

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

**MUNICIPIO DE MOROVIS  
AUDITORÍA 2010-2011  
30 DE JUNIO DE 2011**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUATION SERVICES

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

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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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, 2011, 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. 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.

In our opinion, 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, 2011, 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 27, 2011 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 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 are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding 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 of Morovis' financial statements as a whole. 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 not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico  
December 27, 2011

The stamp E16540 was affixed  
to the original of this report.



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

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

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

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

### ***FINANCIAL HIGHLIGHTS***

- The Municipality net assets increased by \$269,389.
- Fund balance of general fund increased by \$1,327,022.
- Capital outlays amounted to \$1,312,959.

### ***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 \$20.0 million at the end of 2011, compared to \$19.8 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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Current assets	\$ 6,364,940	\$ 5,524,845
Capital assets	40,461,043	38,419,441
Total assets	<u>46,825,983</u>	<u>43,944,286</u>
Current liabilities	3,996,530	4,992,713
Noncurrent liabilities	22,780,445	19,171,954
Total liabilities	<u>26,776,975</u>	<u>24,164,667</u>
Invested in capital assets, net of related debt	32,964,558	22,580,421
Restricted	5,647,582	4,262,914
Unrestricted	(18,563,132)	(7,063,716)
Total net assets	<u>\$ 20,049,008</u>	<u>\$ 19,779,619</u>

## Changes in Net Assets

The net assets increased by \$269,389 in comparison with prior year. Approximately 55 percent of the Municipality's total revenue came from taxes while 14 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.

### Condensed Statement of Activities June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Program revenues		
Charges for services	\$ 886,560	\$ 1,083,925
Operating grants and contributions	2,517,367	1,564,730
Capital grants and contributions	1,567,903	1,066,443
General revenues		
Property taxes	7,503,473	7,201,596
Municipal license tax	949,253	863,094
Sales and use taxes	1,231,189	978,797
Grants and contributions not restricted to specific programs	2,474,852	3,567,591
Interest, fines and penalties	199,060	159,358
Miscellaneous	342,001	263,590
Total revenues	<u>17,671,658</u>	<u>16,749,124</u>
Expenses		
General government	9,861,960	8,547,367
Public safety	1,283,424	1,346,749
Public housing and welfare	2,793,497	2,144,197
Culture and recreation	865,721	841,413
Economic Development	1,698,960	4,183,270
Interest on long-term debt	898,707	635,432
Total expenses	<u>17,402,269</u>	<u>17,698,428</u>
Change in net assets	269,389	(949,304)
Net assets, beginning of year	<u>19,779,619</u>	<u>20,728,923</u>
Net assets, end of year	<u>\$ 20,049,008</u>	<u>\$ 19,779,619</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 \$3.8 million, an increase of \$2.0 million in comparison with the prior year. There are reservations of fund balance amounting to \$7.8 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 \$0.9 million, and
- 2) to pay debt service \$1.5 million, and
- 3) to pay for capital projects \$2.8 million.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2011, the general fund has a balance of \$(3.7) million. The fund balance increased by \$1,327,022 during fiscal year 2010-2011.

### **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, 2011, amounts to \$52.6 million, net of accumulated depreciation of \$12.1 million, leaving a net book value of \$40.5 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 11 percent in terms of book value. Actual expenditures to purchase or construct capital assets were \$3.1 million for the year. Depreciation charges for the year totaled \$1.4 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.

## **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. 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 fiscal year 2009-2010. The most significant change between the budget for fiscal year 2009-2010 and the prior year are the following:

- Increase in Municipal License Tax revenue of \$86,159.
- Decrease in Grant and Contribution revenue of \$1,092,739.
- Increase in General Government expenditures of \$1,314,593.
- Decrease in Public Safety expenditures of \$63,325.

The increase in Municipal License Tax revenue is mainly due to the new business establish around the town.

The increase in General Government expenditures is due to increase in salaries expenses by the reduction of state proposals related to employment, the increase of the costs of general services as energy and water.

## **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  
MUNICIPALITY OF MOROVIS  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

<u>Assets</u>	<u>Governmental Activities</u>
Cash (Notes 2 and 5)	\$ 1,446,497
Cash with fiscal agent (Notes 2 and 5)	4,544,064
Accounts receivable:	
Property taxes	8,487
Sales taxes and uses	41,009
Due from other agencies (Note 9)	324,883
Capital assets, net (Note 11)	<u>40,461,043</u>
 Total assets	 <u><u>\$ 46,825,983</u></u>
 <u>Liabilities and Net Assets</u>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 511,381
Due to other agencies (Note 12)	1,191,547
General obligations:	
Bonds	435,000
Interest	244,302
Deferred revenues:	
Municipal license tax (Note 13)	441,179
Accrued interest	1,173,121
Noncurrent liabilities: (Note 15)	
Due within one year	990,578
Due in more than one year	<u>21,789,867</u>
Total liabilities	<u><u>26,776,975</u></u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	\$ 37,547,528
Restricted for:	
Debt service	1,471,495
Capital projects	4,176,087
Unrestricted	<u>(23,146,102)</u>
Total net assets	<u><u>20,049,008</u></u>
 Total liabilities and net assets	 <u><u>\$ 46,825,983</u></u>

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

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
				<u>Primary Government Activities</u>
<b>Primary Government:</b>				
General government	\$ 9,861,960	\$ 886,560	\$ -	\$ (8,975,400)
Public safety	1,262,519			(1,262,519)
Public housing and welfare	2,793,497		2,517,367	1,291,773
Culture and education	865,721			(865,721)
Health and sanitation	20,905			(20,905)
Economic development	1,698,960			(1,698,960)
Interest on long-term debt	898,707			(898,707)
Total primary government	<u>\$ 17,402,269</u>	<u>\$ 886,560</u>	<u>\$ 2,517,367</u>	<u>\$ (12,430,439)</u>
General revenues:				
Property taxes (Note 6)				\$ 2,176,885
Municipal license tax (Note 7)				949,253
Sales and use taxes (Note 8)				1,231,189
Grants and contributions not restricted to specific programs				7,801,440
Interest and investment earnings				199,060
Miscellaneous				342,001
Total general revenues				<u>12,699,828</u>
Change in net assets				<u>269,389</u>
Net assets at beginning of year				<u>19,779,619</u>
Net assets at end of year				<u>\$ 20,049,008</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2011

<u>Assets</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Debt Service Fund</u>	<u>Bonds Issuances Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 274,265	\$ 11,031	\$ -	\$ -	\$ 1,161,201	\$ 1,446,497
Cash with fiscal agent (Notes 2 and 5)	97,359		2,101,301	2,291,486	53,918	4,544,064
Accounts receivable:						
Property taxes			8,487			8,487
Sales tax and uses			41,009			41,009
Due from other agencies (Note 9)	291,340				33,543	324,883
Due from other funds (Note 10)	33,543	1,108,130			747,315	1,888,988
Total assets	<u>\$ 696,507</u>	<u>\$ 1,119,161</u>	<u>\$ 2,150,797</u>	<u>\$ 2,291,486</u>	<u>\$ 1,995,977</u>	<u>\$ 8,253,928</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2011**

<u>Liabilities and Fund Balance (Deficit)</u>	General Fund	Special Fund	Debt Service Fund	Bonds Issuances Fund	Other Governmental Funds	Total Governmental Funds
<b>Liabilities</b>						
Accounts payable and accrued liabilities	\$ 174,215	\$ 88,293	-	-	\$ 27,059	\$ 289,567
Due to other agencies (Note 12)	1,191,547					1,191,547
Due to other funds (Note 10)	1,666,595				222,393	1,888,988
General obligations:						
Bonds			435,000			435,000
Interest			244,302			244,302
Deferred revenues (Note 13):						
Municipal license tax			679,302			679,302
Total liabilities	441,179		679,302	-	249,452	441,179
	<u>3,473,536</u>	<u>88,293</u>	<u>679,302</u>	<u>-</u>	<u>249,452</u>	<u>4,490,583</u>
<b>Fund Balances (Deficit)</b>						
Reserved for:						
Restricted		1,030,868	1,471,495		1,406,860	3,909,223
Committed				2,291,486	550,000	2,841,486
Assigned	971,376					971,376
Unassigned	(3,748,405)				(210,335)	(3,958,740)
Total fund balance (deficit)	<u>(2,777,029)</u>	<u>1,030,868</u>	<u>1,471,495</u>	<u>2,291,486</u>	<u>1,746,525</u>	<u>3,763,345</u>
Total liabilities and fund balance (deficit)	<u>\$ 696,507</u>	<u>\$ 1,119,161</u>	<u>\$ 2,150,797</u>	<u>\$ 2,291,486</u>	<u>\$ 1,995,977</u>	<u>\$ 8,253,928</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2011**

Total fund balances - governmental funds	\$ 3,763,345
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	40,461,043
• 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>(24,175,380)</u>
Net assets of governmental activities	<u>\$ 20,049,008</u>

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

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**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, 2011**

	General Fund	Special Fund	Debt Service Fund	Bonds Issuances Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes (Note 6)	\$ 1,520,721	\$ -	\$ 656,164	\$ -	\$ -	\$ 2,176,885
Municipal license taxes (Note 7)	949,253		531,963			949,253
Sales and uses taxes (Note 8)	699,226					1,231,189
Licenses and permits	839,723					839,723
Charges for service and rents	46,837					46,837
Intergovernmental revenues (Note 14)		160,000			3,925,270	4,085,270
Federal grants and contributions	6,529,573	468,633	1,597		803,234	7,801,440
State contributions	197,463					199,060
Interest, fines, and penalties	342,001					342,001
Other revenues		628,633	1,189,724		4,728,504	17,671,658
<b>Total revenues</b>	<b>11,124,797</b>	<b>628,633</b>	<b>1,189,724</b>	<b>-</b>	<b>4,728,504</b>	<b>17,671,658</b>
<b>EXPENDITURES</b>						
General government	8,154,670	1,059,905		6,585	230,943	9,452,103
Public safety	987,811				259,620	1,247,431
Public housing and welfare	273,534				2,514,466	2,788,000
Culture and education	475,176					475,176
Health						
Economic development					847,670	3,114,931
Capital outlays	2,267,261			1,291,673	21,286	1,312,959
Debt service:						
Principal retirement			1,656,073			1,656,073
Interest and other			696,995			696,995
Total expenditures	12,158,452	1,059,905	2,353,068	1,298,258	3,873,985	20,743,668
Excess (deficiency) of revenues over (under) expenditures	(1,033,655)	(431,272)	(1,163,344)	(1,298,258)	854,519	(3,072,010)
<b>OTHER FINANCING SOURCES (USES)</b>						
Loan proceeds	3,890,000			1,220,000		5,110,000
Transfers in	602		1,529,925			1,530,527
Transfers out	(1,529,925)		(602)			(1,530,527)
Total other financing sources (uses)	2,360,677		1,529,323	1,220,000		5,110,000
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	1,327,022	(431,272)	365,979	(78,258)	854,519	2,037,990
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 23)</b>	(4,104,051)	1,462,140	1,105,516	2,369,744	892,006	1,725,355
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	\$ (2,777,029)	\$ 1,030,868	\$ 1,471,495	\$ 2,291,486	\$ 1,746,525	\$ 3,763,345

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

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds \$ 2,037,990

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. 3,425,464
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (1,383,862)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (5,110,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of 1,656,073
- Change in accrued interest expense which does not require the use of current financial resources. (201,712)
- 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. (154,564)

Changes in net assets of governmental activities \$ 269,389

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

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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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, 2011

	General Fund			Debt Service Fund			Variance with Final Budget-Positive (Negative)
	Budgeted Amounts		Actual	Budgeted Amounts		Actual	
	Original	Final		Original	Final		
<b>REVENUES</b>							
Property taxes	\$ 1,746,736	\$ 1,746,736	\$ 1,483,457	\$ 474,287	\$ 474,287	\$ 656,164	\$ 181,877
Municipal license taxes	995,822	995,822	949,253	(46,569)			
Sales taxes	982,502	982,502	699,226	(283,276)		531,963	531,963
Licenses and permits	1,382,681	1,382,681	839,723	(542,958)			
Charges for service and rents	141,400	141,400	46,837	(94,563)			
Intergovernmental revenues:							
State contributions	6,583,553	6,583,553	6,673,535	89,982			
Interest, fines, and penalties	186,515	186,515	198,064	11,549			
Other revenues	188,078	188,078	342,002	153,924		1,597	1,597
<b>Total revenues</b>	<b>12,207,287</b>	<b>12,207,287</b>	<b>11,232,097</b>	<b>(975,190)</b>	<b>474,287</b>	<b>1,189,724</b>	<b>715,437</b>
<b>EXPENDITURES</b>							
General government	7,626,500	7,990,368	7,417,379	572,989			
Public safety	1,140,014	986,157	980,631	5,526			
Economic Development	2,480,252	2,369,688	2,206,740	162,948			
Culture and recreation	613,126	515,811	507,778	8,033			
Public housing and welfare	347,395	345,263	329,113	16,150			
Debt service:							
Principal and interest					474,287	2,353,068	(1,878,781)
Total expenditures	12,207,287	12,207,287	11,441,641	765,646	474,287	2,353,068	(1,878,781)
Deficiency of expenditures over revenues	\$ -	\$ -	\$ (209,544)	\$ (209,544)	\$ -	\$ (1,163,344)	\$ (1,163,344)

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, 2011**

**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, 2011**

- **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**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.
- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2011.

**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 is 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOROVIS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.

For the fiscal year ended June 30, 2011, the Municipality implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*". The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

**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, 2011**

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) Special Fund

This fund is used to account for financial resources derived from capital and operating grants awarded each year by the Commonwealth's Senate and House of Representatives (the Commonwealth's Legislature). The purpose of the amounts awarded by the Commonwealth's Legislature vary from year to year, but are generally restricted to (1) partially 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

3) 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.

4) Bonds Issuances Fund

This fund is used to account the bond issuance from the Government Development Bank for Puerto Rico. 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.

**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).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

	<u>Useful Life</u>
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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**g. Fund Balances**

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOROVIS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2011.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54. In addition, the financial positions and the results of operations reported in the accompanying fund financial statements as of and for the fiscal year ended June 30, 2011 have not been affected for this change in

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF MOROVIS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

accounting principle. Accordingly, the accompanying fund financial statements have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2010.

**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, 2011 amounted to approximately \$236,155. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$288,327 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 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

expenditures to the presented in the financial statements of the agencies mentioned above.

**k. Future Adoption of Accounting Pronouncements**

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
57	OPEB Measurement by Agent Employees and Agent Multi-Employers Plans	2011-12
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34	2012-13
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and AICPA Pronouncements	2012-13
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2012-13
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53	2011-12

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**a. Budgetary Control**

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

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

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

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

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

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2011 representing the original budget.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2011 is presented below for the general fund and debt service funds:

	<b>Debt Service</b>	<b>General</b>
Deficiencies of expenditures over revenues - budgetary basis	(\$1,163,344)	(\$ 209,544)
Entity differences:		
Non-budgeted revenues		2,472,294
Non-budgeted transfers	1,529,323	( 1,529,323)
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis		(515,857)
Current year encumbrances recorded as expenditures for budgetary basis	-	<u>1,109,452</u>
Excess of revenues over expenditures - GAAP basis	<u>\$ 365,979</u>	<u>\$ 1,327,022</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 reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

period and therefore are not reported in the funds. The details of the approximately \$24.2 million differences are as follows:

Bonds payable	\$20,239,020
Compensated absences	1,600,406
Note payable	679,588
Treasury Department	49,335
Accrued interest	1,173,121
Christmas bonus	221,814
CRIM (LIMS)	8,341
ASES	177,305
Puerto Rico Retirement System Administration	<u>26,450</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$ 24,175,380</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 \$2,291,486 those are restricted principally for capital projects, and the \$2,101,301 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). The standard insurance amount limit is \$250,000.

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

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**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 9.08% for real property and 7.08% for personal property. The composition is as follows:

	<b>Real</b>	<b>Personal</b>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.25%	2.25%
Discounts made by state to tax payer	<u>(0.20%)</u>	<u>(0.20%)</u>
	<u>9.08%</u>	<u>7.08%</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

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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 \$723,333. This amount will be repaid through advances from property taxes (refer to Note 15).

The Municipality has received the preliminary from CRIM related to fiscal year 2010-2011. The amount collected from taxpayers and charges by CRIM of approximately \$6.9 million, more than the advances received by the Municipality for the same period by \$6.7 million. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements for \$197,734. (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, 2011. 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.

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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 \$441,179, corresponding to the next fiscal year municipal license.

**8. SALES AND USE TAXES**

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

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

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

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**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

CRIM (Preliminary Liquidation 2010-2011)	\$ 197,734
CRIM (Amnistía 2010)	93,606
Labor Department	29,738
Traffic Safety Commission	<u>3,805</u>
	<u>\$ 324,883</u>

**10. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2011, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 33,543
Special Fund	Other Governmental Funds	188,850
Special Fund	General	919,280
Other Governmental Funds	General	<u>747,315</u>
		<u>\$1,888,988</u>

**b. Interfund Transfers**

Interfund transfers for the year ended June 30, 2011 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$1,529,925
General Fund	Debt Service	<u>602</u>
		<u>\$1,530,527</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.

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**11. CAPITAL ASSETS**

Capital asset activity for the Municipality for the year ended June 30, 2011 was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 5,454,697	\$ 297,000	\$ -	\$ 5,751,697
Construction in progress	7,603,448	2,831,989	2,506,100	7,929,337
Total capital assets, not being depreciated	<u>13,058,145</u>	<u>3,128,989</u>	<u>2,506,100</u>	<u>13,681,034</u>
Capital assets, being depreciated:				
Buildings and building improvements	22,881,552	2,137,100		25,018,652
Furniture and fixture	284,293	-		284,293
Vehicles and equipment	6,550,246	296,475	-	6,846,721
Infrastructure	6,420,608	369,000		6,789,608
Total capital assets, being depreciated	<u>36,136,699</u>	<u>2,802,575</u>	<u>-</u>	<u>38,939,274</u>
Less accumulated depreciation for:				
Buildings and building improvements	3,701,737	525,830		4,227,567
Furniture and fixture	225,316	22,828		248,144
Vehicles and equipment	5,393,908	483,521	-	5,877,429
Infrastructure	1,454,442	351,683		1,806,125
Total accumulated depreciation	<u>10,775,403</u>	<u>1,383,862</u>	<u>-</u>	<u>12,159,265</u>
Total capital assets, being depreciated, net	<u>25,361,296</u>	<u>1,418,713</u>	<u>-</u>	<u>26,780,009</u>
Governmental activities capital assets, net	<u>\$ 38,419,441</u>	<u>\$ 4,547,702</u>	<u>\$ 2,506,100</u>	<u>\$ 40,461,043</u>

**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2011 are as follows:

Puerto Rico Water and Sewer Authority	\$ 180,848
Puerto Rico Retirement System Administration	199,229
Puerto Rico Treasury Department	242,029
Puerto Rico Labor Department	65,953
General Services Administration	266,168
AEELA	20,462
Internal Revenue Service	<u>216,858</u>
 Total	 <u>\$1,191,547</u>

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**13. DEFERRED REVENUES**

**Municipal License Tax**

The deferred revenues of \$441,179 in the general fund related to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.

**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, 2011 are as follows:

**Bonds**

\$720,000 series of 1999, payable in annual installments of \$10,000 to \$65,000 until January 1, 2023, interest at 7%.	\$ 495,000
\$2,125,000 series of 2003, payable in annual installments of \$35,000 to \$165,000 until January 1, 2027, interest at 6.5%.	1,700,000
\$2,485,000 series of 2003, payable in annual installments of \$30,000 to \$190,000 until July 1, 2027, interest at 6.55%.	2,000,000
\$2,009,020 series of 2010, payable in annual installments of \$200,000 to \$309,020 until July 1, 2018, interest from 4.75% to 7.5%.	2,009,020
\$2,305,000 series of 2003, payable in annual installments of \$40,000 to \$180,000 until July 1, 2022, interest at 6.5%.	1,850,000
\$505,000 series of 2004, payable in annual installments of \$10,000 to \$40,000 until July 1, 2029, interest at 6%.	430,000

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\$890,000 series of 2006, payable in annual installments of \$50,000 to \$105,000 until July 1, 2018, interest at to 7%.	\$ 605,000
\$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%.	105,000
\$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%.	50,000
\$355,000 series of 2008, payable in annual installments of \$40,000 to \$60,000 until July 1, 2014, interest from 3.93% to 7.50%.	175,000
\$195,000 series of 2008, payable in annual installments of \$10,000 to \$25,000 until July 1, 2019, interest from 3.93% to 7%.	145,000
\$995,000 series of 2008, payable in annual installments of \$10,000 to \$85,000 until July 1, 2032, interest from 3.93% to 7%.	950,000
\$2,750,000 series of 2009, payable in annual installments of \$45,000 to \$235,000 until July 1, 2032, interest from 2.42% to 7.5%.	2,610,000
\$840,000 series of 2009, payable in annual installments of \$30,000 to \$95,000 until July 1, 2024, interest from 4.75% to 7.5%.	775,000
\$750,000 series of 2009, payable in annual installments of \$10,000 to \$70,000 until July 1, 2029, interest from 6.00% to 7.5%.	720,000
\$750,000 series of 2009, payable in annual installments of \$85,000 to \$130,000 until July 1, 2016, interest from 4.75% to 6.5%.	575,000

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\$415,000 series of 2010, payable in annual installments of \$5,000 to \$35,000 until July 1, 2035, interest from 6.0% to 7.0%.	\$ 410,000
\$805,000 series of 2010, payable in annual installments of \$15,000 to \$65,000 until July 1, 2035, interest from 6.0% to 7.5%.	800,000
\$3,890,000 series of 2010, payable in annual installments of \$60,000 to \$330,000 until July 1, 2035, interest from 6.0% to 7.5%.	<u>3,835,000</u>
Total bonds payable	<u>\$20,239,020</u>

**Other Long-term Debts**

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%.	\$ 679,588
CRIM LIMS - payable in annual installments of \$17,179 until 2012.	8,341
Treasury Department - payable in annual installments of \$49,296, until 2012.	49,335
Retirement System Administration - payable in monthly installments of \$17,000, until 2012.	26,450
Due to ASES	<u>177,305</u>
Total other long-term debts	<u>\$ 941,019</u>

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The annual debt service requirements for the bonds payable and note payable at June 30, 2011, are as follows:

	<i>Bonds</i>		<i>Notes Payable</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 775,000	\$ 1,131,322	\$ 16,452	\$ 41,799
2013	1,030,000	1,276,342	17,485	40,765
2014	1,010,000	1,209,657	18,584	39,667
2015	1,015,000	1,143,248	19,752	38,586
2016	1,075,000	1,076,020	20,993	37,258
2017-2021	5,129,020	4,378,059	126,486	164,766
2022-2026	4,830,000	2,912,763	171,540	119,712
2027-2031	3,510,000	1,397,107	232,642	58,610
2032-2036	1,865,000	322,400	55,654	2,595
	<u>\$ 20,239,020</u>	<u>\$ 14,846,918</u>	<u>\$ 679,588</u>	<u>\$ 543,758</u>

Long-term liabilities activity for the year ended June 30, 2011 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 15,839,020	\$ 5,110,000	\$ 710,000	\$ 20,239,020	\$ 775,000
Notes payable	695,067		15,479	679,588	16,452
Total long-term debt	<u>16,534,087</u>	<u>5,110,000</u>	<u>725,479</u>	<u>20,918,608</u>	<u>791,452</u>
<b>Other long-term liabilities:</b>					
CRIM-LIMS	24,308		15,967	8,341	8,341
ASES	147,754	29,551		177,305	-
Retirement System Administration	291,720	-	265,270	26,450	26,450
General Services Administration	600,061	-	600,061	-	-
Treasury Department	98,631	-	49,296	49,335	49,335
Compensated absences	1,475,393	125,013	-	1,600,406	115,000
Total other liabilities	<u>2,637,867</u>	<u>154,564</u>	<u>930,594</u>	<u>1,861,837</u>	<u>199,126</u>
Total noncurrent liabilities	<u>\$ 19,171,954</u>	<u>\$ 5,264,564</u>	<u>\$ 1,656,073</u>	<u>\$ 22,780,445</u>	<u>\$ 990,578</u>

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**16. FUND BALANCE**

As of June 30, 2011, fund balances is comprised of the following:

	<u>General</u>	<u>Special</u>	<u>Debt Service</u>	<u>Bonds Issuances</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted:						
Debt service	\$ -	\$ -	\$ 1,471,495	\$ -	\$ -	\$ 1,471,495
General government		1,030,868			1,184	1,032,052
Public safety					2,979	2,979
Health and welfare					322,379	322,379
Capital outlays					1,080,318	1,080,318
Committed:						
Capital outlays				2,291,486	550,000	2,841,486
Assigned:						
General government	441,324					441,324
Public safety	1,565					1,565
Public works	459,557					459,557
Culture	3,888					3,888
Health and welfare	65,042					65,042
Unassigned	(3,748,405)				(210,335)	(3,958,740)
Total	<u>\$ (2,777,029)</u>	<u>\$ 1,030,868</u>	<u>\$ 1,471,495</u>	<u>\$ 2,291,486</u>	<u>\$ 1,746,525</u>	<u>\$ 3,763,345</u>

**17. FUND BALANCE DEFICIT**

The following fund had a deficit in fund balance at June 30, 2011:

<u>Fund</u>	<u>Deficit</u>
General Fund	<u>\$ 2,777,029</u>

The deficit of the General Fund will be covered by future budgetary appropriations.

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**18. NET ASSETS**

Net assets invested in capital assets, net of related debt is comprised of the following:

Capital assets, net of accumulated depreciation.	\$ 40,461,043
Outstanding balance on capital related debt	(5,205,000)
Unspent capital debt proceeds	<u>2,291,485</u>
Total invested in capital assets, net of related debt	<u>\$ 37,547,528</u>

**18. 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 retirement's systems.

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

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.

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

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

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

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

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

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will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2011 was approximately \$416,521. The Municipality's payroll for employees covered by ERS was approximately \$4.5 million. The Municipality total payroll for all employees was approximately \$6.6 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**19. 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.

**20. 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.

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- b. Total income from leases during the year ended June 30, 2011 was approximately \$12,567.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

**21. 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.

**22. COMMITMENTS**

The Municipality of Morovis had several planned construction projects as of June 30, 2011. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental funds that amounted to approximately \$723,891.

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**23. FUND BALANCE RESTATEMENTS**

Fund balance at beginning of the year have been adjusted to reflect the following restatements:

	<b>General</b>	<b>Other Governmental Funds</b>
Beginning balance of the year, as previously reported	(\$4,054,249)	\$ 842,204
Understatement of due (to) from other funds	<u>(49,802)</u>	<u>49,802</u>
Beginning balance of the year, as restated	(\$ <u>4,104,051</u> )	\$ <u>892,006</u>

**24. SUBSEQUENT EVENTS**

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through December 27, 2011, the date the financial statements were issued.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<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	14.871	\$ 322,461
Pass-through Commissioner Office of Municipal Affairs - Community Development Block Grants/State's Neighborhood Stabilization Program (NSP1)	14.228	948,884
Pass-through the Office of Administration for Children and Families	14.228	770,558
Homelessness Prevention and Rapid Re-Housing	14.257	203,022
Subtotal U.S. Department of HUD		<u>2,244,925</u>
<b>U.S. Department of Agriculture</b>		
Pass-through Governor's Office of Child Services and Child and Adult Care Food Program	10.558	70,952
Pass-through Rural Development Rural Housing Preservation Grant	10.433	56,885
Subtotal U.S. Department of Agriculture		<u>127,837</u>
<b>U.S. Department of Energy</b>		
Pass-through Governor's Office of Energy Energy Efficiency and Conservation Block Grant	81.128	160,000
Subtotal U.S. Department of Energy		<u>160,000</u>
<b>U.S. Department of Transportation</b>		
Pass-through Commonwealth of PR- Traffic Safety Commission State and Community Highway Safety	20.600	20,680
Subtotal U.S. Department of Transportation		<u>20,680</u>
<b>U.S. Department of Justice</b>		
Pass-through State Justice Department Edward Byrne Memorial Justice Assistance	16.804	168,379
Subtotal U.S. Department of Justice		<u>168,379</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through the Office of Administration for Children and Child Care and Development Block Grant	93.575	840,668
ARRA - Child Care and Development Block Grant	93.715	21,135
Subtotal U.S. Department of HHS		<u>861,803</u>
<b>TOTAL</b>		<u>\$ 3,583,624</u>

See notes to Schedule of Expenditures of Federal Awards.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**2. BASIS OF PRESENTATION**

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

	<u><b>Expenditures</b></u>
Total federal expenditures per schedule	\$3,583,624
Federal expenditures per basic financial statements included within:	
Federal expenditures included in other governmental funds	\$3,423,624
Federal expenditures included in special fund	<u>160,000</u>
Total expenditures in financial statement	<u>\$3,583,624</u>



Ortiz, Rivera, Rivera & Co.  
Certified Public Accountants and Business Advisors

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

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

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

To the Honorable Mayor and  
Municipal Legislature  
Municipality of 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, 2011, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 27, 2011. 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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of finding and questioned cost that we consider to be significant deficiencies in internal control over financial reporting as item 11-A.

### 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 on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 11-A.

This report is intended solely for the information and use of management, Commissioner Office of Municipal Affairs, others within the entity 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 27, 2011

The stamp E16541 was affixed  
to the original of this report.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
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 Municipality of Morovis' compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Morovis' major federal programs for the year ended June 30, 2011. Municipality of Morovis' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Morovis' management. Our responsibility is to express an opinion on Municipality of Morovis' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. 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 11-1 and 11-5 in the accompanying schedule of findings and questioned costs, Municipality of Morovis, did not comply with requirements regarding Cash Management that are applicable to its CDBG and Child Care Program. Compliance with such requirements is necessary, in our opinion, for Municipality of Morovis, to comply with the 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of non compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 through 11-5.

#### Internal Control over Compliance

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 requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-1 and 11-5 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the

accompanying schedule of findings and questioned costs as items 11-2, 11-3, and 11-4 to be significant deficiencies.

Municipality's responses 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 management, Commissioner Office of Municipal Affairs, others within the entity 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 27, 2011

*Ortiz, Rivera, Rivera & Co*

The stamp E16542 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, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal Control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified that are not considered to be material weakness?   X   Yes        No

Noncompliance material to financial statements noted?        Yes   X   No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?   X   Yes        No

Significant deficiency(ies) identified?   X   Yes        No

Type of auditor's report issued on compliance for major programs: Qualified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133?   X   Yes        No

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of federal programs or Cluster</u>
14.228	Community Development Block Grant (SBGP)
14.228	Neighborhood Stabilization Program (NSPI)
16.804	Edward Byrne Memorial Justice Assistance
14.257	Homelessness Prevention and Rapid Re-Housing

Dollar threshold used to distinguish between type A and Type B programs:  
\$300,000

Audited qualified as low-risk auditee?  Yes  No

**II. FINANCIAL STATEMENTS FINDINGS**

**Finding 11-A**

The Municipality realized several transfers into several special revenues fund accounts to the general account during 2010-2011. Those transactions were not recorded on accounting books, and debt balance cannot be clearly determined.

Criteria

Based on 31 CFR Part 205, the "states are required to ensure that federal funds are used solely for appropriate program purposes.

Cause

The transfers were made to compensate cash deficiency, the municipality was facing to pay current operating obligations.

Recommendation

The Municipality should maintain a subsidiary with the correct amount due to each special program. In addition, the practice should be eliminated in order to comply with the law.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**a. SBGP CFDA No. 14.228**

• **Condition 11-1**

We observed that the general fund of the Municipality owe \$46,243 for loans made during the fiscal year 2010-2011.

Criteria

Based on 24 CFR Section 570.207, ineligible activities, expenses to carry out the regular responsibilities of the unit of general local government are not eligible for assistance under this part.

Cause

The Municipality need additional funds for it's immediate needs of the general fund and not aware with federal restrictions with federal funds.

Effect

The Municipality is not in compliance with Agency regulations.

Recommendation

The Municipality should reimburse the amount due and avoid this procedure immediately.

Questioned Costs

\$46,243

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

• **Condition 11-2**

The contracts made into the Office of Commissioner of Municipal Affairs and the Municipality, for the year program 2008, ended during 2010-2011. The extensions were requested over 300 days overdue, resulting that the program was operating without a valid contracts.

Cause

The federal program did not maintain a due date schedule for request the extension for the contracts.

Effect

The program is not in compliance with the OCAM contract clauses. The program operates without a valid contract.

Criteria

The federal funds of SBGP can be available through a signed contract into the Municipality and OCAM for each program year. Based on one of the clauses of the SBGP Program contract, the funds are available for 24 months after the contract is signed. Then, based on fourth clause, the Municipality can request an extension that should be realized at least 45 days before the contract ends.

Recommendation

The Federal Program Office should establish a due date schedule for monitoring the due date of each program year contract in order to request the extensions into the time required.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- **Condition 11-3**

The Program Income Report for 2010-2011 was not submitted to the Agency on time.

Cause

The report was not prepared on time.

Effect

The program is not in compliance with the program income regulations.

Criteria

Based on OCAM Circular 2007-17, a program income report should be submitted on or before July 31 of each fiscal year.

Recommendation

The Federal Program Offices should establish a schedule of the due date of the required reports by the Agency in order to comply with all of them.

Questioned Cost

None

**b. Neighborhood Stabilization Program - CFDA No. 14.228**

- **Condition 11-4**

The quarterly financial report for the period ended December 31, 2010 and March 31, 2011 were submitted after the time required by the Agency (OCAM).

Criteria

The contract signed into OCAM and the Municipality for the NSP1 funds establish on one of the clauses, the Municipality should submit the financial

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

reports required by OCAM. The general requisites is the quarterly financial reports and should be submitted during the next 40 days after quarter ended.

Cause

The Agency does not establish the complete and clear requirements since the beginning.

Effect

The Municipality is not in compliance with Agency regulations.

Recommendation

The Municipality should verify the complete requirements of the program with the Agency.

Questioned Costs

None

**c. Child Care - CFDA No. 93.575**

• **Condition 11-5**

We observed that the general fund of the Municipality owe \$190,000 for loans made during the fiscal year 2010-2011.

Criteria

Based on 24 CFR Section 570.207, ineligible activities, expenses to carry out the regular responsibilities of the unit of general local government are not eligible for assistance under this part.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MOROVIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Cause

The Municipality need additional funds for its immediate needs of the general fund and not aware with federal restrictions with federal funds.

Effect

The Municipality is not in compliance with Agency regulations.

Recommendation

The Municipality should reimburse the amount due and avoid this procedure immediately.

Questioned Costs

\$190,000

**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, 2011**

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, 2011**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	<b>Condition 10-1</b>  We observed that the general fund of the Municipality due \$155,970 as of June 30, 2010 for loans made during the fiscal year.	Condition still prevails.
SBGP CFDA No. 14.228	<b>Condition 10-2</b>  The SBGP program does not maintain accounting books in order to verify the financial information submitted in the quarterly reports were correct.	Condition was corrected.
SBGP CFDA No. 14.228	<b>Condition 10-3</b>  The extensions of contracts were not requested on time.	Condition still prevails.
SBGP CFDA No. 14.228	<b>Condition 10-4</b>  The Program Income Report was not prepared and submitted to the Agency on time.	Condition still prevails.
CDBG-R CFDA No. 14.255	<b>Condition 10-5</b>  The Municipality did not open a separate bank account for the CDBG-R federal funds.	Condition was corrected.
SBGP CFDA No. 14.228	<b>Condition 09-2</b>  The SBGP program does not maintain accounting books in order to verify the financial information submitted in the quarterly reports were correct.	Condition was corrected
SBGP CFDA No. 14.228	<b>Condition 09-3</b>  The extensions of contracts were not requested on time.	Condition still prevails.

## **CORRECTIVE ACTION PLAN**

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

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*Luis A. Rivera Carrón*



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**CORRECTIVE ACTION PLAN**

December 20, 2011

Cognizant or Oversight Agency for Audit:

Municipality of Morovis respectfully submits the following corrective action plan for the year ended June 30, 2011.

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, 2011.

The findings from the June 30, 2011 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 11-1: SBGP - CFDA 14.228**

Reportable Condition: See Condition 11-1

Recommendation

The Municipality should reimburse the amount due and avoid this procedure immediately.

Action Taken

The amount due will be reimbursed by the General Fund to the Federal Program bank account as soon as possible.

**Finding 11-2: SBGP - CFDA 14.228**

Reportable Condition: See Condition 11-2

Recommendation

The Federal Program Office should establish a due date schedule for monitoring the due date of each program year contract in order to request the extensions into the time required.

Action Taken

The Federal Program Offices establish procedures in order to request on time the extensions.

**Finding 11-3: SBGP - CFDA 14.228**

Reportable Condition: See Condition 11-3

Recommendation

The Federal Program Offices should establish a schedule of the due date of the required reports by the Agency in order to comply with all of them.

Action Taken

The Federal Program Office establishes procedures in order to make the required reports and submit on time.

**Finding 11-4: Neighborhood Stabilization Program (NSP) - CFDA No. 14.228**

Reportable Condition: See Condition 11-4

Recommendation

The Municipality should verify the complete requirements of the program with the Agency.

Action Taken

The financial reports were submitted late because the Agency does not specify the requisites since start the operation of the program. Now we are aware about the requisites of the program.

**FINDINGS – FEDERAL AWARD PROGRAM AUDIT, DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**Finding 11-5: Child Care - CFDA No. 93.575**

Reportable Condition: See Condition 11-5

Recommendation

The Municipality should reimburse the amount due and avoid this procedure immediately.

Action Taken

The amount due by the General Fund as of June 30, 2011 was reimbursed during the next following months after fiscal year ended to cover their respect expenses. The transfers were an error that will not be occurred again.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Luis Rivera, for SBGP and NSP Programs, at (787) 862-0994, and call Luis E. Otero, for Child Care Program, at (787) 862-2155, ext. 222.

Cordially,

  
Luis Rivera Carrión  
Federal Programs Director

  
Luis E. Otero Colon  
Finance Director