228,123)</u>	<u>1,681,111</u>			<u>190,094</u>	<u>(1,124,121)</u>
Total fund balance	<u>(2,313,403)</u>	<u>(228,123)</u>	<u>1,681,111</u>	<u>541,011</u>	<u>855,514</u>	<u>276,398</u>	<u>812,508</u>
Total liabilities and fund balance (deficit)	<u>\$ 1,377,624</u>	<u>\$ 302,108</u>	<u>\$ 1,746,985</u>	<u>\$ 815,117</u>	<u>\$ 855,514</u>	<u>\$ 851,991</u>	<u>\$ 5,949,339</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, 2007**

Total fund balances - governmental funds	\$ 812,508
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	31,764,524
• 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>(11,997,162)</u>
Net assets of governmental activities	<u>\$ 20,579,870</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 FUNDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General	SBGP Fund	Special Fund	Debt Service	Law 379 Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property taxes (Note 6)	\$ 1,190,028	\$ -	\$ -	\$ 486,837	\$ -	\$ -	\$ 1,676,865
Municipal license taxes (Note 7)	661,616						661,616
Sales and uses taxes (Note 8)	130,322						130,322
Licenses and permits	241,429						241,429
Charges for service and rents	507,227						507,227
Intergovernmental revenues (Note 14):							
Federal grants and contributions		391,435				1,397,574	1,788,009
State contributions	6,526,092		811,689		1,592,500	1,096,795	10,027,076
Interest, fines, and penalties	78,470			27,729		13	106,212
Other revenues	703,852					7,098	710,950
<b>Total revenues</b>	<b>10,039,036</b>	<b>391,435</b>	<b>811,689</b>	<b>514,566</b>	<b>1,592,500</b>	<b>2,501,480</b>	<b>15,850,706</b>
<b>EXPENDITURES</b>							
General government	5,816,190					595,978	6,412,168
Public safety	897,182						897,182
Public housing and welfare	155,039					382,518	537,557
Culture and education	358,704						358,704
Health and sanitation						485,593	485,593
Economic development	2,132,664	367,112				625,085	3,124,861
Capital outlays	447,543	252,446	928,820		736,986		2,365,795
Debt service:							
Principal retirement				709,971			709,971
Interest and other				592,888			592,888
<b>Total expenditures</b>	<b>9,807,322</b>	<b>619,558</b>	<b>928,820</b>	<b>1,302,859</b>	<b>736,986</b>	<b>2,089,174</b>	<b>15,484,719</b>
Excess (deficiency) of revenues over (under) expenditures	231,714	(228,123)	(117,131)	(788,293)	855,514	412,306	365,987
<b>OTHER FINANCING SOURCES (USES)</b>							
Loan proceeds	890,000					465,000	1,355,000
Transfers in	26,047			902,051		53,406	981,504
Transfers out	(902,051)			(26,047)		(53,406)	(981,504)
<b>Total other financing sources (uses)</b>	<b>13,996</b>	<b>-</b>	<b>-</b>	<b>876,004</b>	<b>-</b>	<b>465,000</b>	<b>1,355,000</b>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	245,710	(228,123)	(117,131)	87,711	855,514	877,306	1,720,987
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	<b>(2,559,113)</b>		<b>1,798,242</b>	<b>453,300</b>		<b>(600,908)</b>	<b>(908,479)</b>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<b>\$ (2,313,403)</b>	<b>\$ (228,123)</b>	<b>\$ 1,681,111</b>	<b>\$ 541,011</b>	<b>\$ 855,514</b>	<b>\$ 276,398</b>	<b>\$ 812,508</b>

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  
OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$ 1,720,987

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. 2,365,795
- 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. (757,104)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (1,355,000)
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. (395,863)
- 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. 709,971
- Change in accrued interest expense which does not require the use of current financial resources. 73,351
- 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. 20,778

Changes in net assets of governmental activities \$ 2,382,915

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	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	\$ 1,044,954	\$ 1,044,954	\$ 1,082,380	\$ 37,426	\$ 231,744	\$ 231,744	\$ 486,837	\$ 255,093
Municipal license taxes	725,800	725,800	661,617	(64,183)				
Sales taxes	-	130,076	130,322	246				
Licenses and permits	761,804	661,804	241,429	(420,375)				
Charges for service and rents	484,750	484,750	467,227	(17,523)				
Intergovernmental revenues:								
State contributions	5,918,343	6,202,177	6,174,281	(27,896)				
Interest, fines, and penalties	79,208	144,484	104,517	(39,967)				
Other revenues	683,500	304,314	203,227	(101,087)			27,729	27,729
Total revenues	<u>9,698,359</u>	<u>9,698,359</u>	<u>9,065,000</u>	<u>(633,359)</u>	<u>231,744</u>	<u>231,744</u>	<u>514,566</u>	<u>282,822</u>
<b>EXPENDITURES</b>								
General government	5,864,338	6,062,301	4,797,209	1,265,092				
Public safety	1,131,883	888,161	884,349	3,812				
Public works	2,068,368	2,252,161	1,928,825	323,336				
Culture and recreation	341,230	340,520	332,739	7,781				
Health and welfare	292,540	155,216	145,185	10,031				
Debt service:								
Principal and interest				-	231,744	231,744	1,302,859	(1,071,115)
Total expenditures	<u>9,698,359</u>	<u>9,698,359</u>	<u>8,088,307</u>	<u>1,610,052</u>	<u>231,744</u>	<u>231,744</u>	<u>1,302,859</u>	<u>(1,071,115)</u>
Excess of revenues over expenditures (expenditures over revenues)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 976,693</u>	<u>\$ 976,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (788,293)</u>	<u>\$ (788,293)</u>

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, 2007**

**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, 2007**

- **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, 2007**

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, 2007**

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) SBGP Program

SBGP is used to account for revenues sources for the related activities for the development of viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

of the amounts awarded by the Commonwealth's Legislature vary from year to year, but are generally restricted to (1) partially subsidy 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) Law 379 Fund

This fund is used to account the resources awarded by the Commonwealth's Senate and House of Representative (the Commonwealth's Legislative). The purpose is for construction of capital assets approved.

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

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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.

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated usefully lives:

	<b><u>Useful Life</u></b>
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, 2007**

**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, 2007 amounted to approximately \$245,305. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$236,502 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 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, 2007**

**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>
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2008-09
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2007-08
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2007-08
50	Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27.	2007-08
51	Accounting and Financial Reporting for Intangible Assets	2009-10

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

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**a. Budgetary Control**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007 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

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MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2007 is presented below for the general fund and debt service funds:

	<u>Debt Service</u>	<u>General</u>
Excess of revenues over expenditures - budgetary basis	(\$788,293)	\$976,693
Entity differences:		
Non-budgeted revenues		114,083
Non-budgeted transfer	876,004	( 876,004)
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis		( 422,942)
Current year encumbrances recorded as expenditures for budgetary basis	_____	<u>453,880</u>
Excess of revenues over expenditures - GAAP basis	<u>\$ 87,711</u>	<u>\$245,710</u>

**c. Legal Compliance**

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

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

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

the current period and therefore are not reported in the funds. The details of the approximately \$12 million difference are as follows:

Bonds payable	\$ 8,612,000
CRIM	19,760
Compensated absences	1,033,274
Note payable	736,226
ASES	531,706
Accrued interest	458,520
Christmas bonus	248,720
CRIM (LIMS)	66,956
Claims and judgement	<u>290,000</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$11,997,162</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 \$296,883 that are restricted principally for capital projects, and the \$808,407 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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.

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

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 15).

The Municipality has received the final from CRIM related to fiscal year 2006-2007. The amount collected from taxpayers and charges by CRIM of approximately \$6.582 million, more than the advances received by the Municipality for the same period by \$6.368 million. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements for \$211,424. (See Note 9)

**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, 2007. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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	= 1.50%
Other organizations	= .50%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$447,182, corresponding to the next fiscal year municipal license.

**8. SALES AND USE TAXES**

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20<sup>th</sup> day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

CRIM	\$211,424
Education Department	40,000
HUD - SBGP	302,108
Puerto Rico Department of Family Labor Department	95,343
	<u>204,781</u>
	<u>\$853,656</u>

**10. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2007, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	SBGP Fund	\$ 473,520
General	Other Governmental Funds	574,213
Special Fund	General	<u>1,742,882</u>
		<u>\$2,790,615</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2007 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$902,051
General Fund	Debt Service	26,047
Other Governmental Funds	Other Governmental Funds	<u>53,406</u>
		<u>\$981,504</u>

Transfers are used to move receipts restricted to debt service from the fund collection the receipts to the debt service fund as debt service payments become due.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**11. CAPITAL ASSETS**

Capital asset activity for the Municipality for the year ended June 30, 2007 was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 5,349,697	\$ -	\$ -	\$ 5,349,697
Construction in progress	10,097,989	733,967	1,834,596	8,997,360
Total capital assets, not being depreciated	<u>15,447,686</u>	<u>733,967</u>	<u>1,834,596</u>	<u>14,347,057</u>
Capital assets, being depreciated:				
Buildings and building improvements	14,917,564	1,075,209		15,992,773
Furniture and fixture	186,290	2,929		189,219
Vehicles and equipment	5,211,625	503,307		5,714,932
Infrastructure	2,021,018	1,884,979		3,905,997
Total capital assets, being depreciated	<u>22,336,497</u>	<u>3,466,424</u>	<u>-</u>	<u>25,802,921</u>
Less accumulated depreciation for:				
Buildings and building improvements	2,140,165	323,937		2,464,102
Furniture and fixture	174,643	5,319		179,962
Vehicles and equipment	4,913,611	268,406		5,182,017
Infrastructure	399,931	159,442		559,373
Total accumulated depreciation	<u>7,628,350</u>	<u>757,104</u>	<u>-</u>	<u>8,385,454</u>
Total capital assets, being depreciated, net	<u>14,708,147</u>	<u>2,709,320</u>	<u>-</u>	<u>17,417,467</u>
Governmental activities capital assets, net	<u>\$ 30,155,833</u>	<u>\$ 3,443,287</u>	<u>\$ 1,834,596</u>	<u>\$ 31,764,524</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2007 are as follows:

Puerto Rico Water and Sewer Authority	\$ 26,179
Puerto Rico Retirement System Administration	340,267
Puerto Rico Treasury Department	279,206
Puerto Rico Labor Department	35,924
General Services Administration	230,722
Internal Revenue Service	<u>383,314</u>
 Total	 <u>\$1,295,612</u>

**13. DEFERRED REVENUES**

**Municipal License Tax**

The deferred revenues of \$447,182 in the general fund related to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

**14. INTERGOVERNMENTAL REVENUES**

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

**15. LONG-TERM DEBTS**

Bonds and other long-term liabilities outstanding at June 30, 2007 are as follows:

**Bonds**

\$210,000 series of 1986, payable in annual installments of \$5,000 to \$15,000 until January 1, 2010, interest at 5%.	\$ 42,000
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

\$720,000 series of 1999, payable in annual installments of \$10,000 to \$65,000 until January 1, 2023, interest at 7%.	\$ 585,000
\$2,125,000 series of 2003, payable in annual installments of \$35,000 to \$165,000 until January 1, 2027, interest at 6.5%.	1,920,000
\$2,485,000 series of 2003, payable in annual installments of \$30,000 to \$190,000 until July 1, 2027, interest at 6.55%.	2,255,000
\$2,305,000 series of 2003, payable in annual installments of \$40,000 to \$180,000 until July 1, 2022, interest at 6.5%.	2,085,000
\$505,000 series of 2004, payable in annual installments of \$10,000 to \$40,000 until July 1, 2029, interest at 6%.	475,000
\$890,000 series of 2006, payable in annual installments of \$50,000 to \$105,000 until July 1, 2018, interest from 6.48% to 7%.	840,000
\$310,000 series of 2006, payable in annual installments of \$35,000 to \$55,000 until July 1, 2013, interest from 6.48% to 7%.	275,000
\$155,000 series of 2006, payable in annual installments of \$20,000 to \$25,000 until July 1, 2013, interest from 6.48% to 7%.	<u>135,000</u>
<b>Total bonds payable</b>	<b><u>\$8,612,000</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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%.

\$736,226

**Other Long-term Debts**

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

\$19,760

CRIM LIMS - payable in annual installments of \$17,179 until 2012.

66,956

Total other long-term debts

\$86,716

**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 \$531,706 will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The annual debt service requirements for the bonds payable and note payable at June 30, 2007, are as follows:

	<u>Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 323,000	\$ 413,163	\$ 12,893	\$ 45,357
2009	329,000	402,117	13,703	44,547
2010	355,000	390,688	14,564	43,686
2011	370,000	378,287	15,479	42,771
2012	395,000	365,415	16,451	41,799
2013-2017	2,020,000	1,603,119	99,125	192,214
2018-2022	2,170,000	1,126,517	134,433	156,819
2023-2027	2,575,000	458,156	182,318	108,934
2028-2032	75,000	6,900	247,260	100,993
	<u>\$8,612,000</u>	<u>\$5,144,362</u>	<u>\$ 736,226</u>	<u>\$777,120</u>

Long-term liability activity for the year ended June 30, 2007 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additons</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 7,580,000	\$ 1,355,000	\$ 323,000	\$ 8,612,000	\$ 323,000
Notes payable	748,357		12,131	736,226	12,893
Total long-term debt	<u>8,328,357</u>	<u>1,355,000</u>	<u>335,131</u>	<u>9,348,226</u>	<u>335,893</u>
<b>Other long-term liabilities:</b>					
ASES	883,517		351,811	531,706	350,000
CRIM-LIMS	79,585		12,629	66,956	13,391
Advances from CRIM	30,160		10,400	19,760	10,400
Compensated absences	1,146,552		113,278	1,033,274	75,000
Total other liabilities	<u>2,139,814</u>	<u>-</u>	<u>488,118</u>	<u>1,651,696</u>	<u>448,791</u>
Total noncurrent liabilities	<u>\$ 10,468,171</u>	<u>\$ 1,355,000</u>	<u>\$ 823,249</u>	<u>\$ 10,999,922</u>	<u>\$ 784,684</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**16. RETIREMENT PLAN**

**a. Plan Description**

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

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

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

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

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

(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.

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'

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2007 was approximately \$367,510. The Municipality's payroll for employees covered by ERS was approximately \$4 million. The Municipality total payroll for all employees was approximately \$4.9 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2007, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**17. RISK MANAGEMENT**

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

**18. LEASES**

**Operating Leases**

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2007 was approximately \$8,696.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Leasing arrangements with the Municipality as lessee:

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

**19. CONTINGENCIES**

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

**20. COMMITMENTS**

The Municipality of Morovis had several planned construction projects as of June 30, 2007. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental' funds that amounted to approximately \$616,500.

**21. SUBSEQUENT EVENT**

On July 29, 2007, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 80 (the "Act"), in order to make mandatory in all the municipalities of Puerto Rico the imposition of a uniform municipal tax of 1.5%, from which the municipalities should collect 1% of the sales and use tax pursuant to what is established in Sections 2410 and 6189 of Act No. 117 of July 4, 2006, known as the "Taxpayer's Justice Act of 2006", which may be levied discretionary through municipal legislation, on food and food ingredients and to provide for the collection by the Secretary of the Treasury of the remaining .5% without including food and food ingredients to be used in accordance with the purposes established in the Act; to provide for the establishment of the Municipal Development Fund, the Municipal Redemption Fund, and the Municipal Improvement Fund, as well as for matters relative to the purposes,

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

implementation and administration of said funds and to provide for the establishment of the necessary mechanisms for the collection of the municipal tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

**22. RESTATEMENTS**

The beginning net assets has been restated to correct an understatement of depreciation by \$675,867.

Beginning balance of the year as previously reported	\$18,872,822
Understatement of depreciation	( <u>675,867</u> )
Beginning balance of the year as restated	<u>\$18,196,955</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<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	\$ 325,023
State Block Grant Program - SBGP	14.228	<u>619,558</u>
Subtotal U.S. Department of HUD		<u>944,581</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	<u>52,277</u>
Subtotal U.S. Department of Agriculture		<u>52,277</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through the Office of Administration for Children and Families		
Child Care and Development Block Grant	93.575	<u>421,573</u>
Subtotal U.S. Department of HHS		<u>421,573</u>
<b>TOTAL</b>		<u>\$ 1,418,431</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, 2007**

**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:

	<b><u>Expenditures</u></b>
Total federal expenditures per schedule	\$ <u>1,418,431</u>
Federal expenditures per basic financial statements included within:	
SBGP Fund	\$ 619,558
Federal expenditures included in other governmental funds	<u>798,873</u>
Total	\$ <u>1,418,431</u>



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
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, 2007, which collectively comprise the Municipality of Morovis' basic financial statements, and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality of Morovis' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Municipality of Morovis' financial statements that

is more than inconsequential will not be prevented or detected by Municipality of Morovis' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Municipality of Morovis' internal control.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of 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 14, 2007.

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 14, 2007

*Ortiz, Rivera, Rivera & Co.*

The stamp 2299741 was affixed  
to the original of this report.





ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
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, 2007. 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 and 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 07-1 through 07-6 in the accompanying schedule of findings and questioned costs, the Municipality of Morovis did not comply with requirements regarding cash management, and reporting that are applicable to its State Block Grant program and with reporting that is applicable to its Child Care and Development Block program. 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, 2007.

### Internal Control over Compliance

The management of Municipality of Morovis is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Morovis' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-5 and 07-6 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of

compliance requirement of a federal program will not be prevented or detected by the Municipality's internal control. However, we believe that none of the significant deficiencies described above is a material weaknesses.

Municipality's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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

San Juan, Puerto Rico  
December 14, 2007

*Ortiz, Rivera, Rivera & Co.*

The stamp 2299742 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, 2007**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Morovis.
- b. There were no significant deficiencies 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 significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Municipality of Morovis express a qualified 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
  - Child Care and Development Block Grant - CFDA No. 93.575
- 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, 2007**

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

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

● **Condition 07-01**

The program did not comply with the procedures for minimizing the time elapsing between the transfer of funds received from the Agency and disbursement by grantee.

Cause

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

Effect

The continued occurrence of this condition may expose the program to the assessment of interest costs on the excess of cash on hand.

Criteria

The Agency (OCAM) establishes procedures that the program should realize the disbursements into five labors days after received the federal funds, in order to maintain minimal cash on hand.

Recommendation

The disbursements of funds should be made for not more than five days after received the federal funds, 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, 2007**

● **Condition 07-02**

Some financial reports were sent late to OCAM, after the time required.

<u>Report Name</u>	<u>Period End</u>	<u>Due Date</u>	<u>Date Sent</u>	<u>Days Late</u>
Quarterly Report	March 31, 2007	April 30, 2007	May 22, 2007	22
Program Income Report	June, 2006	December 31, 2006	January 9, 2007	9

Cause

The Federal Program is not aware with the due date of the Financial Reports.

Effect

The Municipality is not in compliance with reporting requirement.

Criteria

OCAM requires the Municipality submit the Quarterly Reports during the next 30 days follow to the end of period. It should include the income and expenditures related of the activities for the period. Based on OCAM Circular 2006-12, the special report of Program Income for the period January to June 2006 should be submitted on or before December 31, 2006.

Recommendation

The Federal Program Office should prepare and submit the Financial Reports during the time establish by the Agency.

Questioned Costs

\$ -0-

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

- **Condition 07-03**

The Quarterly Report for the period ended March 31, 2007 includes financial information that cannot be traced to accounting records.

Cause

The accounting books are not conciliated monthly.

Effect

The financial information of the program cannot be cleared.

Criteria

Based on OCAM Circulars related to Quarterly Reports, the financial information must be recorded on the accounting records.

Recommendation

The Municipality should improve their accounting books in order to obtain all correct financial information clear.

Questioned Costs

\$ -0-

**b. Child Care - CFDA No. 10.558**

- **Condition 07-04**

The Child Care program did not liquidate all debts into the 90 days required by the Agency. The program maintains a debt to the General Fund of the Municipality by payroll concept.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Cause

The Child Care Program of the Municipality has various accountants during the year, and the requirements cannot be complied.

Effect

The Municipality is not in compliance with the clauses establishes on the contract.

Criteria

The Contract into the Family Department and the Municipality of Morovis establishes on clause fourteen that the Municipality has no more than 90 days to liquidate all accounts payable after the close of the year program.

Recommendation

The Municipality should assign an accountant, with knowledge in Child Care requirements, to record and manage the accountability of the Child Care Program, in order comply with all requirements of the Agency.

Questioned Costs

\$ -0-

● **Condition 07-05**

The Funds Request Reports was sent after the due date.

Cause

The Child Care Program of the Municipality has various accountants during the year, and the requirements cannot be complied.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Effect

The Municipality is not in compliance with the clauses establishes on the contract.

Criteria

The Contract into the Family Department and the Municipality of Morovis establishes on seventh clause (B) that the Funds Request Report for the quarter will be submit in advance during the first 10 calendar days of October, January, April and July of the contract year.

Recommendation

The Municipality should assign an accountant, with knowledge in Child Care requirements, to manage the accountability of the Child Care Program, in order comply with all requirements of the Agency.

Questioned Costs

\$ -0-

● **Condition 07-06**

We cannot observe the trimester reports during October 2006 to September 2007. Additional, the accounting book was not available to the audit process.

Cause

The Child Care Program of the Municipality has various accountants during the year, and the requirements cannot be complied.

Effect

The Municipality is not in compliance with the clauses establishes on the contract.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Criteria

The Contract into the Family Department and the Municipality of Morovis establishes that there must be an adequate control over the financial information, over the financial reports, budget, monthly reconciliation, etc.

Recommendation

The Municipality should assign an accountant, with Knowledge in Child Care requirements, to record and manage the accountability of the Child Care Program, in order comply with all requirements of the Agency.

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, 2007**

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, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>SBGP</b> <b>CFDA No. 14.228</b>	<b>Condition 05-01</b>  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.	Condition still prevails.
<b>SBGP</b> <b>CFDA No. 14.228</b>	<b>Condition 05-2</b>  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.	Condition was corrected.
<b>SBGP</b> <b>CFDA No. 14.228</b>	<b>Condition 06-1</b>  The program did not comply with the procedures require for minimizing the time elapsing between the transfer of funds received from the Agency Treasury and disbursement by grantee.	Condition still prevails.
<b>SBGP</b> <b>CFDA No. 14.228</b>	<b>Condition 06-2</b>  The Quarterly Report for the period ended December 31, 2005 was sent to OCAM late.	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, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>SBGP CFDA No. 14.228</b>	<p>the prevailing wage rate clause updated. In addition, the contract selected did not have the certified payrolls.</p> <p><b>Condition 06-1</b></p> <p>The program did not comply with the procedures require for minimizing the time elapsing between the transfer of funds received from the Agency Treasury and disbursement by grantee.</p>	<p>Condition still prevails.</p>
<b>SBGP CFDA No. 14.228</b>	<p><b>Condition 06-2</b></p> <p>The Quarterly Report for the period ended December 31, 2005 was sent to OCAM late.</p>	<p>Condition still prevails.</p>

**CORRECTIVE ACTION PLAN**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



*Municipio de Morovis*  
*Oficina del Alcalde*



*Hon. Heriberto (Herito) Rodríguez Adorno*  
*-Alcalde*

**CORRECTIVE ACTION PLAN**

March 14, 2007

Cognizant or Oversight Agency for Audit

Municipality of Morovis respectfully submits the following corrective action plan for the year ended June 30, 2007

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

Audit period: Fiscal year ended June 30, 2007

The findings from the June 30, 2007 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 07-1: SBGP - CFDA No. 14.228**

Reportable Condition: See Condition 07-1

Recommendation

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

Action Taken

The Federal Program Office has a new Director. The Office is restructured and new instructions are given in order to eliminate this situation.

***Servicios de excelencia en un marco de igualdad y respeto***

**Finding 07-2: SBGP - CFDA No. 14.228**

Reportable Condition: See Condition 07-2

Recommendation

The Federal Program Office should prepare and submit the Financial Reports during the time establish by the Agency.

Action Taken

The Federal Program Office has a new Director. The Office is restructured and new instructions are given in order to eliminate this situation.

**Finding 07-3: SBGP - CFDA No. 14.228**

Reportable Condition: See Condition 07-3

Recommendation

The Municipality should improve their accounting books in order to obtain all correct financial information clear.

Action Taken

The Federal Program Office has a new Director. The Office is restructured and new instructions are given in order to eliminate this situation.

**Finding 07-4: Child Care - CFDA No. 10.558**

Reportable Condition: See Condition 07-4

Recommendation

The Municipality should assign an accountant, with knowledge in Child Care requirements, to record and manage the accountability of the Child Care Program, in order comply with all requirements of the Agency.

Action Taken

The accountability of the Child Care Program is managing and recording by a new accountant. The accounting book was established and the financial information is recording in order to eliminate this situation.

**Finding 07-5: Child Care - CFDA No. 10.558**

Reportable Condition: See Condition 07-5

Recommendation

The Municipality should assign an accountant, with knowledge in Child Care requirements, to manage the accountability of the Child Care Program, in order to comply with all requirements of the Agency.

Action Taken

The accountability of the Child Care Program is managed and recorded by a new accountant. The accounting book was established and the financial information is recorded in order to eliminate this situation.

**Finding 07-6: Child Care - CFDA No. 10.558**

Reportable Condition: See Condition 07-6

Recommendation

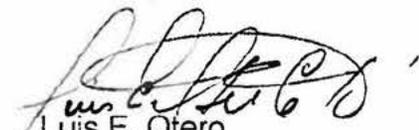
The Municipality should assign an accountant, with knowledge in Child Care requirements, to record and manage the accountability of the Child Care Program, in order to comply with all requirements of the Agency.

Action Taken

The accountability of the Child Care Program is managed and recorded by a new accountant. The accounting book was established and the financial information is recorded in order to eliminate this situation.

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

Cordially,

  
Luis E. Otero  
Federal Programs Director