

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

**MUNICIPIO DE MOROVIS
AUDITORÍA 2011-2012
30 DE JUNIO DE 2012**

Oficina del Gobernador
de Puerto Rico

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

TABLE OF CONTENTS

	<u>Pages</u>
PART I - FINANCIAL SECTION	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements-Governmental Funds	
Balance Sheet	12-13
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues and Expenditures - Budget and Actual - General and Debt Service Funds.....	17
Notes to Basic Financial Statements.....	18-45

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART II - SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards.....	46
Notes to Schedule of Expenditures of Federal Awards	47
Independent Auditors' Report and 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.....	48-49
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	50-51
Schedule of Findings and Questioned Costs.....	52-53
Schedule of Status of Prior Year Audit Findings and Questioned Costs	54-56

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, 2012, 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 the 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, 2012, and the respective changes in financial position thereof 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 our report dated March 12, 2013 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, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the

results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3 to 9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Morovis's financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

San Juan, Puerto Rico
March 12, 2013

Ortiz, Rivera, Rivera & Co.

The stamp E16599 was added to the original of this report.



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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 \$1,278,760.
- Fund balance of general fund decreased by \$965,331.
- Capital outlays amounted to \$ 5,970,979.

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

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

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

Fund Financial Statements

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

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

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

Infrastructure Assets

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's net assets totaled \$21.3 million at the end of 2012, compared to \$20.0 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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Current assets	\$ 5,379,625	\$ 6,364,940
Capital assets	44,327,682	40,461,043
Total assets	<u>49,707,307</u>	<u>46,825,983</u>
Current liabilities	7,367,857	3,996,530
Noncurrent liabilities	21,011,682	22,780,445
Total liabilities	<u>28,379,539</u>	<u>26,776,975</u>
Invested in capital assets, net of related debt	39,467,682	32,964,558
Restricted	4,566,604	5,647,582
Unrestricted	<u>(22,706,518)</u>	<u>(18,563,132)</u>
Total net assets	<u>\$ 21,327,768</u>	<u>\$ 20,049,008</u>

Changes in Net Assets

The net assets increased by \$1,278,760 in comparison with prior year. Approximately 51 percent of the Municipality's total revenue came from taxes while 28 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 2012

	<u>2012</u>	<u>2011</u>
Program revenues		
Charges for services	\$ 627,481	\$ 886,560
Operating grants and contributions	1,828,708	2,517,367
Capital grants and contributions	961,414	1,567,903
General revenues		
Property taxes	7,786,828	7,503,473
Municipal license taxes	750,354	949,253
Sales and uses taxes	1,462,753	1,231,189
Grants and contributions not restricted to specific programs	5,621,451	2,474,852
Interest, fines and penalties	170,656	199,060
Miscellaneous	568,455	342,001
Total revenues	<u>19,778,100</u>	<u>17,671,658</u>
Expenses		
General government	10,219,527	10,000,036
Public safety	914,316	1,283,424
Public housing and welfare	1,638,917	2,655,421
Culture and recreation	916,992	865,721
Public works	3,935,495	1,698,960
Interest on long-term debt	874,093	898,707
Total expenses	<u>18,499,340</u>	<u>17,402,269</u>
Change in net assets	1,278,760	269,389
Net assets, beginning of year	<u>20,049,008</u>	<u>19,779,619</u>
Net assets, end of year	<u>\$ 21,327,768</u>	<u>\$ 20,049,008</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$1.4 million, a decrease of \$2.4 million in comparison with the prior year. There are reservations of fund balance amounting to \$4.6 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 \$135,000, and
- 2) to pay debt service \$1.5 million, and
- 3) to pay for capital projects \$3.0 million.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2012, the general fund has a balance of \$(3.7) million. The fund balance decreased by \$965,331 during fiscal year 2011-2012.

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, 2012, amounts to \$58.1 million, net of accumulated depreciation of \$13.8 million, leaving a net book value of \$44.3 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 15 percent in terms of book value. Actual expenditures to purchase or construct capital assets were \$4.6 million for the year. Depreciation charges for the year totaled \$1.6 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 2012-2013. The most significant change between the budget for fiscal year 2010-2011 and the prior year are the following:

- Decrease in Municipal License Tax revenue of \$198,899.
- Increase in Grant and Contribution revenue of \$3,146,599.
- Increase in Public Works expenditures of \$2,236,535.
- Decrease in Public Housing and Welfare expenditures of \$1,016,504.

The decrease in Municipal License Tax revenue is due to the closed out business around the town. The increase in Grant and Contribution is due to the State Contribution for pavement and constructions. The increase in Public Works expenditures is due to increase in constructions expenses. The decrease in Public Housing and Welfare is due to the federal proposals ended during the past year.

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, 2012**

<u>Assets</u>	<u>Governmental Activities</u>
Cash (Notes 2 and 5)	\$ 312,432
Cash with fiscal agent (Notes 2 and 5)	4,306,072
Accounts receivable:	
Property taxes	7,650
Sales and uses taxes	133,349
Due from other agencies (Note 9)	620,122
Capital assets, net (Note 11)	<u>44,327,682</u>
Total assets	<u>\$ 49,707,307</u>
<u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 1,012,926
Due to other agencies (Note 12)	2,038,080
General obligations:	
Bonds	480,000
Interest	268,445
Deferred revenues:	
Municipal license taxes (Note 13)	500,393
Accrued interest	1,338,696
Noncurrent liabilities: (Note 15)	
Due within one year	1,261,895
Due in more than one year	21,479,104
Total liabilities	<u>28,379,539</u>
Net Assets	
Investment in capital assets, net of related debt	30,043,662
Restricted for:	
Debt service	1,553,639
Capital projects	3,012,965
Unrestricted	(13,282,498)
Total net assets	<u>21,327,768</u>
Total liabilities and net assets	<u>\$ 49,707,307</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:				
General government	\$ 10,223,233	\$ 627,481	\$ -	\$ (9,595,752)
Public safety	914,316	-	-	(914,316)
Public housing and welfare	1,635,211	-	-	1,154,911
Culture and education	916,992	1,828,708	961,414	(916,992)
Economic development	3,935,495	-	-	(3,935,495)
Interest on long-term debt	874,093	-	-	(874,093)
Total primary government	\$ 18,499,340	\$ 627,481	\$ 1,828,708	\$ (15,081,737)
General revenues:				
Property taxes (Note 6)				\$ 2,299,813
Municipal license taxes (Note 7)				750,354
Sales and uses taxes (Note 8)				1,462,753
Grants and contributions not restricted to specific programs				11,108,466
Interest and investment earnings				170,656
Miscellaneous				568,455
Total general revenues				16,360,497
Change in net assets				1,278,760
Net assets at beginning of year				20,049,008
Net assets at end of year				\$ 21,327,768

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, 2012

<u>Assets</u>	General Fund	Special Fund	Debt Service Fund	Pavement and Construction Fund	Other Governmental Funds	Total Governmental Funds
Cash (Notes 2 and 5)	\$ 109,042	\$ 11,769	\$ -	\$ -	\$ 191,621	\$ 312,432
Cash with fiscal agent (Notes 2 and 5)	8,047		2,229,934	15,410	2,052,681	4,306,072
Accounts receivable:						
Property taxes			7,650			7,650
Sales and uses taxes	68,849		64,500			133,349
Due from other agencies (Note 9)	488,069				132,053	620,122
Due from other funds (Note 10)	64,327	718,453			992,311	1,775,091
Total assets	<u>\$ 738,334</u>	<u>\$ 730,222</u>	<u>\$2,302,084</u>	<u>\$ 15,410</u>	<u>\$ 3,368,666</u>	<u>\$ 7,154,716</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, 2012

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Debt Service Fund</u>	<u>Pavement and Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities						
Accounts payable and accrued liabilities	\$ 420,307	\$ 197,443	\$ -	\$ -	\$ 117,934	\$ 735,684
Due to other agencies (Note 12)	2,038,080					2,038,080
Due to other funds (Note 10)	1,521,914				253,177	1,775,091
General obligations:						
Bonds			480,000			480,000
Interest			268,445			268,445
Deferred revenues (Note 13):						
Municipal license tax	500,393					500,393
Total liabilities	<u>4,480,694</u>	<u>197,443</u>	<u>748,445</u>	<u>-</u>	<u>371,111</u>	<u>5,797,693</u>
Fund Balances (Deficit)						
Reserved for:						
Restricted		532,779	1,553,639		803,436	2,889,854
Committed				15,410	2,209,526	2,224,936
Assigned	134,550					134,550
Unassigned	(3,876,910)				(15,407)	(3,892,317)
Total fund balance (deficit)	<u>(3,742,360)</u>	<u>532,779</u>	<u>1,553,639</u>	<u>15,410</u>	<u>2,997,555</u>	<u>1,357,023</u>
Total liabilities and fund balance (deficit)	<u>\$ 738,334</u>	<u>\$ 730,222</u>	<u>\$ 2,302,084</u>	<u>\$ 15,410</u>	<u>\$ 3,368,666</u>	<u>\$ 7,154,716</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, 2012

Total fund balances - governmental funds	\$ 1,357,023
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Amounts reported for governmental activities in the statement of net assets are different because:

- | | |
|--|---------------------|
| <ul style="list-style-type: none"> • Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet | 44,327,682 |
| <ul style="list-style-type: none"> • Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4) | <u>(24,356,937)</u> |

Net assets of governmental activities	<u><u>\$ 21,327,768</u></u>
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The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	Special Fund	Debt Service Fund	Pavement and Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 6)	\$ 1,854,025	\$ -	\$ 445,788	\$ -	\$ -	\$ 2,299,813
Municipal license taxes (Note 7)	750,354					750,354
Sales and uses taxes (Note 8)	815,563		647,190			1,462,753
Licenses and permits	564,942					564,942
Charges for service and rents	62,539					62,539
Intergovernmental revenues (Note 14)						
Federal grants and contributions					2,790,122	2,790,122
State contributions	6,827,724	556,319		3,466,727	257,696	11,108,466
Interest, fines, and penalties	168,826		1,830			170,656
Other revenues	555,603				12,852	568,455
Total revenues	<u>11,599,576</u>	<u>556,319</u>	<u>1,094,808</u>	<u>3,466,727</u>	<u>3,060,870</u>	<u>19,778,100</u>
EXPENDITURES						
General government	7,756,344	1,054,408			203,543	9,016,295
Public safety	864,792				37,228	902,020
Public housing and welfare	289,020				1,340,694	1,629,714
Culture and education	526,447					526,447
Economic development	2,554,871					2,554,871
Capital outlays				3,451,317	2,519,662	5,970,979
Debt service:						
Principal retirement			875,579			875,579
Interest and other			708,518			708,518
Total expenditures	<u>11,993,474</u>	<u>1,054,408</u>	<u>1,584,097</u>	<u>3,451,317</u>	<u>4,101,127</u>	<u>22,184,423</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(393,898)</u>	<u>(498,089)</u>	<u>(489,289)</u>	<u>15,410</u>	<u>(1,040,457)</u>	<u>(2,406,323)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	730		572,163			572,893
Transfers out	(572,163)		(730)			(572,893)
Total other financing sources (uses)	<u>(571,433)</u>	<u>-</u>	<u>571,433</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(965,331)</u>	<u>(498,089)</u>	<u>82,144</u>	<u>15,410</u>	<u>(1,040,457)</u>	<u>(2,406,323)</u>
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>(2,777,029)</u>	<u>1,030,868</u>	<u>1,471,495</u>	<u>-</u>	<u>4,038,012</u>	<u>3,763,346</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (3,742,360)</u>	<u>\$ 532,779</u>	<u>\$ 1,553,639</u>	<u>\$ 15,410</u>	<u>\$ 2,997,555</u>	<u>\$ 1,357,023</u>

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2012

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

**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, 2012**

Net change in fund balances - total governmental funds	\$ (2,406,323)
Amounts reported for governmental activities in the statement of activities are different because:	
<ul style="list-style-type: none"> • 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. 	5,493,588
<ul style="list-style-type: none"> • 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. 	(1,626,949)
<ul style="list-style-type: none"> • Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 	875,579
<ul style="list-style-type: none"> • Change in accrued interest expense which does not require the use of current financial resources. 	(165,575)
<ul style="list-style-type: none"> • 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. 	(891,560)
Changes in net assets of governmental activities	\$ 1,278,760

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund			Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Budgeted Amounts		Actual	
	Original	Final		Original	Final		
REVENUES							
Property taxes	\$ 1,357,126	\$ 1,357,126	\$ 1,357,126	\$ 552,415	\$ 552,415	\$ 445,788	\$ (106,627)
Municipal license taxes	995,822	995,822	750,354	-	-	-	(245,468)
Sales taxes	982,502	982,502	746,715	(235,787)	(235,787)	647,190	647,190
Licenses and permits	1,695,475	1,695,475	540,008	(1,155,467)	(1,155,467)	-	-
Charges for service and rents	142,000	142,000	67,839	(74,161)	(74,161)	-	-
Intergovernmental revenues	-	-	-	-	-	-	-
State contributions	6,695,873	6,695,873	6,839,132	143,259	143,259	-	-
Interest, fines, and penalties	183,077	183,077	169,482	(13,595)	(13,595)	-	-
Other revenues	210,000	210,000	402,376	192,376	192,376	1,830	1,830
Total revenues	12,261,875	12,261,875	10,873,032	(1,388,843)	(1,388,843)	1,094,808	542,393
EXPENDITURES							
General government	7,647,579	8,149,374	7,905,781	243,593	243,593	-	-
Public safety	1,157,634	876,455	873,623	2,832	2,832	-	-
Economic development	2,497,017	2,279,669	2,155,848	123,821	123,821	-	-
Culture and recreation	635,824	653,849	649,280	4,569	4,569	-	-
Public housing and welfare	323,821	302,528	301,706	822	822	-	-
Debt service:							
Principal and interest	-	-	-(1,013,206)	-(1,013,206)	-(1,013,206)	-	-
Total expenditures	12,261,875	12,261,875	11,886,238	375,637	375,637	1,584,097	(1,031,682)
Excess of expenditures over revenues	\$ -	\$ -	\$(1,013,206)	\$ (1,013,206)	\$ -	\$ (489,289)	\$ (489,289)

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, 2012**

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, 2012

- 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, 2012

- 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, 2012.

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, 2012**

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.

During 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*". 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, 2012**

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, 2012**

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) Pavement and Construction Fund

This fund is used to account the State Contribution of 2011-2012. The purpose is for pavement and construction of several roads and streets around the Municipality.

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, 2012**

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 usefully lives:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

g. Fund Balances

During fiscal year ended June 30, 2011, 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, 2012

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, 2012.

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 years for financial reporting purposes was not affected by the implementation of GASB No. 54.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012 amounted to \$128,910. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$167,143 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 expenditures to the presented in the financial statements of the agencies mentioned above.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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>
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
65	Items Previously Reported as Assets and Liabilities	2013-14
66	Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and 62	2013-14
67	Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25	2013-14
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15

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, 2012**

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, include 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, 2012 representing the original budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012 is presented below for the general fund and debt service funds:

	Debt Service	General
Deficiency of expenditures over revenues - budgetary basis	(\$ 489,289)	(\$1,013,206)
Entity differences:		
Non-budgeted revenues		1,594,210
Non-budgeted transfers	571,433	(571,433)
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis		(1,109,452)
Current year encumbrances recorded as expenditures for budgetary basis	-	134,550
Excess (deficiency) of revenues over expenditures - GAAP basis	<u>\$ 82,144</u>	<u>\$ (965,331)</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, 2012**

period and therefore are not reported in the funds. The details of the approximately \$24.4 million differences are as follows:

Bonds payable	\$ 19,464,020
Compensated absences	1,764,025
Accrued interest	1,338,696
Note payable	663,136
Treasury Department	593,315
Christmas bonus	277,242
ASES	206,856
Labor Department	<u>49,647</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$ 24,356,937</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 \$2,078,138 those are restricted principally for capital projects, and the \$2,229,934 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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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:

	Real	Personal
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.25%	2.25%
Discount 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 Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 settlement from CRIM related to fiscal year 2011-2012. The amount collected from taxpayers and charges by CRIM of approximately \$7.5 million, exceed the advances received by the Municipality for the same period by \$7.0 million. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements for \$488,069. (See Note 9)

7. MUNICIPAL LICENSE TAXES

Municipal License Taxes receivable are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2012. The annual Municipal License Taxes are determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Morovis, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 \$500,393, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

CRIM (Liquidation 2011-2012)	\$ 488,069
OCAM (SBGP)	41,362
Labor Department	45,240
Traffic Safety Commission	22,679
Government Development Bank for Puerto Rico	12,220
Education Department (Food Program)	<u>10,552</u>
	<u>\$ 620,122</u>

10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds

The due from and due to other fund balances as of June 30, 2012, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 64,327
Special Fund	Other Governmental Funds	188,850
Special Fund	General	529,603
Other Governmental Funds	General	<u>992,311</u>
		<u>\$ 1,775,091</u>

b. Interfund Transfers

Interfund transfers for the year ended June 30, 2012 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$ 572,163
General Fund	Debt Service	<u>730</u>
		<u>\$ 572,893</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

11. CAPITAL ASSETS

Capital asset activity for the Municipality for the year ended June 30, 2012 was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 5,751,697	\$ -	\$ -	\$ 5,751,697
Construction in progress	7,929,337	863,156	2,056,052	6,736,441
Total capital assets, not being depreciated	<u>13,681,034</u>	<u>863,156</u>	<u>2,056,052</u>	<u>12,488,138</u>
Capital assets, being depreciated:				
Buildings and building improvements	25,018,652	2,741,743		27,760,395
Furniture and fixture	284,293			284,293
Vehicles and equipment	6,846,721	16,241		6,862,962
Infrastructure	6,789,608	3,928,500		10,718,108
Total capital assets, being depreciated	<u>38,939,274</u>	<u>6,686,484</u>	<u>-</u>	<u>45,625,758</u>
Less accumulated depreciation for:				
Buildings and building improvements	4,227,567	594,374		4,821,941
Furniture and fixture	248,144	22,242		270,386
Vehicles and equipment	5,877,429	396,750		6,274,179
Infrastructure	1,806,125	613,583		2,419,708
Total accumulated depreciation	<u>12,159,265</u>	<u>1,626,949</u>	<u>-</u>	<u>13,786,214</u>
Total capital assets, being depreciated, net	<u>26,780,009</u>	<u>5,059,535</u>	<u>-</u>	<u>31,839,544</u>
Governmental activities capital assets, net	<u>\$ 40,461,043</u>	<u>\$ 5,922,691</u>	<u>\$ 2,056,052</u>	<u>\$ 44,327,682</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2012 are as follows:

Puerto Rico Water and Sewer Authority	\$ 306,550
Puerto Rico Retirement System Administration	292,913
General Services Administration	603,893
Internal Revenue Service	<u>834,724</u>
Total	<u>\$2,038,080</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

13. DEFERRED REVENUES

Municipal License Taxes

The deferred revenues of \$500,393 in the general fund related to municipal license taxes collected in fiscal year 2011-12 that will be earned in fiscal year 2012-13.

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, 2012 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%.	\$ 470,000
\$2,125,000 series of 2003, payable in annual installments of \$35,000 to \$165,000 until January 1, 2027, interest at 6.5%.	1,635,000
\$2,485,000 series of 2003, payable in annual installments of \$30,000 to \$190,000 until July 1, 2027, interest at 6.55%.	1,925,000
\$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%.	1,780,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

\$505,000 series of 2004, payable in annual installments of \$10,000 to \$40,000 until July 1, 2029, interest at 6%.	\$ 415,000
\$890,000 series of 2006, payable in annual installments of \$50,000 to \$105,000 until July 1, 2018, interest at to 7%.	535,000
\$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%.	55,000
\$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%.	25,000
\$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%.	120,000
\$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%.	130,000
\$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%.	930,000
\$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%.	2,555,000
\$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%.	740,000
\$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%.	700,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

\$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%.	\$ 475,000
\$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%.	405,000
\$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%.	785,000
\$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>3,775,000</u>
Total bonds payable	<u>\$19,464,020</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%.	\$ 663,136
Treasury Department - payable in monthly installments of \$25,000 until July 2015.	593,315
Labor Department - payable in monthly installments of \$2,078 until June 2014.	49,647
Due to ASES	<u>206,856</u>
Total other long-term debts	<u>\$ 1,512,954</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The annual debt service requirements for the bonds payable and note payable at June 30, 2012, are as follows:

	<i>Bonds</i>		<i>Notes Payable</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 830,000	\$ 1,297,931	\$ 16,961	\$ 40,765
2014	1,074,020	1,216,207	18,027	39,667
2015	1,090,000	1,154,848	19,751	38,586
2016	1,155,000	1,092,520	20,992	37,258
2017	1,125,000	1,022,281	23,312	35,939
2018-2022	4,490,000	4,119,594	134,433	156,819
2023-2027	5,415,000	2,596,531	182,318	108,934
2028-2032	3,085,000	1,145,700	247,342	43,992
2033-2037	1,200,000	183,150		
	<u>\$ 19,464,020</u>	<u>\$ 13,828,762</u>	<u>\$ 663,136</u>	<u>\$ 501,960</u>

Long-term liabilities activity for the year ended June 30, 2012 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>
Governmental Activities:					
Bonds payable	\$ 20,239,020	\$ -	\$ 775,000	\$ 19,464,020	\$ 830,000
Notes payable	679,588		16,452	663,136	16,961
Total long-term debt	<u>20,918,608</u>	<u>-</u>	<u>791,452</u>	<u>20,127,156</u>	<u>846,961</u>
Other long-term liabilities:					
CRIM-LIMS	8,341		8,341	-	-
ASES	177,305	29,551		206,856	-
Retirement System Administration	26,450		26,450	-	-
Labor Department	-	49,647		49,647	24,934
Treasury Department	-	593,315		593,315	275,000
Treasury Department	49,336		49,336	-	-
Compensated absences	1,600,406	163,619		1,764,025	115,000
Total other liabilities	<u>1,861,838</u>	<u>836,132</u>	<u>84,127</u>	<u>2,613,843</u>	<u>414,934</u>
Total noncurrent liabilities	<u>\$ 22,780,446</u>	<u>\$ 836,132</u>	<u>\$ 875,579</u>	<u>\$ 22,740,999</u>	<u>\$ 1,261,895</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

16. FUND BALANCE

As of June 30, 2012, fund balances are comprised of the following:

	<u>General</u>	<u>Special</u>	<u>Debt Service</u>	<u>Pavement and Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted:						
Debt service	\$ -	\$ -	\$ 1,553,639	\$ -	\$ -	\$ 1,553,639
General government		532,779			894	533,673
Public safety					12	12
Health and welfare					108,825	108,825
Capital outlays					693,705	693,705
Committed:						
Capital outlays				15,410	2,209,526	2,224,936
Assigned:						
General government	78,357					78,357
Public safety	9,187					9,187
Public works	15,472					15,472
Culture	1,438					1,438
Health and welfare	30,096					30,096
Unassigned	(3,876,910)				(15,407)	(3,892,317)
Total	<u>\$ (3,742,360)</u>	<u>\$ 532,779</u>	<u>\$ 1,553,639</u>	<u>\$ 15,410</u>	<u>\$ 2,997,555</u>	<u>\$ 1,357,023</u>

17. FUND BALANCE DEFICIT

The following fund had a deficit in fund balance at June 30, 2012:

<u>Fund</u>	<u>Deficit</u>
General Fund	\$ <u>3,742,360</u>

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

18. NET ASSETS

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

Capital assets, net of accumulated depreciation.	\$ 44,327,682
Outstanding balance on capital related debt	<u>(14,284,020)</u>
Total invested in capital assets, net of related debt	<u>\$ 30,043,662</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

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

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

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

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

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (10.275% 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 10.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2012

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

was \$344,777. The Municipality's payroll for employees covered by ERS was approximately \$3.4 million. The Municipality total payroll for all employees was approximately \$7.0 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2012, 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.
- b. Total income from leases during the year ended June 30, 2012 was approximately \$35,195.
- 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 it 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, 2012. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental Funds that amounted to approximately \$203,000.

23. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through March 12, 2013, the date the financial statements were available to be issued.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Section 8 Housing Choice Vouchers	14.871	\$ 297,955
Pass-through Commissioner Office of Municipal Affairs - Community Development Block Grants/State's Neighborhood Stabilization Program (NSP1)	14.228	895,480
	14.228	86,379
Pass-through the Office of Administration for Children and Families		
Homelessness Prevention and Rapid Re-Housing-ARRA	14.257	145,829
Subtotal U.S. Department of HUD		<u>1,425,643</u>
U.S. Department of Agriculture		
Pass-through Governor's Office of Child Services and Child and Adult Care Food Program	10.558	83,522
Pass-through Rural Development Rural Housing Preservation Grant	10.433	18,114
Subtotal U.S. Department of Agriculture		<u>101,636</u>
U.S. Department of Homeland Security		
Pass-through Governor's Office Disaster Grants - Public Assistance	97.036	8,596
Subtotal U.S. Department of Homeland Security		<u>8,596</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through the Office of Administration for Children and Child Care and Development Block Grant	93.575	795,274
Subtotal U.S. Department of HHS		<u>795,274</u>
TOTAL		<u>\$ 2,331,149</u>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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>Expenditures</u>
Total federal expenditures per schedule	\$ <u>2,331,149</u>
Federal expenditures per basic financial statements included within:	
Federal expenditures included in other governmental funds	\$ <u>2,331,149</u>

**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, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 12, 2013. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality'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 misstatements on a timely basis. A *material weakness* is a control 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Morovis's 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, Commissioner Office of Municipal Affairs, others within the entity, 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
March 12, 2013

The stamp E16600 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

We have audited the compliance of Municipality of Morovis with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Morovis's major federal programs for the year ended June 30, 2012. Municipality of Morovis's 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's management. Our responsibility is to express an opinion on Municipality of Morovis's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Morovis's 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's compliance with those requirements.

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, 2012.

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's internal control over compliance with the 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 effectiveness. 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.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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
March 12, 2013

The stamp E52566 was affixed to the original of this report.



51
ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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? Yes X No

Significant deficiency(ies) identified? Yes X No

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

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

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)
93.575	Child Care and Development Block Grant

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 12-A

Condition

The Municipality realized several transfers into several special revenues fund accounts to the general account during 2011-2012. Those transactions were not recorded on accounting books, and debt balance cannot be clearly determined.

Criteria

Based on 31 CFR Part 205, the Municipality is 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.

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

**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, 2012**

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, 2012**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
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.	Condition was not continued, but the Municipality due part of the amount yet.
SBGP CFDA No. 14.228	Condition 11-2 The Contracts made into the OCAM and the Municipality was not extended on time.	Condition was corrected.
SBGP CFDA No. 14.228	Condition 11-3 The Program Income Report was not submitted on time.	Condition was corrected.
NSP1 CFDA No. 14.228	Condition 11-4 The quarterly financial report were submitted after the time required by the Agency.	Condition was corrected.
Child Care CFDA No. 93.575	Condition 11-5 The General Fund of the Municipality owes \$190,000 for loans made during fiscal year.	Condition was corrected.
SBGP CFDA No. 14.228	Condition 10-1 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 was not continued, but the Municipality due part of the amount yet.