

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

**MUNICIPIO DE MOROVIS
AUDITORÍA 2013-2014
30 DE JUNIO DE 2014**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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MUNICIPALITY OF MOROVIS
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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PART I - FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors

consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 10 and 47 to 48 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States,*

Local Governments, and Non-Profit Organizations, and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014, on our consideration of the Municipality of Morovis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Morovis' internal control over financial reporting and compliance.

San Juan, Puerto Rico
December 29, 2014

The stamp E135673 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

FINANCIAL HIGHLIGHTS

- The Municipality net position decreased by \$810,246.
- Fund balance of general fund increased by \$10,587.
- Capital outlays amounted to \$1,281,485.

USING THIS ANNUAL REPORT

This discussion and analysis report is intended to serve as an introduction to the Municipality's basic financial statements. The 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 Position presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Municipality's net position totaled \$18.9 million at the end of fiscal year 2014, compared to \$19.8 million at the end of the previous year.

The largest portion of the Municipality's net position 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 position, and these are resources subject to external restrictions for the purposes explained above.

Municipality of Morovis Condensed Statement of Net Position June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Current assets	\$ 4,864,893	\$ 5,244,019
Capital assets	43,394,812	43,670,443
Total assets	<u>48,259,705</u>	<u>48,914,462</u>
Current liabilities	5,281,612	4,017,795
Noncurrent liabilities	23,451,406	24,483,039
Total liabilities	<u>28,733,018</u>	<u>28,500,834</u>
Deferred inflows of resources	582,605	659,300
Total deferred inflows of resources	<u>582,605</u>	<u>659,300</u>
Invested in capital assets, net of related debt	29,110,792	29,386,423
Restricted	2,011,361	2,084,384
Unrestricted	<u>(12,178,071)</u>	<u>(11,716,479)</u>
Total net position	<u>\$ 18,944,082</u>	<u>\$ 19,754,328</u>

Changes in Net Position

The net position decreased by \$810,246 in comparison with prior year. Approximately 72 percent of the Municipality's total revenue came from taxes while 23 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 and public housing and welfare.

Condensed Statement of Activities

June 30, 2014 and 2013

	2014	2013
Program revenues		
Charges for services	\$ 384,863	\$ 380,543
Operating grants and contributions	1,010,525	1,107,466
Capital grants and contributions	996,843	1,412,352
General revenues		
Property taxes	8,643,696	8,044,701
Municipal license taxes	992,108	880,150
Sales and uses taxes	1,442,835	1,527,253
Grants and contributions not restricted to specific programs	1,509,684	2,069,556
Interest, fines and penalties	77,062	83,634
Miscellaneous	254,351	174,205
Total revenues	<u>15,311,967</u>	<u>15,679,860</u>
Expenses		
General government	8,971,800	10,148,713
Public safety	827,869	866,801
Public housing and welfare	1,223,120	1,495,454
Culture and recreation	956,044	969,289
Economic development	2,268,623	3,207,991
Interest on long-term debt	1,874,757	565,052
Total expenses	<u>16,122,213</u>	<u>17,253,300</u>
Change in net position	(810,246)	(1,573,440)
Net position, beginning of year	<u>19,754,328</u>	<u>21,327,768</u>
Net position, end of year	<u>\$ 18,944,082</u>	<u>\$ 19,754,328</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 \$1.5 million, a decrease of \$0.5 million in comparison with the prior year. There are reservations of fund balance amounting to \$3.2 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 \$104,670, and
- 2) to pay debt service \$0.8 million, and
- 3) to pay for capital projects \$2.0 million.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2014, the general fund has a balance of \$(1.5) million. The fund balance increased by \$10,587 during fiscal year 2013-2014.

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, 2014, amounts to \$60.3 million, net of accumulated depreciation of \$16.9 million, leaving a net book value of \$43.4 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 \$1.3 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 2014-2015. The most significant change between the budget for fiscal year 2013-2014 and the prior year are the following:

- Increase in property taxes revenue of \$598,995.
- Decrease in grant and contribution revenue of \$559,872.
- Decrease in general government expenses of \$1,176,913.
- Decrease in economic development expenses of \$939,368.

The increase in property taxes revenue is due to recent revision of rate and collection of all real and personal property taxes. The decrease in grant and contribution is due to some state

contributions were not recurrent all fiscal years. The decrease in general government expenses is due to less transitory employees and less activities and festivals. The decrease in economic development expenses is due to less construction around the town in relation to prior year and 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 POSITION
JUNE 30, 2014**

<u>Assets</u>	<u>Governmental Activities</u>
Cash (Notes 2 and 4)	\$ 923,130
Cash with fiscal agent (Notes 2 and 4)	3,340,255
Accounts receivable:	
Property taxes	7,900
Sales and use taxes	120,751
Rents	4,847
Due from other agencies (Note 8)	468,010
Capital assets, net (Note 10)	<u>43,394,812</u>
Total assets	<u>48,259,705</u>
 <u>Liabilities, Deferred Inflows of Resources, and Net Position</u>	
Liabilities	
Accounts payable and accrued liabilities	1,162,190
Due to other agencies (Note 11)	666,396
General obligations:	
Bonds	819,804
Interest	314,311
Provision for claims and judgments	20,000
Accrued interest	2,298,911
Noncurrent liabilities: (Note 14)	
Due within one year	2,740,840
Due in more than one year	<u>20,710,566</u>
Total liabilities	<u>28,733,018</u>
 Deferred Inflows of Resources (Notes 6 and 12)	
Unearned revenues from:	
Municipal license taxes	<u>582,605</u>
Total deferred inflows of resources	<u>582,605</u>
 Net Position	
Investment in capital assets, net of related debt	29,110,792
Restricted for:	
Debt service	809,204
Capital projects	1,202,157
Unrestricted	<u>(12,178,071)</u>
Total net position	<u>\$ 18,944,082</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, 2014**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u> <u>Capital Grants and Contributions</u>	
Primary Government:				
General government	\$ 8,971,800	\$ 384,863	\$ -	\$ (8,586,937)
Public safety	827,869			(827,869)
Public housing and welfare	1,223,120			(212,595)
Culture and education	956,044	1,010,525		(956,044)
Economic development	2,268,623		996,843	(1,271,780)
Interest on long-term debts	1,874,757			(1,874,757)
Total governmental activities	<u>\$ 16,122,213</u>	<u>\$ 384,863</u>	<u>\$ 996,843</u>	<u>\$ (13,729,982)</u>
General revenues:				
Property taxes (Note 5)				\$ 2,377,697
Municipal license taxes (Note 6)				992,108
Sales and use taxes (Note 7)				1,442,835
Grants and contributions not restricted to specific programs				7,775,683
Interest and investment earnings				77,062
Miscellaneous				254,351
Total general revenues				<u>12,919,736</u>
Change in net position				<u>(810,246)</u>
Net position at beginning of year				<u>19,754,328</u>
Net position at end of year				<u>\$ 18,944,082</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, 2014

<u>Assets</u>	<u>General Fund</u>	<u>SBGP Fund</u>	<u>Debt Service Fund</u>	<u>Loans Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 4)	\$467,527	\$307,418	\$ -	\$ -	\$ 148,185	\$ 923,130
Cash with fiscal agent (Notes 2 and 4)	7,265		1,996,357	1,124,940	211,693	3,340,255
Accounts receivable:						
Property taxes			7,900			7,900
Sales and use taxes	59,037		61,714			120,751
Rents					4,847	4,847
Due from other agencies (Note 8)		441,216			26,794	468,010
Due from other funds (Note 9)	263,736				875,395	1,139,131
Total assets	<u>\$797,565</u>	<u>\$748,634</u>	<u>\$2,065,971</u>	<u>\$1,124,940</u>	<u>\$ 1,266,914</u>	<u>\$ 6,004,024</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, 2014

<u>Liabilities, Deferred Inflows of Resources and Fund Balance (Deficit)</u>	General Fund	SBGP Fund	Debt Service Fund	Loans Fund	Other Governmental Funds	Total Governmental Funds
Liabilities						
Accounts payable and accrued liabilities	\$ 260,425	\$ 579,233	\$ -	\$ -	\$ 72,532	\$ 912,190
Due to other agencies (Note 11)	666,396					666,396
Due to other funds (Note 9)	771,591	92,184	122,652		152,704	1,139,131
General obligations:						
Bonds			819,804			819,804
Interest			314,311			314,311
Provision for claims and judgments						
Total liabilities	<u>1,718,412</u>	<u>671,417</u>	<u>1,256,767</u>	<u>-</u>	<u>225,236</u>	<u>3,871,832</u>
Deferred Inflows of Resources						
Unearned revenue from:						
Municipal license taxes (Note 12)	582,605	-	-	-	-	582,605
Total deferred inflows of resources	<u>582,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>582,605</u>
Fund Balances (Deficit)						
Reserved for:						
Restricted		77,217	809,204		702,924	1,589,345
Committed				1,124,940	338,754	1,463,694
Assigned	104,670					104,670
Unassigned	(1,608,122)					(1,608,122)
Total fund balance (deficit)	<u>(1,503,452)</u>	<u>77,217</u>	<u>809,204</u>	<u>1,124,940</u>	<u>1,041,678</u>	<u>1,549,587</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 797,565</u>	<u>\$ 748,634</u>	<u>\$ 2,065,971</u>	<u>\$ 1,124,940</u>	<u>\$ 1,266,914</u>	<u>\$ 6,004,024</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 POSITION
JUNE 30, 2014**

Total fund balances - governmental funds \$ 1,549,587

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 43,394,812

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 3)** (26,000,317)

Net position of governmental activities \$ 18,944,082

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	SBGP Fund	Debt Service Fund	Loans Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 5)	\$ 1,687,898	\$ -	\$ 689,799	\$ -	\$ -	\$ 2,377,697
Municipal license taxes (Note 6)	992,108					992,108
Sales and use taxes (Note 7)	744,598		698,237			1,442,835
Licenses and permits	349,936					349,936
Charges for service and rents	34,927					34,927
Intergovernmental revenues (Note 13):						
Federal grants and contributions		1,064,360			943,008	2,007,368
State contributions	7,037,244				738,439	7,775,683
Interest, fines, and penalties	75,484		1,578			77,062
Other revenues	164,475				89,876	254,351
Total revenues	<u>11,086,670</u>	<u>1,064,360</u>	<u>1,389,614</u>	<u>-</u>	<u>1,771,323</u>	<u>15,311,967</u>
EXPENDITURES						
General government	5,861,033				905,414	6,766,447
Public safety	758,958				64,905	823,863
Public housing and welfare	270,240				952,880	1,223,120
Culture and education	556,454					556,454
Economic development	1,926,548	26,975		15,389	269,253	1,953,523
Capital outlays		996,843				1,281,485
Debt service:						
Principal retirement			2,448,566			2,448,566
Interest and other			778,749			778,749
Total expenditures	<u>9,373,233</u>	<u>1,023,818</u>	<u>3,227,315</u>	<u>15,389</u>	<u>2,192,452</u>	<u>15,832,207</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,713,437</u>	<u>40,542</u>	<u>(1,837,701)</u>	<u>(15,389)</u>	<u>(421,129)</u>	<u>(520,240)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	123,268		1,826,118			1,949,386
Transfers out	(1,826,118)		(123,268)			(1,949,386)
Total other financing sources (uses)	<u>(1,702,850)</u>	<u>-</u>	<u>1,702,850</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	10,587	40,542	(134,851)	(15,389)	(421,129)	(520,240)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>(1,514,039)</u>	<u>36,675</u>	<u>944,055</u>	<u>1,140,329</u>	<u>1,462,807</u>	<u>2,069,827</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (1,503,452)</u>	<u>\$ 77,217</u>	<u>\$ 809,204</u>	<u>\$ 1,124,940</u>	<u>\$ 1,041,678</u>	<u>\$ 1,549,587</u>

Handwritten initials and date:
 J.P.P. 6/6/2014

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
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds	\$ (520,240)
Amounts reported for governmental activities in the statement of activities are different because:	
• Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	1,281,485
• 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.	(1,557,116)
• 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.	2,448,566
• 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.	<u>(2,817,797)</u>
Changes in net position of governmental activities	<u><u>(\$810,246)</u></u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 - This 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, 2014**

- Statement of Net Position - The statement of net position is designed to display the financial position of the Municipality, including capital assets and infrastructure.

The net position 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 new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

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 financially 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, 2014

- 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, 2014.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements 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, 2014**

The effect of all inter-fund activities (assets, liabilities, revenues, expenditures and other financing sources/uses among governmental funds) have been eliminated from the governmental-wide financial statements.

Separate fund financial statements are provided for governmental funds. Major governmental funds are reported on separate columns to segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 the 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.

The governmental fund financial statements are reported using the *current financial resources measurements 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interests 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and when the amount is received during the period or within the availability period for this revenue source (within 60 days or year-end). Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service Fund

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

3) SGBP Fund

The fund is used to account for the resources of federal funds principally for construction projects around the Municipality.

4) Loans Fund

This fund is used to account the movement of the loans through the Governmental Development Bank for Puerto Rico. The purpose is for construction of projects around the Municipality.

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 and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from the Legislative Assembly 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 withheld 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

g. Fund Balances

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Negative fund balance amounts are assigned amounts reduced to eliminate the deficit. 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 indicate 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 any formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2014.

In situations when 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.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54.

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, 2014 amounted to \$279,654. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$228,803 for workers' compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.

k. Future Adoption of Accounting Pronouncements

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

Statement Number	Statement Name	Adoption Required in Fiscal Year
68	Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27	2014-15

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Statement Number	Statement Name	Adoption Required in Fiscal Year
71	Pension Transition for Contribution Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.	2014-15

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

I. Deferred Inflows of resources

The Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63).

In the GFFS, deferred inflows arise when one of the following situations occur:

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (reported as *"earned but unavailable revenue"* in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2014 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as *"unearned revenue"* in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred inflows is removed and revenue is recognized.

Deferred inflows at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as *"unearned revenue"* in the accompanying statement of net position). No *"earned but*

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

unavailable revenue" is accounted for in the accompanying statement of net position.

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$26.0 million differences are as follows:

Bonds payable	\$ 18,134,216
Accrued interest	2,298,911
Compensated absences	1,710,086
Treasury Department	825,811
Note payable	627,067
General Services Administration	532,304
AAA	483,006
ASES	442,388
Labor Department	347,001
Christmas bonus	250,000
Retirement System	245,457
CRIM	64,987
Claims and judgments	<u>39,083</u>
Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	<u>\$ 26,000,317</u>

4. 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).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The deposits at GDB of \$1,343,899 those are restricted principally for capital projects, and the \$1,996,357 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 one bank 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.

5. PROPERTY TAXES

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

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

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.25%	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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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.

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 \$759,770. This amount will be repaid through advances from property taxes (refer to Note 14).

The Municipality has received the preliminary settlement from CRIM related to fiscal year 2013-2014. The amount collected from taxpayers and charges by CRIM of approximately \$7.6 million. The advances received by the Municipality for the same period by \$7.7 million exceeds the amount collected. Such amount is presented as

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

intergovernmental payable in the government-wide statement for \$64,987. (See Note 3)

6. 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, 2014. 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 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 inflows of resources in the General Fund. The Municipality invoiced and collected in advance during the current year \$582,605, corresponding to the next fiscal year municipal license.

7. 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Municipal Revenues Collection Center (CRIM)	\$ 322,096
Other governmental funds	<u>45,948</u>
Total	<u><u>\$ 368,044</u></u>

9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds

The due from and due to other fund balances as of June 30, 2014, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Services Fund	\$ 122,652
General	SBGP Fund	92,184
General	Other Governmental Funds	48,900
Other Governmental Funds	General	771,591
Other Governmental Funds	Other Governmental Funds	<u>103,804</u>
		<u><u>\$ 1,139,131</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

b. Interfund Transfers

Interfund transfers for the year ended June 30, 2014 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Services	\$ 123,268
Debt Services	General	<u>1,826,118</u>
		<u>\$ 1,949,386</u>

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

10. CAPITAL ASSETS

Capital asset activity for the Municipality for the year ended June 30, 2014 was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 5,751,697	\$ -	\$ -	\$ 5,751,697
Construction in progress	6,868,505	475,186	177,428	7,166,263
Total capital assets, not being depreciated	<u>12,620,202</u>	<u>475,186</u>	<u>177,428</u>	<u>12,917,960</u>
Capital assets, being depreciated:				
Buildings and building improvements	27,760,395	177,428		27,937,823
Furniture and fixture	284,293			284,293
Vehicles and equipment	6,979,652	758,841		7,738,493
Infrastructure	11,373,941	47,458		11,421,399
Total capital assets, being depreciated	<u>46,398,281</u>	<u>983,727</u>	<u>-</u>	<u>47,382,008</u>
Less accumulated depreciation for:				
Buildings and building improvements	5,416,315	597,922		6,014,237
Furniture and fixture	283,351	942		284,293
Vehicles and equipment	6,571,361	281,976		6,853,337
Infrastructure	3,077,013	676,276		3,753,289
Total accumulated depreciation	<u>15,348,040</u>	<u>1,557,116</u>	<u>-</u>	<u>16,905,156</u>
Total capital assets, being depreciated, net	<u>31,050,241</u>	<u>(573,389)</u>	<u>-</u>	<u>30,476,852</u>
Governmental activities capital assets, net	<u>\$ 43,670,443</u>	<u>\$ (98,203)</u>	<u>\$ 177,428</u>	<u>\$ 43,394,812</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2014 are as follows:

Puerto Rico General Services Administration	\$ 339,045
Puerto Rico Water and Sewer Authority	118,552
Retirement System	107,093
Treasury Department	90,551
AEELA	11,155
	<hr/>
Total	<u>\$ 666,396</u>

12. DEFERRED INFLOWS OF RESOURCES

Unearned Revenues From Municipal License Taxes

The deferred inflows of resources of \$582,605 in the general fund are related to municipal license taxes collected in fiscal year 2013-2014 that will be earned in fiscal year 2014-2015.

13. INTERGOVERNMENTAL REVENUES

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

14. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2014 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%.	\$ 410,000
\$2,125,000 series of 2003, payable in annual installments of \$35,000 to \$165,000 until January 1, 2027, interest at 6.5%.	1,495,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

\$2,485,000 series of 2003, payable in annual installments of \$30,000 to \$190,000 until July 1, 2027, interest at 6.55%.	\$ 1,760,000
\$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%.	1,654,216
\$2,305,000 series of 2003, payable in annual installments of \$40,000 to \$180,000 until July 1, 2022, interest at 6.5%.	1,625,000
\$505,000 series of 2004, payable in annual installments of \$10,000 to \$40,000 until July 1, 2029, interest at 6%.	385,000
\$890,000 series of 2006, payable in annual installments of \$50,000 to \$105,000 until July 1, 2018, interest at to 7%.	380,000
\$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%.	100,000
\$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%.	890,000
\$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%.	2,430,000
\$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%.	655,000
\$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%.	655,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

\$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%.	\$ 255,000
\$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%.	390,000
\$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%.	755,000
\$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%.	3,640,000
\$665,000 series of 2012, payable in annual installments of \$5,000 to \$145,000 until July 1, 2025, interest from 6.0% to 7.5%.	<u>655,000</u>
Total bonds payable	<u>\$ 18,134,216</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%.	\$ 627,067
General Services Administration – payable in monthly installments of \$24,903 until June 2016.	532,304
Retirement System – payable in monthly installment of \$16,364 until September 2015.	245,457

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Treasury Department - payable in monthly installments of \$24,903 until June 2016.	\$ 825,811
Labor Department - payable in monthly installments of \$9,639 until July 2017.	347,001
AAA – payable in monthly installments of \$16,655 until November 2016.	483,006
Due to ASES	<u>442,388</u>
Total other long-term debts	<u>\$ 3,503,034</u>

The annual debt service requirements for the bonds payable and note payable at June 30, 2014 are as follows:

	<i>Bonds</i>		<i>Notes Payable</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,169,804	\$ 1,057,422	\$ 19,752	\$ 38,586
2016	1,239,804	1,040,291	20,993	37,258
2017	1,209,804	978,136	22,312	35,939
2018	1,284,804	909,942	23,713	34,537
2019	820,000	835,094	25,203	33,047
2020-2024	4,925,000	3,458,743	135,027	139,395
2025-2029	4,435,000	1,888,320	205,949	85,303
2030-2034	2,620,000	685,200	174,118	17,464
2035-2039	430,000	32,076		
	<u>\$18,134,216</u>	<u>\$ 10,885,224</u>	<u>\$ 627,067</u>	<u>\$ 421,529</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Long-term liabilities activity for the year ended June 30, 2014 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	\$ 19,294,020	\$ -	\$ 1,159,804	\$ 18,134,216	\$ 1,169,804
Notes payable	646,175		19,108	627,067	19,752
Total long-term debt	<u>19,940,195</u>	<u>-</u>	<u>1,178,912</u>	<u>18,761,283</u>	<u>1,189,556</u>
Other long-term liabilities:					
AAA	-	687,033	204,027	483,006	199,864
General Services Administration	764,827		232,523	532,304	228,537
Labor Department	117,386	264,746	35,131	347,001	115,666
Retirement System	699,944		454,487	245,457	245,457
Treasury Department	318,315	507,496		825,811	597,677
CRIM	-	64,987		64,987	-
ASES	707,707		265,319	442,388	-
Claims and judgments	117,250		78,167	39,083	39,083
Compensated absences	1,817,415		107,329	1,710,086	125,000
Total other liabilities	<u>4,542,844</u>	<u>1,524,262</u>	<u>1,376,983</u>	<u>4,690,123</u>	<u>1,551,284</u>
Total noncurrent liabilities	<u>\$ 24,483,039</u>	<u>\$ 1,524,262</u>	<u>\$ 2,555,895</u>	<u>\$ 23,451,406</u>	<u>\$ 2,740,840</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

15. FUND BALANCE

As of June 30, 2014, fund balances are comprised of the following:

	<u>General</u>	<u>SBGP</u>	<u>Debt Service</u>	<u>Loans</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted:						
Debt service	\$ -	\$ -	\$ 809,204	\$ -	\$ -	\$ 809,204
General government					95	95
Public safety						-
Health and welfare					41,646	41,646
Capital outlays		77,217			661,183	738,400
Committed:						
Capital outlays				1,124,940	338,754	1,463,694
Assigned:						
General government	39,159					39,159
Public safety	4,073					4,073
Public works	43,750					43,750
Culture	9,667					9,667
Health and welfare	8,021					8,021
Unassigned	<u>(1,608,122)</u>				-	<u>(1,608,122)</u>
Total	<u>\$ (1,503,452)</u>	<u>\$ 77,217</u>	<u>\$ 809,204</u>	<u>\$ 1,124,940</u>	<u>\$ 1,041,678</u>	<u>\$ 1,549,587</u>

16. FUND BALANCE DEFICIT

The following fund had a deficit in fund balance at June 30, 2014:

<u>Fund</u>	<u>Deficit</u>
General Fund	<u>\$ 1,503,452</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

17. NET POSITION

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

Capital assets, net of accumulated depreciation.	\$ 43,394,812
Outstanding balance on capital related debt	<u>(14,284,020)</u>
Total invested in capital assets, net of related debt	<u>\$ 29,110,792</u>

18. RETIREMENT PLAN

a. Plan Description

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

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 (12.275% 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 12.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2014 was \$466,768. The Municipality's payroll for employees covered by ERS was approximately \$3.8 million. The Municipality total payroll for all employees was approximately \$5.4 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2014, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014 was approximately \$34,927.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

21. CONTINGENCIES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

22. COMMITMENTS

The Municipality of Morovis had several planned construction projects as of June 30, 2014. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental Funds that amounted to approximately \$59,608.

23. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through December 29, 2014, the date the financial statements were available to be issued.

PART II – REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u> <u>Final Budget-</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note 1)</u>	
REVENUES				
Property taxes	\$ 227,172	\$ 378,968	\$ 454,302	\$ 75,334
Municipal license taxes	772,423	735,769	992,108	256,339
Sales and use taxes	783,000	737,130	740,086	2,956
Licenses and permits	463,334	347,996	349,936	1,940
Charges for services and rent	53,700	41,575	43,032	1,457
Intergovernmental revenues:				
State contributions	7,255,023	6,415,058	6,415,058	-
Interest, fines, and penalties	77,700	73,146	73,146	-
Other revenues	1,423,617	2,326,327	2,326,327	-
Total revenues	<u>11,055,969</u>	<u>11,055,969</u>	<u>11,393,995</u>	<u>338,026</u>
EXPENDITURES				
Current:				
General government	7,168,256	7,623,547	7,255,452	368,095
Public safety	966,304	782,943	763,031	19,912
Public works	2,087,789	1,807,730	1,712,426	95,304
Recreation	531,445	559,342	543,925	15,417
Health and welfare	302,175	282,407	275,521	6,886
Total expenditures	<u>11,055,969</u>	<u>11,055,969</u>	<u>10,550,355</u>	<u>505,614</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 843,640</u>	<u>\$ 843,640</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			\$ 11,393,995	
Differences - budget to GAAP:				
Net change in receivables				<u>(307,325)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 11,086,670</u>	
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule			\$ 10,550,355	
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				(431,676)
Net change in payables				(850,116)
Current year encumbrances recorded as expenditures for budgetary purposes				<u>104,670</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 9,373,233</u>	

See notes to Budgetary Comparison Schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
NOTE TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America, 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 certain appropriations within the budget known as Mayor's Executive Orders do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP 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. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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 be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2014 representing the original budget.

PART III - SINGLE AUDIT SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOROVIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<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	\$ 365,575
Pass-through Commissioner Office of Municipal Affairs - Community Development Block Grants/State's Neighborhood Stabilization Program (NSP1)	14.228	1,023,818
	14.228	<u>185,244</u>
Subtotal U.S. Department of HUD		<u><u>1,574,637</u></u>
U.S. Department of Agriculture		
Pass-through Governor's Office of Child Services and Child and Adult Care Food Program	10.558	73,659
Subtotal U.S. Department of Agriculture		<u><u>73,659</u></u>
U.S. Department of Homeland Security		
Pass-through Governor's Office Disaster Grants - Public Assistance	97.036	58,082
Subtotal U.S. Department of Homeland Security		<u><u>58,082</u></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	513,646
Subtotal U.S. Department of HHS		<u><u>513,646</u></u>
TOTAL		<u><u>\$ 2,220,024</u></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, 2014**

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>2,220,024</u>
Federal expenditures per basic financial statements included within:	
Federal expenditures included in other governmental funds	\$ 1,196,206
SBGP Program	<u>1,023,818</u>
Total	\$ <u>2,220,024</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, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated December 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

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

is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as item 14-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from 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* and which are described in the accompanying schedule of findings and questioned cost as 14-A.

Municipality of Morovis' Response to Findings

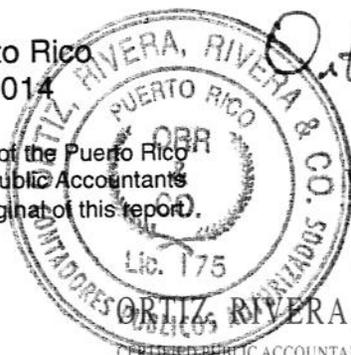
Municipality's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico
December 29, 2014

The stamp E135674 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for each Major Federal Program

We have audited Municipality of Morovis' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2014. Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Municipality's major federal programs based on our audit of the types of compliance requirements referred to above. 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality's compliance.

Opinion on Each Major Federal Program

In our opinion, the Municipality complied, in all material respects, with the types of 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, 2014.

Report on Internal Control over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant

deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

San Juan, Puerto Rico
December 29, 2014

The stamp E135675 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

