

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 2

U.S. ENVIRONMENTAL
PROTECTION AGENCY-REG.II
2012 MAR 23 P 2:18
REGIONAL HEARING
CLERK

IN THE MATTER OF MUNICIPALITY OF MOCA PO BOX 1571 MOCA, PUERTO RICO 00676 RESPONDENT IN A PROCEEDING UNDER SECTION 113 (a) OF THE CLEAN AIR ACT. 42 USC & 7413 (a)	COMPLAINT AND NOTICE OF OPPORTUNITY TO REQUEST A HEARING INDEX NO. CAA-02-2011-1216
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RESPONDENT'S ADDITIONAL ATTACHMENT FOR THE INITIAL PRELIMINARY EXCHANGE

In compliance with the Order of Hon. Susan L. Biro Chief Administrative Law Judge, in the Preliminary Scheduling Order dated January 11, 2012, the Respondent in this case hereby submits its Initial Pre-Hearing Exchange.

1. Enclosed is the financial information of the Municipality of Moca, that reflects its economical situation for the past 5 years. This documents is in support to our affirmative defenses and ability to paid defense.

I certify that today I sent the original of this document to Ms. Karen Maples, Regional Hearing Clerk, Region II, US Environmental Protection Agency, 290 Broadway Ave., 16 Floor, New York, NY 10007-1866 and Certified Mail, Return Request to Ms. Carolina Jordan-Garcia, Assistance Regional Counsel, US Environmental Protection Agency-Region 2, City View Plaza II – Suite 7000, #48 Road 165 Km 1.2, Guaynabo, Puerto Rico 00968-8069., and Copy to Hon. Lisa Buschmann, Administrative Law Judge, Office of Administrative Law Judges, US Environmental Protection Agency, Ariel Rios Building, 1200 Pennsylvania Ave., Washington DC 20460.

Respectfully submitted today March 21, 2012. In Ponce, Puerto Rico.

A handwritten signature in black ink, appearing to read "Alberto L. Ramos Perez". The signature is fluid and cursive, with the first name "Alberto" being the most prominent.

Alberto L. Ramos Perez

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA**

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

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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Public Accountants
Management Consulting
Services Division

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Moca Housing Project, as of June 30, 2007. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Moca Housing Project, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Based on our audit and the report of other auditors, 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 Moca as of June 30, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the General and Debt

Service Funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2007 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

San Juan, Puerto Rico
November 16, 2007

Ortiz, Rivera, Rivera & Co.

The stamp 2286454 was affixed
to the original of this report.



Estado Libre Asociado De Puerto Rico
MUNICIPIO DE MOCA
Moca, Puerto Rico

MUNICIPALITY OF MOCA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Municipality of Moca (the "Municipality") provides this Management's Discussion and Analysis of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

USING THIS ANNUAL REPORT

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

FINANCIAL HIGHLIGHTS

- *The Municipality net assets increased by \$ 3,189,894.*
- *In the fund financial statements, general fund balances increased by \$ 1,061,476.*
- *Capital projects funds increased by \$ 975,155.*
- *Capital expenditures amounted to \$ 1,558,003.*

GOVERNMENT-WIDE-FINANCIAL STATEMENT

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2007 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2007. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

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.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$ 15,688,785 at June 30, 2007.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

Municipality of Moca Condensed Statement of Net Assets June 30, 2006 and 2005

	<u>2007</u>	<u>2006</u>
Current assets	\$ 7,112,030	\$ 4,676,078
Capital assets	19,262,906	18,743,786
Total assets	<u>26,374,936</u>	<u>23,419,864</u>
Current liabilities	3,010,777	2,969,670
Noncurrent liabilities	7,675,374	7,893,060
Total liabilities	<u>10,686,151</u>	<u>10,862,730</u>
Invested in capital assets, net of related debt	15,702,906	15,653,786
Restricted	564,350	1,399,472
Unrestricted	(578,471)	(4,496,124)
Total net assets	<u>\$ 15,688,785</u>	<u>\$ 12,557,134</u>

Changes in Net Assets

The Municipality's net assets increased by \$3,189,894. Approximately 42 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 24 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works.

Municipality of Moca
Condensed Statement of Activities
June 30, 2006 and 2005

	<u>2007</u>	<u>2006</u>
Program revenues		
Charges for services	\$ 3,148,228	\$ 2,051,651
Licenses and Permits	-	-
Operating grants and contributions	1,729,700	1,487,738
Capital grants and contributions	-	371,545
General revenues		
Property taxes	3,041,091	2,692,651
Municipal license tax	926,255	776,071
Grants and contributions not restricted to specific programs	7,830,676	5,702,217
Interest, fines and penalties	201,185	81,655
Miscellaneous	1,225,540	1,035,144
Gain on sale of land	-	-
	<u>18,102,675</u>	<u>14,198,672</u>
Expenses		
General government	6,648,823	6,538,161
Public safety	922,047	837,223
Public works	5,478,408	4,678,383
Culture	157,258	157,253
Recreation	695,266	873,044
Health and welfare	889,868	1,015,375
Interest on long-term debt	121,111	449,275
	<u>14,912,781</u>	<u>14,548,714</u>
Change in net assets	3,189,894	(350,042)
Net assets, beginning of year	<u>12,498,891</u>	<u>12,907,176</u>
Net assets, end of year	<u>\$ 15,688,785</u>	<u>\$ 12,557,134</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 \$ 5,076,077, an increase of \$ 2,273,891 in comparison with the prior year. There are reservations of fund balance. 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 (\$ 2,201,505) and 2) to pay debt service (\$ 564,350).

The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2007, the general fund has a superavit of \$ 2,404,596. The superavit increased by \$ 1,061,476 during fiscal year ended June 30, 2007.

Notes to the Financial Statements

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required Supplementary Information

The statements are followed by the required supplementary information that contains the budgetary comparison schedule for the General and Debt Service Funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2007, amounts to \$30.6 million, net of accumulated depreciation of \$14.0 million, leaving a net book value of \$19.3 million. This investment in capital assets includes land, buildings, improvements, equipment construction in progress.

The total net increase in the Municipality's investment in capital assets for the current fiscal year was about 3% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$1.0 million for the year. Depreciation charges for the year totaled \$0.9 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2007 the Municipality has \$1.2 million of unexpended proceeds from bond issuances that are committed to future construction activities.

Long-Term Debt

At year-end, the Municipality had \$ 8,382,217 in general and special bonds and notes and other long term debts. Such amount represents an increase of 7 percent with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2007 and 2006:

Outstanding Long Term Debt June 30, 2007 and 2006

	Governmental Activities	
	2007	2006
General and special obligations	\$ 4,284,001	\$ 4,124,457
Other long term debts:		
ASES	228,311	379,375
Landfill obligation	2,067,918	2,067,918
CRIM - LIMS	149,949	178,231
Compensated absences	1,652,038	1,725,625
Total	<u>\$8,382,217</u>	<u>\$8,475,606</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2007-2008 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates.

The Municipality applied a conservative approach in the development of budget estimates for the 2007-2008 fiscal year. The Municipality estimates that the amounts available for appropriations in the General Fund for the fiscal year 2008 will be \$11.6, a increase of approximately 1 % with respect to prior year final budget. The decrease in budgeted estimate for fiscal year 2007 is due in part to an unexpected increase in revenue during the prior fiscal year which has not been projected for the current fiscal 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 on the second floor of the Town Hall, Moca, Puerto Rico 00676.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF NET ASSETS
JUNE 30, 2007**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Moca Housing Project</u>
Cash (Notes 2 and 5)	\$ 5,444,480	\$ 119,845
Cash with fiscal agent (Notes 2 and 5)	1,187,593	
Accounts receivable:		
Landfill	172,144	
Rent		1,044
Due from other agencies (Note 8)	295,355	
Other assets		13,936
Restricted funds	12,458	176,230
Capital assets, net (Note 10)	19,262,906	805,739
	<hr/>	<hr/>
Total assets	<u>\$ 26,374,936</u>	<u>\$ 1,116,794</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued liabilities	\$ 643,942	\$ 35,769
Due to other agencies (Note 11)	185,806	
General obligations:		
Bonds	205,000	
Interest	112,720	
Deferred revenues:		
Municipal license tax (Note 12)	814,756	
Federal government (Note 12)	73,729	
Noncurrent liabilities: (Note 14)		
Due within one year	706,843	62,129
Due in more than one year	7,675,374	914,112
Accrued interest	267,981	
Total liabilities	<hr/> <u>10,686,151</u>	<hr/> <u>1,012,010</u>
 Net Assets		
Investment in capital assets, net of related debt	15,702,906	
Restricted for:		
Debt service	564,350	
Unrestricted	(578,471)	104,784
Total net assets	<hr/> <u>15,688,785</u>	<hr/> <u>104,784</u>
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 26,374,936</u>	<u>\$ 1,116,794</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Primary Governmental Activities	Component Unit Moca Housing Project
Primary Government:					
General government	\$ 6,648,823	\$ 2,543,134	\$ -	\$ (4,105,689)	\$ -
Public safety	922,047			(922,047)	
Public works	5,476,408		1,431,681	(4,046,727)	
Culture	157,258			(157,258)	
Recreation	695,266			(695,266)	
Health and welfare	889,868		298,019	(591,849)	
Interest on long-term debt	121,111			(121,111)	
Total primary government	<u>\$ 14,912,781</u>	<u>\$ 2,543,134</u>	<u>\$ 1,729,700</u>	<u>\$ (10,639,947)</u>	<u>-</u>
Component Unit:					
Moca Housing Project	374,530	442,766			68,236
Total component unit	<u>\$ 374,530</u>	<u>\$ 442,766</u>	<u>\$ -</u>	<u>-</u>	<u>68,236</u>
General revenues:					
Property taxes				3,041,091	
Municipal license tax				926,255	
Sales and uses tax				605,094	
Grants and contributions not restricted to specific programs				7,830,676	
Interest and investment earnings				201,185	
Miscellaneous				1,225,540	
Total general revenues				<u>13,829,841</u>	<u>-</u>
Change in net assets				3,189,894	68,236
Net assets at beginning of year				12,498,891	36,548
Net assets at end of year				<u>\$ 15,688,785</u>	<u>\$ 104,784</u>

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Community Oriented Policing Services (COPS) Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 2,394,687	\$ 340,278	\$ -	\$ 401,469	\$ 1,437,674	\$ 4,574,108
Cash with fiscal agent (Notes 2 and 5)			870,372		1,187,593	2,057,965
Cash restricted		12,458				12,458
Accounts receivable:						
Landfill	172,144					172,144
Due from agencies (Note 8)	79,233	164,424	11,698		40,000	295,355
Due from other funds (Note 9)	862,986				2,387	865,373
Total assets	\$ 3,509,050	\$ 517,160	\$ 882,070	\$ 401,469	\$ 2,667,654	\$ 7,977,403

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Community Oriented Policing Services (COPS) Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities						
Accounts payable and accrued liabilities	\$ 116,039	\$ 6,525	\$ -	\$ -	\$ 521,378	\$ 643,942
Due to other agencies (Note 11)	171,272	14,534				185,806
Due to other funds (Note 9)	2,387	314,930		401,469	146,587	865,373
General obligations:						
Bonds			205,000			205,000
Interest			112,720			112,720
Deferred revenues (Note 12):						
Municipal license tax	814,756					814,756
Federal government		73,729				73,729
Total liabilities	<u>1,104,454</u>	<u>409,718</u>	<u>317,720</u>	<u>401,469</u>	<u>667,965</u>	<u>2,901,326</u>
Fund Balances						
Reserved for:						
Encumbrances	201,816					201,816
Debt service			564,350			564,350
Unreserved fund balance	2,202,780	107,442			1,999,689	4,309,911
Total fund balance	<u>2,404,596</u>	<u>107,442</u>	<u>564,350</u>	<u>-</u>	<u>1,999,689</u>	<u>5,076,077</u>
Total liabilities and fund balance	<u>\$ 3,509,050</u>	<u>\$ 517,160</u>	<u>\$ 882,070</u>	<u>\$ 401,469</u>	<u>\$ 2,667,654</u>	<u>\$ 7,977,403</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total fund balances - governmental funds	\$ 5,076,077
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	19,262,906
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note #)	<u>(8,650,198)</u>
Net assets of governmental activities	<u>\$ 15,688,785</u>

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

MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	Housing and Urban Development Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$ 2,186,367	\$ -	\$ 854,724	\$ -	\$ 3,041,091
Municipal license taxes (Note 7)	926,255				926,255
Sales and uses tax				605,094	605,094
Licenses and permits	284,769				284,769
Charges for service and rents	2,258,365				2,258,365
Intergovernmental revenues (Note 13):					
Federal grants and contributions		1,680,734		48,966	1,729,700
State contributions	5,833,247			1,997,429	7,830,676
Interest, fines, and penalties	181,630		18,228	1,327	201,185
Other revenues	1,293,483	15,656		6,196	1,225,540
Total revenues	<u>12,874,121</u>	<u>1,696,590</u>	<u>872,952</u>	<u>2,659,012</u>	<u>18,102,675</u>
EXPENDITURES					
General government	6,393,677				6,393,677
Public safety	718,633			159,544	878,177
Public works	3,143,950	622,630		1,098,385	5,164,965
Culture	149,613				149,613
Recreation	864,686				864,686
Health and welfare	466,695	248,602			715,297
Capital outlays		497,714		1,060,289	1,558,003
Debt service:					
Principal retirement			654,802		654,802
Interest and other			286,564		286,564
Total expenditures	<u>11,535,254</u>	<u>1,668,946</u>	<u>941,366</u>	<u>2,318,218</u>	<u>16,463,784</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,338,867</u>	<u>27,644</u>	<u>(68,414)</u>	<u>340,794</u>	<u>1,638,891</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds				635,000	635,000
Transfers in	22,166		299,557		321,723
Transfers out	(299,557)		(21,527)	(639)	(321,723)
Total other financing sources (uses)	<u>(277,391)</u>	<u>-</u>	<u>278,030</u>	<u>634,361</u>	<u>635,000</u>
Excess of revenues and other financing sources over expenditures and other uses	1,061,476	27,644	209,616	975,155	2,273,891
FUND BALANCE AT BEGINNING OF YEAR	<u>1,343,120</u>	<u>79,798</u>	<u>354,734</u>	<u>1,024,534</u>	<u>2,802,186</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,404,596</u>	<u>\$ 107,442</u>	<u>\$ 564,350</u>	<u>\$ 1,999,689</u>	<u>\$ 5,076,077</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$2,273,891

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. 1,558,003
- 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. (900,842)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (635,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 654,802
- Change in accrued interest expense which does not require the use of current financial resources. 165,453
- Some expenditures reported in the governmental funds do not require the use of current financial resources; therefore, are not reported as expense in statement of activities:
 - Accrued vacations and bonus 73,587

Changes in net assets of governmental activities \$3,189,894

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

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

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 2,078,209	\$ 2,243,399	\$ 2,243,399	\$ -	\$ 490,116	\$ 490,116	\$ 854,724	\$ 364,608
Municipal license taxes	850,000	850,000	936,749	66,749				
Licenses and permits	202,000	202,000	284,769	82,769				
Charges for service and rents	2,026,000	2,026,000	2,121,585	95,585				
Intergovernmental revenues:								
State contributions	5,598,447	5,786,532	5,833,247	46,715				
Interest, fines, and penalties	25,000	25,000	203,798	178,798			18,228	18,228
Other revenues	105,000	105,000	135,575	30,575				
Total revenues	<u>10,884,656</u>	<u>11,237,931</u>	<u>11,759,120</u>	<u>521,189</u>	<u>490,116</u>	<u>490,116</u>	<u>872,952</u>	<u>382,836</u>
EXPENDITURES								
General government	5,838,313	6,500,909	6,247,393	253,516				
Public safety	751,098	766,193	741,893	24,303				
Public works	3,040,339	3,285,316	3,025,444	259,872				
Culture	154,483	153,483	149,569	3,914				
Health and welfare	466,694	466,694	466,694	-				
Recreation	633,729	690,336	681,762	8,574				
Debt service:								
Principal				-	300,970	300,970	654,802	(353,832)
Interest				-	189,146	189,146	286,564	(97,418)
Total expenditures	<u>10,884,656</u>	<u>11,862,931</u>	<u>11,312,752</u>	<u>550,179</u>	<u>490,116</u>	<u>490,116</u>	<u>941,366</u>	<u>(451,250)</u>
OTHER FINANCING SOURCES								
Reprogramming funds		625,000		(625,000)				
Total other financing sources	<u>-</u>	<u>625,000</u>	<u>-</u>	<u>(625,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of expenditures over (under) revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 446,368</u>	<u>\$ 446,368</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (68,414)</u>	<u>\$ (68,414)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. ORGANIZATION

The Municipality of Moca, Puerto Rico (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture, and recreation as well as many other general and administrative services.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

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

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

The Moca Housing Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Moca Housing Project is an 80-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

b. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

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

2) Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

3) Debt Service Fund

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

4) Community Oriented Policing Services (COPS) Program

This fund is used to account for the resources used for the payments of payroll of police officers, equipment, training, and technical assistance and innovative community policy strategies and help develop on infrastructure that will sustain community policing.

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

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

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

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

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

d. Cash and Cash with Fiscal Agent

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

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

e. Interfund Receivables and Payables

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

f. Capital Assets

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

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date

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

donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	30-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

g. Reservation of Fund Balance

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

1) Encumbrances

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

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

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

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

Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2007 amounted to approximately \$274,634. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$259,829 for workers' compensation insurance covering all municipal employees.

i. Compensated Absences

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

j. Use of Estimates

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

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

k. Future Adoption of Accounting Pronouncements

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

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

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

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

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

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

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2007 representing the original budget.

b. Budget/GAAP Reconciliation

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

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

over expenditures and other financing uses for the year ended June 30, 2007 is presented below for the general and debt service funds:

	<u>General</u>	<u>Debt Service</u>
Excess (deficiency) of revenues over (under) expenditures - budgetary basis	\$ 446,368	(\$ 68,414)
Entity differences:		
Non-budgeted expenditures	(495,506)	
Non-budgeted transfers in	22,166	299,557
Non-budgeted transfers out	(299,557)	
Non-budgeted revenues	1,324,524	(21,527)
Reprogramming funds	(625,000)	
Timing differences:		
Current year encumbrances recorded as expenditures for budgetary basis	201,816	
Basis of accounting differences - net changes in receivables	<u>486,665</u>	<u> </u>
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	(<u>\$1,061,476</u>)	<u>\$209,616</u>

c. Legal Compliance

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

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in

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

the current period and therefore are not reported in the funds. The details of the approximately \$8.7 million difference are as follows:

Bonds payable	\$3,560,000
Landfill obligation	2,067,918
Compensated absences	1,652,038
Note payable	724,001
ASES	228,311
Accrued interest	267,981
CRIM - LIMS	<u>149,949</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$8,650,198</u>

5. DEPOSITS - CUSTODIAL CREDIT RISK

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

The deposits at GDB of approximately \$1,194,491 that are restricted principally for capital projects and general fund, and the \$870,372 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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

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

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

6. PROPERTY TAXES

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

The rates are 8.58% for real property and 6.58% 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	1.75%	1.75%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>8.58%</u>	<u>6.58%</u>

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

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

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

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the

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

Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after a year end. 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.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2006-07, but not the final settlement as the six months period after a fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2007, the amount collected from taxpayers and charges by CRIM of approximately \$5.8 million, less than the advances received by the Municipality for the same period by \$5.9 million. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements for \$79,233. Refer to Note 8.

COMMONWEALTH OF PUERTO RICO
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7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2007. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Moca, 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 Moca, are as follows:

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

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$814,756, corresponding to the next fiscal year municipal license.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Homeland Security Grant Program	\$ 40,000
Municipal Revenues Collection Center (CAE)	11,698
HUD - SBGP	164,424
Municipal Revenues Collection Center (Preliminary Liquidation)	<u>79,233</u>
	<u>\$295,355</u>

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9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental	\$146,587
General	Cops	401,469
General	HUD	314,930
Other Governmental	General	<u>2,387</u>
		<u>\$865,373</u>

b. Interfund Transfers:

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$299,557
General Fund	Debt Service	21,527
General Fund	Other Governmental	<u>639</u>
		<u>\$321,723</u>

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

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FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

10. CAPITAL ASSETS

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

<u>Primary Government</u>	<u>Balance June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,175,456	\$ 400,000	\$ -	\$ 2,575,456
Construction in progress		97,714		97,714
Total capital assets, not being depreciated	<u>2,175,456</u>	<u>497,714</u>	<u>-</u>	<u>2,673,170</u>
Capital assets, being depreciated:				
Buildings and building improvements	16,310,941			16,310,941
Furniture and fixture	784,529	112,381		896,910
Vehicles and equipment	6,229,524	315,347		6,544,871
Infrastructure	6,244,914	632,561		6,877,475
Total capital assets, being depreciated	<u>29,569,908</u>	<u>1,060,289</u>	<u>-</u>	<u>30,630,197</u>
Less accumulated depreciation for:				
Buildings and building improvements	3,185,866	372,234		3,558,100
Furniture and fixture	506,177	41,474		547,651
Vehicles and equipment	3,899,672	350,788		4,250,460
Infrastructure	5,547,904	136,346		5,684,250
Total accumulated depreciation	<u>13,139,619</u>	<u>900,842</u>	<u>-</u>	<u>14,040,461</u>
Total capital assets, being depreciated, net	<u>16,430,289</u>	<u>159,447</u>	<u>-</u>	<u>16,589,736</u>
Governmental activities capital assets, net	<u>\$ 18,605,745</u>	<u>\$ 657,161</u>	<u>\$ -</u>	<u>\$ 19,262,906</u>

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Capital asset activity for Moca Housing Project, a discretely presented component unit, for the year ended June 30, 2007 was as follows:

<u>Component Unit-Moca Housing Project</u>	<u>Balance June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital assets, not being depreciated:				
Land	\$ 60,900	\$ -	\$ -	\$ 60,900
Total capital assets, not being depreciated	<u>60,900</u>	<u>-</u>	<u>-</u>	<u>60,900</u>
Capital assets, being depreciated:				
Land improvements	68,916			68,916
Buildings and building improvements	2,110,388			2,110,388
Building equipment	330,020			330,020
Furniture and fixtures	41,210	4,207		45,417
Equipment	14,284			14,284
Total capital assets, being depreciated	<u>2,564,818</u>	<u>4,207</u>	<u>-</u>	<u>2,569,025</u>
Less accumulated depreciation	<u>1,766,353</u>	<u>57,833</u>		<u>1,824,186</u>
Total accumulated depreciation	<u>1,766,353</u>	<u>57,833</u>	<u>-</u>	<u>1,824,186</u>
Total capital assets, being depreciated, net	<u>798,465</u>	<u>(53,626)</u>	<u>-</u>	<u>744,839</u>
Moca Housing Project capital assets, net	<u>\$ 859,365</u>	<u>\$ (53,626)</u>	<u>\$ -</u>	<u>\$ 805,739</u>

11. DUE TO OTHER AGENCIES

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

Puerto Rico Retirement System Administration	\$ 79,623
Puerto Rico Electric Power Authority	59,945
Puerto Rico Water and Sewer Authority	23,246
U. S. Department of Housing and Urban Development	14,534
Puerto Rico Department of Labor	7,428
Puerto Rico General Services Administration	<u>1,030</u>
Total	<u>\$185,806</u>

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12. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$814,756 in the general fund related to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. The balance of \$73,729 in the HUD Program is related to the Section 8 Existing Program.

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.

The general fund intergovernmental revenues are as follows:

Puerto Rico Electric Power Authority	\$1,514,172
Puerto Rico Treasury Department (Christmas Bonus)	178,648
Equalization Fund (.20 hundredth)	<u>4,140,427</u>
Total	<u>\$5,833,247</u>

**COMMONWEALTH OF PUERTO RICO
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14. LONG-TERM DEBTS

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

Bonds

\$2,780,000 series of 1995, payable in annual installments of \$40,000 to \$270,000 until July 1, 2017, interest ranging from 4.7% to 6.63%.	\$1,890,000
\$430,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	390,000
\$455,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	415,000
\$265,000 series of 2006, payable in annual installments of \$5,000 to \$25,000 until July 1, 2030, interest ranging from 6.25% to 7.25%.	255,000
\$635,000 series of 2007, payable in annual installments of \$25,000 to \$65,000 until July 1, 2021, interest ranging from 6.60% to 7.25%.	<u>610,000</u>
Total bonds payable	<u>3,560,000</u>

Notes

\$1,000,000 series of 2001, payable in annual installments of \$181,000 to \$220,000 until July 1, 2008, interest at 4.875%.	220,000
\$385,000 series of 2006, payable in annual installments of \$45,000 to \$65,000 until July 1, 2012; interest ranging from 4.23% to 5.33%.	290,000

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Note payable to CRIM (Financing of delinquent accounts)
- On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$260,193 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non revolving line of credit bearing interest of 6.5% for the first five years and variable for the next 25 years at 125 points over London Interbank offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years will be financed through .48% of the net increase of the subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for 25 years period.

\$ 214,001

Total notes payable

724,001

Other Long-term Liabilities

Note payable to CRIM (LIMS) - On June 27, 2001, the Municipality entered into a financing agreement with the CRIM in the amount of \$286,847 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$38,472, including interest of 5.95% and is due on

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November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). \$ 149,949

Due to Puerto Rico Health Insurance Administration

Due to the Puerto Rico Health Insurance Administration represents the municipal contribution related to the Health Care Reform corresponding to the period from December 1, 1995 through June 30, 1997. This balance of \$228,311 will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System. \$ 228,310

Total long-term liabilities \$ 4,682,063

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

	<i>Bonds</i>		<i>Note Payable</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 175,000	\$ 230,870	\$ 278,561	\$ 37,111
2009	190,000	217,336	63,560	23,733
2010	205,000	205,428	68,560	20,793
2011	225,000	192,428	68,560	17,560
2012	245,000	178,223	73,560	14,255
2013-2017	1,570,000	625,873	42,800	47,919
2018-2022	510,000	229,619	42,800	34,608
2023-2027	375,000	93,970	42,800	21,297
2028-2030	65,000	9,450	42,800	7,987
	<u>\$ 3,560,000</u>	<u>\$ 1,983,197</u>	<u>\$ 724,001</u>	<u>\$ 225,263</u>

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Component Unit

The mortgage payable by the discretely component unit is owed by Moca Housing Project and consists of an 8% mortgage note, payable in monthly installments of \$12,193, including interest, until 2017, collateralized with land and building.

The principal maturities of the mortgage in each of the next five years and thereafter are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$ 62,129
2009	67,874
2010	74,150
2011	81,007
2012	88,498
Thereafter	<u>602,583</u>
	<u>\$976,241</u>

Landfill Obligations

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$2.0 million as the Municipality's estimated current cost for landfill closure as of June 30, 2007. The reported liability represents the total estimated cost of closure since the Municipality expects to close the landfill in the year 2011. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and postclosure costs of \$2.0 million are reported in the statement of net assets because it will not be funded with available expendable financial resources at June 30, 2007.

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Long-term liability activity for the year ended June 30, 2007 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	\$ 3,090,000	\$ 635,000	\$ 165,000	\$ 3,560,000	\$ 175,000
Notes payable	1,034,457		310,456	724,001	278,561
Total long-term debt	<u>4,124,457</u>	<u>635,000</u>	<u>475,456</u>	<u>4,284,001</u>	<u>453,561</u>
Other long-term liabilities:					
ASES	379,375		151,064	228,311	150,000
Landfill obligation	2,067,918			2,067,918	
CRIM - LIMS	178,231		28,282	149,949	28,282
Compensated absences	1,725,625		73,587	1,652,038	75,000
Total other liabilities, governmental activities	<u>4,351,149</u>	<u>-</u>	<u>252,933</u>	<u>4,098,216</u>	<u>253,282</u>
Total noncurrent liabilities, governmental activities	<u>\$ 8,475,606</u>	<u>\$ 635,000</u>	<u>\$ 728,389</u>	<u>\$ 8,382,217</u>	<u>\$ 706,843</u>
Component Unit:					
Moca Housing Project mortgage payable	<u>\$ 1,033,206</u>	<u>\$ -</u>	<u>\$ 56,965</u>	<u>\$ 976,241</u>	<u>\$ 62,129</u>

15. RETIREMENT PLAN

a. Plan Description

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

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

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

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

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

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

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

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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 up 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 a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2007 was approximately \$384,000. The Municipality's payroll for employees covered by ERS was approximately \$4.1 million. The Municipality total payroll for all employees was approximately \$5.8 million.

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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16. RISK MANAGEMENT

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

17. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2007 was approximately \$17,000.
- 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.

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18. LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality adopted the provisions of Statement No. 18, Accounting for Municipal solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws and regulations to incur closure and postclosure care costs.

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. The Municipality has determined that the present value of total estimated closing costs and post closing care costs amount to \$2,000,000. (See Note 14).

19. CONTINGENCIES

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

20. COMMITMENTS

The Municipality of Moca had several outstanding or planned construction projects as of June 30, 2007. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$656,540.

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

21. RESTATEMENTS

The beginning fund balances of Housing and Urban Development Programs and the beginning net assets of the Statement of Net Assets has been restated to correct and underestimates of revenues by \$79,798. Additionally the beginning net assets has been restated to correct an understatement of depreciation by \$835,051 and the inclusion of infrastructure assets as required by GASB 34.

	<u>HUD Programs</u>	<u>Statement of Net Assets</u>
Beginning balance of the year as previously reported	\$ -	\$ 12,557,134
Understatement of revenues	79,798	79,798
Inclusion of infrastructure assets as required by GASB 34		697,010
Understatement of depreciation		(835,051)
Beginning balance of the year as restated	\$ 79,798	\$ 12,498,891

22. SUBSEQUENT EVENT

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

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

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

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct Program:		
Section 8 Vouchers Program	14.871	\$ 248,602
Pass-through State -Commonwealth of Puerto Rico/Commissions Office of Municipal Affairs - Community Development Block Grant - States Program:		
SBGP	14.228	<u>1,420,344</u>
Subtotal U.S. Department of HUD		<u>1,668,946</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through the Puerto Rico Elderly Commission: Special Programs for Aging, Title III, Part B Nutrition Services	93.575	<u>6,199</u>
Subtotal U.S. Department of HHS		<u>6,199</u>
U.S. Department of Homeland Security		
Homeiand Security Grant Program	96.067	<u>40,000</u>
Subtotal U.S. Department of Homeland Security		<u>40,000</u>
TOTAL		<u>\$ 1,715,145</u>

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

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Moca and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Expenditures as per basic financial statements:	
Housing and Urban Development Programs	\$1,668,946
General Fund	6,199
Other Governmental Funds	<u>40,000</u>
	<u>\$1,715,145</u>
 Total expenditures per schedule of expenditures of federal awards	 <u>\$1,715,145</u>



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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 Moca
Moca, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca as of and for the year ended June 30, 2007, which collectively comprise the Municipality of Moca's basic financial statements, and have issued our report thereon dated November 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Moca's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance, which we have reported to management of Municipality of Moca in a separate letter dated November 16, 2007.

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

San Juan, Puerto Rico
November 16, 2007

Ortiz, Rivera, Rivera & Co.

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

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

Compliance

We have audited the compliance of Municipality of Moca with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Municipality of Moca's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Moca's management. Our responsibility is to express an opinion on Municipality of Moca's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Moca's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Moca's compliance with those requirements.

In our opinion, Municipality of Moca complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

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

San Juan, Puerto Rico
November 16, 2007

Ortiz, Rivera, Rivera & Co.

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

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Moca.
- b. There were no significant deficiencies on internal control.
- c. No instances of noncompliance material to the financial statements of Municipality of Moca were disclosed during the audit.
- d. There were significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Municipality of Moca express an unqualified opinion.
- f. The auditor did not find any condition that requires disclosure as per Section 510 of OMB Circular 1-133.
- g. The programs tested as major programs included:
 - SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Moca was determined to be a low-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p>C o m m u n i t y Development Block Grants/ States Program, CFDA No. 14.228</p>	<p>Condition 06-01</p> <p>The Municipality has not established the appropriate system of internal control to ensure the timely and accurate reconciliation of the accounting records maintained by program accountants with those maintained at the Municipality.</p>	<p>Condition partially corrected.</p>
<p>C o m m u n i t y Development Block Grants/ States Program, CFDA No. 14.228</p>	<p>Condition 05-01</p> <p>The Municipality central Accounting Department has no established the necessary procedures for the reconciliation of the transactions recorded in the program's accounting records with those recorded in the Municipality's central Accounting Department.</p>	<p>Condition partially corrected.</p>
<p>Section 6 Voucher Program, CFDA No. 14.871</p>		

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Moca Housing Project, as of June 30, 2008. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Moca Housing Project, is based on the report of the other auditors.

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

Based on our audit and the report of other auditors, 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 Moca as of June 30, 2008, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2008 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

San Juan, Puerto Rico
December 5, 2008

Ortiz, Rivera, Rivera & Co.

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Moca, Puerto Rico

MUNICIPALITY OF MOCA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Municipality of Moca (the "Municipality") provides this Management's Discussion and Analysis of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

USING THIS ANNUAL REPORT

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

FINANCIAL HIGHLIGHTS

- *The Municipality net assets increased by \$ 496,701*
- *In the fund financial statements, general fund balances decreased by \$395,886.*
- *Capital expenditures amounted to \$ 3,562,519.*

GOVERNMENT-WIDE-FINANCIAL STATEMENT

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2008 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2008. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

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.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$ 16,185,486 at June 30, 2008.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

Municipality of Moca Condensed Statement of Net Assets June 30, 2008 and 2007

	2008	2007
Current assets	\$ 7,278,024	\$ 7,112,030
Capital assets	21,711,334	19,262,906
Total assets	<u>28,989,358</u>	<u>26,374,936</u>
Current liabilities	3,743,628	3,010,777
Noncurrent liabilities	9,060,244	7,675,374
Total liabilities	<u>12,803,872</u>	<u>10,686,151</u>
Invested in capital assets, net of related debt	17,916,334	15,702,906
Restricted	576,908	564,350
Unrestricted	<u>(2,307,756)</u>	<u>(578,471)</u>
Total net assets	<u>\$ 16,185,486</u>	<u>\$ 15,688,785</u>

Changes in Net Assets

The Municipality's net assets increased by \$496,701. Approximately 39 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 25 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works.

Municipality of Moca
Condensed Statement of Activities
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Program revenues		
Charges for services	\$ 4,047,423	\$ 3,148,228
Licenses and Permits		-
Operating grants and contributions	1,362,933	1,729,700
Capital grants and contributions		-
General revenues		
Property taxes	3,493,075	3,041,091
Municipal license tax	1,022,739	926,255
Grants and contributions not restricted to specific programs	7,054,361	7,830,676
Interest, fines and penalties	239,335	201,185
Miscellaneous	973,902	1,225,540
	<u>18,193,768</u>	<u>18,102,675</u>
Expenses		
General government	8,092,642	6,648,823
Public safety	983,296	922,047
Public works	5,706,083	5,478,408
Culture	341,582	157,258
Recreation	1,270,811	695,266
Health and welfare	739,200	889,868
Interest on long-term debt	563,453	121,111
	<u>17,697,067</u>	<u>14,912,781</u>
Change in net assets	496,701	3,189,894
Net assets, beginning of year	<u>15,688,785</u>	<u>12,498,891</u>
Net assets, end of year	<u>\$ 16,185,486</u>	<u>\$ 15,688,785</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 \$ 4,532,408, a decrease of \$ 543,669 in comparison with the prior year. There are reservations of fund balance. 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 (\$ 1,639,606) and 2) to pay debt service (\$ 576,908).

The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2008, the general fund has a superavit of \$2,008,710. The superavit decreased by \$ 395,886 during fiscal year ended June 30, 2008.

Notes to the Financial Statements

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required Supplementary Information

The statements are followed by the required supplementary information that contains the budgetary comparison schedule for the General and Debt Service Funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2008, amounts to \$34.2 million, net of accumulated depreciation of \$15.0 million, leaving a net book value of \$19 million. This investment in capital assets includes land, buildings, improvements, equipment construction in progress.

The total net increase in the Municipality's investment in capital assets for the current fiscal year was about 11% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$3.5 million for the year. Depreciation charges for the year totaled \$1.1 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2008 the Municipality has \$1.1 million of unexpended proceeds from bond issuances that are committed to future construction activities.

Long-Term Debt

At year-end, the Municipality had \$ 9,525,606 in general and special bonds and notes and other long term debts. Such amount represents an increase of 14 percent with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2008 and 2007:

**Outstanding Long Term Debt
June 30, 2008 and 2007**

	Governmental Activities	
	2008	2007
General and special obligations	\$ 4,980,442	\$ 4,284,001
Other long term debts:		
ASES	-	228,311
Landfill obligation	2,475,000	2,067,918
CRIM - LIMS	119,960	149,949
Compensated absences	1,950,204	1,652,038
Total	<u>\$9,525,606</u>	<u>\$8,382,217</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2008-2009 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates.

The Municipality applied a conservative approach in the development of budget estimates for the 2008-2009 fiscal year. The Municipality estimates that the amounts available for appropriations in the General Fund for the fiscal year 2008 will be \$13.3, an increase of approximately 15% with respect to prior year final budget.

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 on the second floor of the Town Hall, Moca, Puerto Rico 00676.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF NET ASSETS
JUNE 30, 2008**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Moca Housing Project</u>
Cash (Notes 2 and 5)	\$ 3,827,898	\$ 72,383
Cash with fiscal agent (Notes 2 and 5)	2,298,364	
Accounts receivable:		
Landfill	214,179	
Due from other agencies (Note 9)	920,503	
Other assets		14,742
Restricted funds	17,080	195,859
Capital assets, net (Note 11)	<u>21,711,334</u>	<u>767,853</u>
 Total assets	 <u>\$ 28,989,358</u>	 <u>\$ 1,050,837</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued liabilities	\$ 1,211,903	\$ 26,948
Due to other agencies (Note 12)	261,999	
General obligations:		
Bonds	315,000	
Interest	129,013	
Deferred revenues:		
Municipal license tax (Note 13)	753,972	
Federal government (Note 13)	73,729	
Noncurrent liabilities: (Note 15)		
Due within one year	465,360	67,874
Due in more than one year	9,060,244	846,058
Accrued interest	532,652	
Total liabilities	<u>12,803,872</u>	<u>940,880</u>
Net Assets		
Investment in capital assets, net of related debt	17,916,334	
Restricted for:		
Debt service	576,908	
Unrestricted	<u>(2,307,756)</u>	<u>109,957</u>
Total net assets	<u>16,185,486</u>	<u>109,957</u>
 Total liabilities and net assets	 <u>\$ 28,989,358</u>	 <u>\$ 1,050,837</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Component Unit Moca Housing Project</u>
Primary Government:					
General government	\$ 8,092,642	\$ 2,889,271	\$ -	\$ (5,203,371)	\$ -
Public safety	983,296			(983,296)	
Public works	5,706,083		1,093,414	(4,612,669)	
Culture	341,582			(341,582)	
Recreation	1,270,811			(1,270,811)	
Health and welfare	739,200		269,519	(469,681)	
Interest on long-term debt	563,453			(563,453)	
Total primary government	<u>\$ 17,697,067</u>	<u>\$ 2,889,271</u>	<u>\$ 1,362,933</u>	<u>\$ (13,444,863)</u>	<u>-</u>
Component Unit:					
Moca Housing Project	439,472	444,645			5,173
Total component unit	<u>\$ 439,472</u>	<u>\$ 444,645</u>	<u>\$ -</u>	<u>-</u>	<u>5,173</u>
General revenues:					
Property taxes (Note 6)				3,493,075	
Municipal license tax (Note 7)				1,022,739	
Sales and uses tax (Note 8)				1,158,152	
Grants and contributions not restricted to specific programs				7,054,361	
Interest and investment earnings				239,335	
Miscellaneous				973,902	
Total general revenues				<u>13,941,564</u>	<u>-</u>
Change in net assets				496,701	5,173
Net assets at beginning of year				<u>15,688,785</u>	<u>104,784</u>
Net assets at end of year				<u>\$ 16,185,486</u>	<u>\$ 109,957</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2008

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Community Oriented Policing Services (COPS) Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 1,608,850	\$ 266,023	\$ -	\$ 401,469	\$ 1,551,556	\$ 3,827,898
Cash with fiscal agent (Notes 2 and 5)			1,011,348		1,287,016	2,298,364
Cash restricted		17,080				17,080
Accounts receivable:						
Landfill	214,179					214,179
Due from agencies (Note 9)	629,779	281,151	9,573			920,503
Due from other funds (Note 10)	878,169					878,169
Total assets	\$ 3,330,977	\$ 564,254	\$ 1,020,921	\$ 401,469	\$ 2,838,572	\$ 8,156,193

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2008**

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Community Oriented Policing Services (COPS) Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities						
Accounts payable and accrued liabilities	\$ 325,452	\$ 383,954	\$ -	\$ -	\$ 502,497	\$ 1,211,903
Due to other agencies (Note 12)	242,843	19,156				261,999
Due to other funds (Note 10)		255,655		401,469	221,045	878,169
General obligations:						
Bonds			315,000			315,000
Interest			129,013			129,013
Deferred revenues (Note 13):						
Municipal license tax	753,972					753,972
Federal government		73,729				73,729
Total liabilities	<u>1,322,267</u>	<u>732,494</u>	<u>444,013</u>	<u>401,469</u>	<u>723,542</u>	<u>3,623,785</u>
Fund Balances (Deficit)						
Reserved for:						
Encumbrances	369,104					369,104
Debt service			576,908			576,908
Unreserved fund balance (Deficit)	1,639,606	(168,240)			2,115,030	3,586,396
Total fund balance (Deficit)	<u>2,008,710</u>	<u>(168,240)</u>	<u>576,908</u>	<u>-</u>	<u>2,115,030</u>	<u>4,532,408</u>
Total liabilities and fund balance (Deficit)	<u>\$ 3,330,977</u>	<u>\$ 564,254</u>	<u>\$ 1,020,921</u>	<u>\$ 401,469</u>	<u>\$ 2,838,572</u>	<u>\$ 8,156,193</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total fund balances - governmental funds \$ 4,532,408

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 21,711,334

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (10,058,256)

Net assets of governmental activities \$ 16,185,486

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General	Housing and Urban Development Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$ 2,927,576	\$ -	\$ 565,499	\$ -	\$ 3,493,075
Municipal license taxes (Note 7)	1,022,739				1,022,739
Sales and uses tax (Note 8)			239,461	918,691	1,158,152
Licenses and permits	749,975				749,975
Charges for service and rents	2,139,296				2,139,296
Intergovernmental revenues (Note 14):					
Federal grants and contributions		1,348,933		14,000	1,362,933
State contributions	5,484,448			1,569,913	7,054,361
Interest, fines, and penalties	165,148		22,850	51,337	239,335
Other revenues	946,857	8,274		18,771	973,902
Total revenues	<u>13,436,039</u>	<u>1,357,207</u>	<u>827,810</u>	<u>2,572,712</u>	<u>18,193,768</u>
EXPENDITURES					
General government	7,495,046			113,750	7,608,796
Public safety	783,615			14,000	797,615
Public works	3,061,746	1,379,485		1,079,166	5,520,397
Culture	155,901				155,901
Recreation	678,048				678,048
Health and welfare	300,115	253,404			553,519
Capital outlays	1,069,073			2,493,446	3,562,519
Debt service:					
Principal retirement			811,860		811,860
Interest and other			298,782		298,782
Total expenditures	<u>13,543,544</u>	<u>1,632,889</u>	<u>1,110,642</u>	<u>3,700,362</u>	<u>19,987,437</u>
Deficiency of revenues over expenditures	<u>(107,505)</u>	<u>(275,682)</u>	<u>(282,832)</u>	<u>(1,127,650)</u>	<u>(1,793,669)</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds				1,250,000	1,250,000
Transfers in	37,341		325,722		363,063
Transfers out	<u>(325,722)</u>		<u>(30,332)</u>	<u>(7,009)</u>	<u>(363,063)</u>
Total other financing sources (uses)	<u>(288,381)</u>	<u>-</u>	<u>295,390</u>	<u>1,242,991</u>	<u>1,250,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>(395,886)</u>	<u>(275,682)</u>	<u>12,558</u>	<u>115,341</u>	<u>(543,669)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>2,404,596</u>	<u>107,442</u>	<u>564,350</u>	<u>1,999,689</u>	<u>5,076,077</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ 2,008,710</u>	<u>\$ (168,240)</u>	<u>\$ 576,908</u>	<u>\$ 2,115,030</u>	<u>\$ 4,532,408</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
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, 2008**

Net change in fund balances - total governmental funds \$ (543,669)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 3,562,519
- 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. (1,114,091)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (1,250,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 811,860
- Change in accrued interest expense which does not require the use of current financial resources. (264,671)
- 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: (705,247)

Changes in net assets of governmental activities \$ 496,701

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund				Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 2,236,311	\$ 2,236,311	\$ 2,377,030	\$ 140,719	\$ 660,931	\$ 660,931	\$ 565,499	\$ (95,432)
Municipal license taxes	910,000	910,000	961,956	51,956				
Licenses and permits	232,500	232,500	749,975	517,475				
Sales and use taxes							239,461	239,461
Charges for service and rents	1,944,500	1,944,500	2,097,260	152,760				
Intergovernmental revenues:								
State contributions	6,056,536	6,056,536	5,484,448	(572,088)				
Interest, fines, and penalties	70,000	70,000	195,480	125,480			22,850	22,850
Other revenues	175,000	175,000	192,096	17,096				
Total revenues	<u>11,624,847</u>	<u>11,624,847</u>	<u>12,058,245</u>	<u>433,398</u>	<u>660,931</u>	<u>660,931</u>	<u>827,810</u>	<u>166,879</u>
EXPENDITURES								
General government	6,907,846	7,851,899	7,488,268	363,631				
Public safety	812,110	800,243	788,839	11,404				
Public works	2,809,932	3,294,635	3,133,044	161,591				
Culture	157,050	719,271	699,525	19,746				
Health and welfare	272,311	160,490	155,901	4,589				
Recreation	665,598	337,781	323,561	14,220				
Debt service:								
Principal				-	435,946	435,946	811,860	(375,914)
Interest				-	224,985	224,985	298,782	(73,797)
Total expenditures	<u>11,624,847</u>	<u>13,164,319</u>	<u>12,589,138</u>	<u>575,181</u>	<u>660,931</u>	<u>660,931</u>	<u>1,110,642</u>	<u>(449,711)</u>
OTHER FINANCING SOURCES								
Reprogramming funds		1,539,472	1,539,472	-				
Total other financing sources	<u>-</u>	<u>1,539,472</u>	<u>1,539,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of expenditures over (under) revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,008,579</u>	<u>\$ 1,008,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (282,832)</u>	<u>\$ (282,832)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. ORGANIZATION

The Municipality of Moca, Puerto Rico (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture, and recreation as well as many other general and administrative services.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government. 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 Moca Housing Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Moca Housing Project is an 80-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

b. Government-Wide and Fund Financial Statements

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

The Municipality reports the following major governmental funds:

- 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.

- Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

- 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.

- Community Oriented Policing Services (COPS) Program

This fund is used to account for the resources used for the payments of payroll of police officers, equipment, training, and technical assistance and innovative community policy strategies and help develop on infrastructure that will sustain community policing.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

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

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

d. Cash and Cash with Fiscal Agent

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

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

e. Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

f. Capital Assets

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

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	30-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

g. Reservation of Fund Balance

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

- Encumbrances

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

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FOR THE FISCAL YEAR ENDED JUNE 30, 2008

- Debt Service

Represents net assets available to finance future debt service payments.

- Capital Projects Fund

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

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, 2008 amounted to approximately \$258,874. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$174,301 for workers' compensation insurance covering all municipal employees.

i. Compensated Absences

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

**COMMONWEALTH OF PUERTO RICO
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j. Use of Estimates

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

k. Future Adoption of Accounting Pronouncements

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
51	Accounting and Financial Reporting for Intangible Assets	2009-10
52	Land and Other Real Estate Held as Investments by Endocuments	2008-09
53	Accounting and Financial Reporting for Derivative Instruments	2009-10

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

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3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

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

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

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2008 representing the original budget.

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b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2008 is presented below for the general and debt service funds:

	<u>General</u>	<u>Debt Service</u>
Excess (deficiency) of revenues over (under) expenditures - budgetary basis	\$1,008,579	(\$282,832)
Entity differences:		
Non-budgeted expenditures	(899,581)	
Non-budgeted transfers in	37,341	325,722
Non-budgeted transfers out	(325,722)	(30,332)
Non-budgeted revenues	953,865	
Reprogramming funds	(1,539,472)	
Timing differences:		
Current year encumbrances recorded as expenditures for budgetary basis	<u>369,104</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	(\$ <u>395,886</u>)	\$ <u>12,558</u>

c. Legal Compliance

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

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4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$10 million difference are as follows:

Bonds payable	\$ 3,795,000
Landfill obligation	2,475,000
Compensated absences	1,950,203
Note payable	1,185,441
Accrued interest	532,652
CRIM - LIMS	<u>119,960</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$10,058,256</u>

5. DEPOSITS - CUSTODIAL CREDIT RISK

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

The deposits at GDB of approximately \$1,287,017 that are restricted principally for capital projects and general fund, and the \$1,011,348 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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

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

6. PROPERTY TAXES

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

The rates are 8.58% for real property and 6.58% 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	1.75%	1.75%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>8.58%</u>	<u>6.58%</u>

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

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

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

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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 a year end. 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.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2007-08, but not the final settlement as the six months period after a fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, for the year ended June 30, 2008, the amount received by CRIM, less than the amount collected from taxpayers and charges by CRIM received by the Municipality for the same period by approximately \$630,000 of which \$313,000 corresponds to the year ended June 30, 2008, \$317,000 corresponding to the municipal subsidy from the months of October 2007 through March 2008. Such amount is presented as due from other

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FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

governmental agencies in the general fund in the basic financial statements. (See Note 9).

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2008. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Moca, 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 Moca, are as follows:

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

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$753,972, corresponding to the next fiscal year municipal license.

8. SALES AND USE TAXES

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

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special

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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.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Municipal Revenues Collection Center (CAE)	\$ 9,573
HUD - SBGP	281,151
Municipal Revenues Collection Center (Preliminary Liquidation)	<u>629,779</u>
	<u>\$920,503</u>

10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2008, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental	\$221,045
General	Cops	401,469
General	HUD	<u>255,655</u>
		<u>\$878,169</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2008 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$325,722
General Fund	Debt Service	30,332
General Fund	Other Governmental	<u>7,009</u>
		<u>\$363,063</u>

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

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FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

11. CAPITAL ASSETS

Capital asset activity for the Municipality for the year ended June 30, 2008 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,575,456		\$ -	\$ 2,575,456
Construction in progress	97,714			97,714
Total capital assets, not being depreciated	<u>2,673,170</u>	<u>-</u>	<u>-</u>	<u>2,673,170</u>
Capital assets, being depreciated:				
Buildings and building improvements	16,310,941	1,507,657		17,818,598
Furniture and fixture	896,910	8,272		905,182
Vehicles and equipment	6,544,871	977,517		7,522,388
Infrastructure	6,877,475	1,069,073		7,946,548
Total capital assets, being depreciated	<u>30,630,197</u>	<u>3,562,519</u>	<u>-</u>	<u>34,192,716</u>
Less accumulated depreciation for:				
Buildings and building improvements	3,558,100	406,156		3,964,256
Furniture and fixture	547,651	37,502		585,153
Vehicles and equipment	4,250,460	514,844		4,765,304
Infrastructure	5,684,250	155,589		5,839,839
Total accumulated depreciation	<u>14,040,461</u>	<u>1,114,091</u>	<u>-</u>	<u>15,154,552</u>
Total capital assets, being depreciated, net	<u>16,589,736</u>	<u>2,448,428</u>	<u>-</u>	<u>19,038,164</u>
Governmental activities capital assets, net	<u>\$ 19,262,906</u>	<u>\$ 2,448,428</u>	<u>\$ -</u>	<u>\$ 21,711,334</u>

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Capital asset activity for Moca Housing Project, a discretely presented component unit, for the year ended June 30, 2008 was as follows:

<u>Component Unit-Moca Housing Project</u>	<u>Balance June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 60,900	\$ -	\$ -	\$ 60,900
Total capital assets, not being depreciated	<u>60,900</u>	<u>-</u>	<u>-</u>	<u>60,900</u>
Capital assets, being depreciated:				
Land improvements	68,916			68,916
Buildings and building improvements	2,110,388			2,110,388
Building equipment	330,020	21,636		351,656
Furniture and fixtures	45,417			45,417
Equipment	14,284			14,284
Total capital assets, being depreciated	<u>2,569,025</u>	<u>21,636</u>	<u>-</u>	<u>2,590,661</u>
Less accumulated depreciation	<u>1,824,186</u>	<u>59,522</u>		<u>1,883,708</u>
Total accumulated depreciation	<u>1,824,186</u>	<u>59,522</u>	<u>-</u>	<u>1,883,708</u>
Total capital assets, being depreciated, net	<u>744,839</u>	<u>(37,886)</u>	<u>-</u>	<u>706,953</u>
Moca Housing Project capital assets, net	<u>\$ 805,739</u>	<u>\$(37,886)</u>	<u>\$ -</u>	<u>\$ 767,853</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2008 are as follows:

Puerto Rico Retirement System Administration	\$ 81,488
Puerto Rico Electric Power Authority	59,945
Puerto Rico Water and Sewer Authority	59,981
Internal Revenue Service	33,782
Treasury Department	7,202
Puerto Rico General Services Administration	445
U. S. Department of Housing and Urban Development	<u>19,156</u>
Total	<u>\$ 261,999</u>

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13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$753,972 in the general fund related to municipal license tax collected in fiscal year 2007-08 that will be earned in fiscal year 2008-09.

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. The balance of \$73,729 in the HUD Program is related to the Section 8 Existing Program.

14. INTERGOVERNMENTAL REVENUES

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

The general fund intergovernmental revenues are as follows:

Puerto Rico Electric Power Authority	\$1,578,061
Puerto Rico Treasury Department (Christmas Bonus)	192,484
Equalization Fund (.20 hundredth)	<u>3,713,903</u>
Total	<u>\$5,484,448</u>

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15. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2008 are as follows:

Bonds

\$2,780,000 series of 1995, payable in annual installments of \$40,000 to \$270,000 until July 1, 2017, interest ranging from 4.7% to 6.63%.	\$1,765,000
\$430,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	380,000
\$455,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	405,000
\$265,000 series of 2006, payable in annual installments of \$5,000 to \$25,000 until July 1, 2030, interest ranging from 6.25% to 7.25%.	250,000
\$635,000 series of 2007, payable in annual installments of \$25,000 to \$65,000 until July 1, 2021, interest ranging from 6.60% to 7.25%.	585,000
\$415,000 series of 2008, payable in annual installments of \$5,000 to \$35,000 until July 1, 2032, interest from 6.48% to 7.50%.	<u>410,000</u>
Total bonds payable	<u>3,795,000</u>

Notes

\$835,000 series of 2008, payable in annual installments of \$95,000 to \$150,000 until July 1, 2008, interest ranging from 6.48% to 7.50%.	740,000
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\$385,000 series of 2006, payable in annual installments of \$45,000 to \$65,000 until July 1, 2012; interest ranging from 4.23% to 5.33%. \$ 240,000

Note payable to CRIM (Financing of delinquent accounts) - On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$260,193 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non revolving line of credit bearing interest of 6.5% for the first five years and variable for the next 25 years at 125 points over London Interbank offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years will be financed through .48% of the net increase of the subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for 25 years period. 205,441

Total notes payable 1,185,441

Other Long-term Liabilities

Note payable to CRIM (LIMS) - On June 27, 2001, the Municipality entered into a financing agreement with the CRIM in the amount of \$286,847 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$38,472, including interest of 5.95% and is due on

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November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). \$ 119,960

Total long-term liabilities \$ 5,100,401

The annual debt service requirements for the bonds payable and note payable at June 30, 2008, are as follows:

	<u>Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 195,000	\$ 235,852	\$ 163,560	\$ 296,800
2010	210,000	235,802	178,560	296,048
2011	235,000	222,427	188,560	273,891
2012	255,000	207,472	198,560	249,404
2013	275,000	191,248	143,560	223,271
2014-2018	1,465,000	654,430	192,800	710,937
2019-2023	550,000	303,801	42,800	335,747
2024-2028	440,000	143,824	42,800	162,462
2029-2033	170,000	28,900	34,241	34,224
	<u>\$3,795,000</u>	<u>\$2,223,756</u>	<u>\$1,185,441</u>	<u>\$2,582,784</u>

Component Unit

The mortgage payable by the discretely component unit is owed by Moca Housing Project and consists of an 8% mortgage note, payable in monthly installments of \$12,193, including interest, until 2017, collateralized with land and building.

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The principal maturities of the mortgage in each of the next five years and thereafter are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2009	\$ 67,874
2010	74,150
2011	81,007
2012	88,498
2013	104,359
Thereafter	<u>498,044</u>
	<u>\$913,932</u>

Landfill Obligations

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$2.5 million as the Municipality's estimated current cost for landfill closure as of June 30, 2008. The reported liability represents the total estimated cost of closure since the Municipality expects to close the landfill in the year 2011. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and postclosure costs of \$2.5 million are reported in the statement of net assets because it will not be funded with available expendable financial resources at June 30, 2008.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Long-term liability activity for the year ended June 30, 2008 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	\$ 3,560,000	\$ 415,000	\$ 180,000	\$ 3,795,000	\$ 195,000
Notes payable	724,001	835,000	373,560	1,185,441	163,560
Total long-term debt	<u>4,284,001</u>	<u>1,250,000</u>	<u>553,560</u>	<u>4,980,441</u>	<u>358,560</u>
Other long-term liabilities:					
ASES	228,311		228,311	-	
Landfill obligation	2,067,918	407,082		2,475,000	31,800
CRIM - LIMS	149,949		29,989	119,960	
Compensated absences	1,652,038	298,165		1,950,203	75,000
Total other liabilities, governmental activities	<u>4,098,216</u>	<u>705,247</u>	<u>258,300</u>	<u>4,545,163</u>	<u>106,800</u>
Total noncurrent liabilities, governmental activities	<u>\$ 8,382,217</u>	<u>\$ 1,955,247</u>	<u>\$ 811,860</u>	<u>\$ 9,525,604</u>	<u>\$ 465,360</u>
Component Unit:					
Moca Housing Project mortgage payable	<u>\$ 976,241</u>	<u>\$ -</u>	<u>\$ 62,309</u>	<u>\$ 913,932</u>	<u>\$ 67,874</u>

16. RETIREMENT PLAN

a. Plan Description

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2008 was approximately \$401,000. The Municipality's payroll for employees covered by ERS was approximately \$4.3 million. The Municipality total payroll for all employees was approximately \$6.4 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2008, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

17. RISK MANAGEMENT

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

18. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2008 was approximately \$13,500.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

19. LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality adopted the provisions of Statement No. 18, Accounting for Municipal solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws and regulations to incur closure and postclosure care costs.

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. The Municipality has determined that the present value of total estimated closing costs and post closing care costs amount to \$2,475,000. (See Note 15).

20. 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.

21. COMMITMENTS

The Municipality of Moca had several outstanding or planned construction projects as of June 30, 2008. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental that amounted to approximately \$656,540.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<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)		
Direct Program:		
Section 8 Vouchers Program	14.871	\$ 253,404
Pass-through State -Commonwealth of Puerto Rico/Commissions Office of Municipal Affairs - Community Development Block Grant - States Program		
SBGP	14.228	<u>1,379,485</u>
Subtotal U.S. Department of HUD		<u>1,632,889</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through the Puerto Rico Elderly Commission:		
Special Programs fro the Aging - Title III, Part B		
Nutrition Services		<u>51,043</u>
Subtotal U.S. Department of HHS		<u>51,043</u>
U.S. Department of Justice		
Pass-through Department of Justice of Puerto Rico		
Edward Byrne Justice Assistance Grant		<u>14,000</u>
Subtotal U.S. Department of Justice		<u>14,000</u>
TOTAL		<u>\$ 1,697,932</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Moca and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Expenditures as per basic financial statements:	
Housing and Urban Development Programs	\$1,632,889
Federal expenditures included in other governmental funds	<u>65,043</u>
	<u>\$1,697,932</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$1,697,932</u>



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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 Moca
Moca, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Moca's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance which we have reported to management of the Municipality of Moca in a separate letter dated December 5, 2008.

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

San Juan, Puerto Rico
December 5, 2008

Ortiz, Rivera, Rivera & Co.

The stamp 2363606 was affixed to the original of this report.





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

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

Compliance

We have audited the compliance of Municipality of Moca with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Municipality of Moca's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Moca's management. Our responsibility is to express an opinion on Municipality of Moca's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Moca's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Moca's compliance with those requirements.

In our opinion, the Municipality of Moca complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as questioned costs as item 08-1.

Internal Control over Compliance

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

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

San Juan, Puerto Rico
December 5, 2008

Ortiz, Rivera, Rivera & Co.

The stamp 2363607 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Moca.
- b. There were no significant deficiencies on internal control.
- c. No instances of noncompliance material to the financial statements of Municipality of Moca were disclosed during the audit.
- d. There were no significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Municipality of Moca express an unqualified opinion.
- f. Audit findings relative to the major federal award programs for the Municipality of Moca are reported in number 3 of this schedule.
- g. The programs tested as major programs included:
 - SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Moca was determined to be a low-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

a. SBGP - CFDA No. 14.228

● **Condition 08-1**

The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the construction projects selected for testing, we noted that the contracts do not have the prevailing wage rate clause updated. In addition, none of the contracts selected have the certified payrolls.

Criteria

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

Cause

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

Effect

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Recommendation

The Municipality should require to the construction contractors to make interviews to laborers to assure that wages paid are not less than those established by the DOL.

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p>Community Development Block Grants/ States Program, CFDA No. 14.228</p>	<p>Condition 06-01</p> <p>The Municipality has not established the appropriate system of internal control to ensure the timely and accurate reconciliation of the accounting records maintained by program accountants with those maintained at the Municipality.</p>	<p>Condition partially corrected.</p>

CORRECTIVE ACTION PLAN

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

ORTIZ, RIVERA, RIVERA & CO.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Moca Housing Project, as of June 30, 2009. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Moca Housing Project, is based on the report of the other auditors.

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

Based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the Municipality of Moca as of June 30, 2009, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2009 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

San Juan, Puerto Rico
November 24, 2009

Ortiz, Rivera, Rivera & Co.

The stamp 2459309 was affixed
to the original of this report.



Estado Libre Asociado De Puerto Rico
MUNICIPIO DE MOCA
Moca, Puerto Rico

**MUNICIPALITY OF MOCA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the Municipality of Moca (the "Municipality") provides this Management's Discussion and Analysis of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

USING THIS ANNUAL REPORT

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

FINANCIAL HIGHLIGHTS

- *The Municipality net assets increased by \$ 69,062.*
- *In the fund financial statements, general fund balances decreased by \$1,880,454.*
- *Capital expenditures amounted to \$ 1,968,312.*

GOVERNMENT-WIDE-FINANCIAL STATEMENT

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2009 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2009. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

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.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$ 16,254,548 at June 30, 2009.

Municipality of Moca Condensed Statement of Net Assets June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Current assets	\$ 7,643,513	\$ 7,278,024
Capital assets	22,398,030	21,711,334
Total assets	<u>30,041,543</u>	<u>28,989,358</u>
Current liabilities	3,522,814	3,743,628
Noncurrent liabilities	10,264,181	9,060,244
Total liabilities	<u>13,786,995</u>	<u>12,803,872</u>
Invested in capital assets, net of related debt	17,898,030	17,916,334
Restricted	3,233,023	576,908
Unrestricted	<u>(4,876,505)</u>	<u>(2,307,756)</u>
Total net assets	<u>\$ 16,254,548</u>	<u>\$ 16,185,486</u>

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

Changes in Net Assets

The Municipality's net assets increased by \$69,062. Approximately 52 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 19 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works.

Municipality of Moca
Condensed Statement of Activities
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Program revenues		
Charges for services	\$ 3,718,796	\$ 4,047,423
Licenses and Permits		
Operating grants and contributions	1,475,461	1,362,933
Capital grants and contributions		
General revenues		
Property taxes	2,682,964	3,493,075
Municipal license tax	842,879	1,022,739
Grants and contributions not restricted to specific programs	9,542,309	7,054,361
Interest, fines and penalties	86,603	239,335
Miscellaneous	163,697	973,902
	<u>18,512,709</u>	<u>18,193,768</u>
 Expenses		
General government	7,519,795	8,092,642
Public safety	1,081,455	983,296
Public works	7,987,430	5,706,083
Culture	216,840	341,582
Recreation	917,720	1,270,811
Health and welfare	526,731	739,200
Interest on long-term debt	193,676	563,453
	<u>18,443,647</u>	<u>17,697,067</u>
 Change in net assets	69,062	496,701
 Net assets, beginning of year	<u>16,185,486</u>	<u>15,688,785</u>
 Net assets, end of year	<u>\$ 16,254,548</u>	<u>\$ 16,185,486</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 \$ 5,084,524, an increase of \$ 552,116 in comparison with the prior year. There are reservations of fund balance. This is the fund balance that is not available for new spending because it has already been committed to pay debt service (\$ 669,937).

The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2009, the general fund has a superavit of \$128,256. The superavit decreased by \$1,880,454 during fiscal year ended June 30, 2009.

Notes to the Financial Statements

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required Supplementary Information

The statements are followed by the required supplementary information that contains the budgetary comparison schedule for the General and Debt Service Funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2009, amounts to \$36.2 million, net of accumulated depreciation of \$16.4 million, leaving a net book value of \$19.8 million. This investment in capital assets includes land, buildings, improvements, equipment construction in progress.

The total net increase in the Municipality's investment in capital assets for the current fiscal year was about 12% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$1.9 million for the year. Depreciation charges for the year totaled \$1.2 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2009 the Municipality

has \$964,288 of unexpended proceeds from bond issuances that are committed to future construction activities.

Long-Term Debt

At year-end, the Municipality had \$ 10,811,461 in general and special bonds and notes and other long term debts. Such amount represents an increase of 13 percent with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2009 and 2008:

**Municipality of Moca
Outstanding Long-term Debt
June 30, 2009 and 2008**

	2009	2008
General and special obligations	\$ 6,311,880	\$ 4,980,442
Other long term debts:		
Landfill obligation	2,475,000	2,475,000
CRIM-LIMS	88,159	119,960
Compensated absences	1,936,422	1,950,204
 Total	 \$ 10,811,461	 \$ 9,525,606

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2009-2010 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates.

The Municipality applied a conservative approach in the development of budget estimates for the 2009-2010 fiscal year. The Municipality estimates that the amounts available for appropriations in the General Fund for the fiscal year 2010 will be \$12.3, a decrease of approximately 3% with respect to prior year final budget.

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 on the second floor of the Town Hall, Moca, Puerto Rico 00676.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF NET ASSETS
JUNE 30, 2009**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Moca Housing Project</u>
Cash (Notes 2 and 5)	\$ 4,341,119	\$ 44,123
Cash with fiscal agent (Notes 2 and 5)	2,567,644	
Accounts receivable:		
Landfill	255,708	
Other	74,400	
Due from other agencies (Note 9)	361,150	
Other assets		15,677
Restricted funds	43,492	233,189
Capital assets, net (Note 11)	22,398,030	719,408
	<hr/>	<hr/>
Total assets	<u>\$ 30,041,543</u>	<u>\$ 1,012,397</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued liabilities	\$ 825,034	\$ 172,217
Due to other agencies (Note 12)	253,682	
General obligations:		
Bonds	455,000	
Interest	119,980	
Deferred revenues:		
Municipal license tax (Note 13)	831,564	
Federal government (Note 13)	73,729	
Noncurrent liabilities: (Note 15)		
Due within one year	547,280	74,150
Due in more than one year	10,264,181	771,628
Accrued interest	416,545	
Total liabilities	<hr/> 13,786,995	<hr/> 1,017,995
Net Assets		
Investment in capital assets, net of related debt	17,898,030	
Restricted for:		
Debt service	669,937	
Capital projects	2,563,086	
Unrestricted	(4,876,505)	(5,598)
Total net assets	<hr/> 16,254,548	<hr/> (5,598)
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 30,041,543</u>	<u>\$ 1,012,397</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF NET ASSETS
JUNE 30, 2009**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Moca Housing Project</u>
Cash (Notes 2 and 5)	\$ 4,341,119	\$ 44,123
Cash with fiscal agent (Notes 2 and 5)	2,567,644	
Accounts receivable:		
Landfill	255,708	
Other	74,400	
Due from other agencies (Note 9)	361,150	
Other assets		15,677
Restricted funds	43,492	233,189
Capital assets, net (Note 11)	22,398,030	719,408
	<u>\$ 30,041,543</u>	<u>\$ 1,012,397</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued liabilities	\$ 825,034	\$ 172,217
Due to other agencies (Note 12)	253,682	
General obligations:		
Bonds	455,000	
Interest	119,980	
Deferred revenues:		
Municipal license tax (Note 13)	831,564	
Federal government (Note 13)	73,729	
Noncurrent liabilities: (Note 15)		
Due within one year	547,280	74,150
Due in more than one year	10,264,181	771,628
Accrued interest	416,545	
Total liabilities	<u>13,786,995</u>	<u>1,017,995</u>
Net Assets		
Investment in capital assets, net of related debt	17,898,030	
Restricted for:		
Debt service	669,937	
Capital projects	2,563,086	
Unrestricted	(4,876,505)	(5,598)
Total net assets	<u>16,254,548</u>	<u>(5,598)</u>
Total liabilities and net assets	<u>\$ 30,041,543</u>	<u>\$ 1,012,397</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities	Component Unit Moca Housing Project
Primary Government:					
General government	\$ 7,519,795	\$ 2,200,218	\$ -	\$ (5,319,577)	\$ -
Public safety	1,081,455			(1,081,455)	
Public works	7,987,430		1,077,532	(6,909,898)	
Culture	216,840			(216,840)	
Recreation	917,720			(917,720)	
Health and welfare	526,731		397,929	(128,802)	
Interest on long-term debt	193,676			(193,676)	
Total primary government	<u>\$ 18,443,647</u>	<u>\$ 2,200,218</u>	<u>\$ 1,475,461</u>	<u>\$ (14,767,968)</u>	<u>-</u>
Component Unit:					
Moca Housing Project	582,944	467,389			(115,555)
Total component unit	<u>\$ 582,944</u>	<u>\$ 467,389</u>	<u>\$ -</u>	<u>-</u>	<u>(115,555)</u>
General revenues:					
Property taxes (Note 6)				2,682,964	
Municipal license tax (Note 7)				842,879	
Sales and uses tax (Note 8)				1,518,578	
Grants and contributions not restricted to specific programs				9,542,309	
Interest and investment earnings				86,603	
Miscellaneous				163,697	
Total general revenues				<u>14,837,030</u>	<u>-</u>
Change in net assets				69,062	(115,555)
Net assets at beginning of year				<u>16,185,486</u>	<u>109,957</u>
Net assets at end of year				<u>\$ 16,254,548</u>	<u>\$ (5,598)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2009**

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 556,914	\$ 238,749	\$ -	\$ 3,545,456	\$ 4,341,119
Cash with fiscal agent (Notes 2 and 5)			1,244,917	1,322,727	2,567,644
Cash restricted		43,492			43,492
Accounts receivable:					
Landfill	255,708				255,708
Other receivables	74,400				74,400
Due from agencies (Note 9)	90,176	270,974			361,150
Due from other funds (Note 10)	557,373				557,373
 Total assets	 <u>\$ 1,534,571</u>	 <u>\$ 553,215</u>	 <u>\$ 1,244,917</u>	 <u>\$ 4,868,183</u>	 <u>\$ 8,200,886</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2009**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities					
Accounts payable and accrued liabilities	\$ 343,285	\$ 185,236	\$ -	\$ 296,513	\$ 825,034
Due to other agencies (Note 12)	231,466	22,216			253,682
Due to other funds (Note 10)		147,578		409,795	557,373
General obligations:					
Bonds			455,000		455,000
Interest			119,980		119,980
Deferred revenues (Note 13):					
Municipal license tax	831,564				831,564
Federal government		73,729			73,729
Total liabilities	<u>1,406,315</u>	<u>428,759</u>	<u>574,980</u>	<u>706,308</u>	<u>3,116,362</u>
Fund Balances					
Reserved for:					
Encumbrances	819,356				819,356
Debt service			669,937		669,937
Capital project				2,563,086	2,563,086
Unreserved fund balance (Deficit)	(691,100)	124,456		1,598,789	1,032,145
Total fund balance	<u>128,256</u>	<u>124,456</u>	<u>669,937</u>	<u>4,161,875</u>	<u>5,084,524</u>
Total liabilities and fund balance	<u>\$ 1,534,571</u>	<u>\$ 553,215</u>	<u>\$ 1,244,917</u>	<u>\$ 4,868,183</u>	<u>\$ 8,200,886</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total fund balances - governmental funds \$ 5,084,524

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 22,398,030

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (11,228,006)

Net assets of governmental activities \$ 16,254,548

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General	Housing and Urban Development Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$ 2,218,449	\$ -	\$ 464,515	\$ -	\$ 2,682,964
Municipal license taxes (Note 7)	842,879				842,879
Sales and uses tax (Note 8)			359,140	1,159,438	1,518,578
Licenses and permits	394,222				394,222
Charges for service and rents	1,805,996				1,805,996
Intergovernmental revenues (Note 14):					
Federal grants and contributions		1,341,340		134,121	1,475,461
State contributions	6,384,100			3,158,209	9,542,309
Interest, fines, and penalties	82,099		4,504		86,603
Other revenues	129,544	3,404		30,749	163,697
Total revenues	<u>11,857,289</u>	<u>1,344,744</u>	<u>828,159</u>	<u>4,482,517</u>	<u>18,512,709</u>
EXPENDITURES					
General government	6,717,056			199,752	6,916,808
Public safety	867,242			134,581	1,001,823
Public works	5,100,807	115,167		2,303,094	7,519,068
Culture	198,604				198,604
Recreation	840,540				840,540
Health and welfare	233,479	271,814			505,293
Capital outlays		665,067		1,303,245	1,968,312
Debt service:					
Principal retirement			505,360		505,360
Interest and other			309,785		309,785
Total expenditures	<u>13,957,728</u>	<u>1,052,048</u>	<u>815,145</u>	<u>3,940,672</u>	<u>19,765,593</u>
Excess (Deficiency) of revenues over expenditures	<u>(2,100,439)</u>		<u>13,014</u>	<u>541,845</u>	<u>(1,252,884)</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds				1,805,000	1,805,000
Transfers in	304,504				389,023
Transfers out	(84,519)			(300,000)	(389,023)
Total other financing sources (uses)	<u>219,985</u>			<u>1,505,000</u>	<u>1,805,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>(1,880,454)</u>			<u>2,046,845</u>	<u>552,116</u>
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>2,008,710</u>			<u>2,115,030</u>	<u>4,532,408</u>
FUND BALANCE AT END OF YEAR	<u>\$ 128,256</u>	<u>\$ 124,456</u>		<u>\$ 4,161,875</u>	<u>\$ 5,084,524</u>

Arbitration
Arbitration

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
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, 2009**

Net change in fund balances - total governmental funds \$ 552,116

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. 1,968,312
- 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. (1,281,616)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (1,805,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of 505,362
- Change in accrued interest expense which does not require the use of current financial resources. 116,107
- Some expenditures reported in the governmental funds do not require the use of current financial resources; therefore, are not reported as expense in statement of activities:
 - Accrued vacations and bonus 13,781

Changes in net assets of governmental activities \$ 69,062

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 2,055,999	\$ 2,055,999	\$ 2,128,273	\$ 72,274	\$ 615,963	\$ 615,963	\$ 464,515	\$ (151,448)
Municipal license taxes	1,000,000	1,000,000	920,471	(79,529)				
Licenses and permits	372,500	372,500	394,223	21,723				
Sales and use taxes	600,000	600,000	300,000	(300,000)			359,140	359,140
Charges for service and rents	1,970,000	1,970,000	1,764,467	(205,533)				
Intergovernmental revenues:								
State contributions	6,370,068	6,370,068	6,387,578	17,510				
Interest, fines, and penalties	165,000	165,000	86,604	(78,396)			4,504	4,504
Other revenues	195,000	195,000	684,923	489,923				
Total revenues	<u>12,728,567</u>	<u>12,728,567</u>	<u>12,666,539</u>	<u>(62,028)</u>	<u>615,963</u>	<u>615,963</u>	<u>828,159</u>	<u>212,196</u>
EXPENDITURES								
General government	7,195,992	8,159,922	6,776,680	1,383,242				
Public safety	908,528	891,728	874,646	17,082				
Public works	3,245,133	3,717,292	3,607,850	109,442				
Culture	214,258	209,476	202,372	7,104				
Health and welfare	327,340	398,741	244,130	154,611				
Recreation	837,316	923,822	883,610	40,212				
Debt service:								
Principal				-	327,747	327,747	505,360	(177,613)
Interest				-	288,216	288,216	309,785	(21,569)
Total expenditures	<u>12,728,567</u>	<u>14,300,981</u>	<u>12,589,288</u>	<u>1,711,693</u>	<u>615,963</u>	<u>615,963</u>	<u>815,145</u>	<u>(199,182)</u>
OTHER FINANCING SOURCES								
Reprogramming funds		1,572,414		(1,572,414)				
Total other financing sources	<u>-</u>	<u>1,572,414</u>	<u>-</u>	<u>(1,572,414)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of expenditures over (under) revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,251</u>	<u>\$ 77,251</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,014</u>	<u>\$ 13,014</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

1. ORGANIZATION

The Municipality of Moca, Puerto Rico (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture, and recreation as well as many other general and administrative services.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- Statement of Program Activities - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government. 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 Moca Housing Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Moca Housing Project is an 80-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

b. Government-Wide and Fund Financial Statements

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

COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

The Municipality reports the following major governmental funds:

- 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.

- Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

- 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.

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

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

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

d. Cash and Cash with Fiscal Agent

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

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

e. Interfund Receivables and Payables

Activities 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
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

f. Capital Assets

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

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	30-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

g. Reservation of Fund Balance

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

- Encumbrances

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

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

- Debt Service

Represents net assets available to finance future debt service payments.

- Capital Projects Fund

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

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, 2009 amounted to approximately \$224,466. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$279,836 for workers' compensation insurance covering all municipal employees.

i. Compensated Absences

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

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

j. Use of Estimates

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

k. Future Adoption of Accounting Pronouncements

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
51	Accounting and Financial Reporting for Intangible Assets	2009-10
53	Accounting and Financial Reporting for Derivative Instruments	2009-10
54	Fund Balance Reporting and Governmental Fund Type Definitions	2010-11

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

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

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

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

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2009 representing the original budget.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2009 is presented below for the general and debt service funds:

	<u>General Fund</u>	<u>Debt Service</u>
Excess of revenues over expenditures-budgetary basis	\$ 77,251	\$ 13,014
Entity differences:		
Non-budgeted expenditures	(1,362,942)	
Non-budgeted transfers in	304,504	84,519
Non-budgeted transfers out	(84,519)	(4,504)
Reprogramming funds	(1,265,000)	
Timing differences:		
Current year encumbrances recorded as expenditures for budgetary basis	819,356	
Prior year encumbrances	<u>(369,104)</u>	<u> </u>
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	<u>\$ (1,880,454)</u>	<u>\$ 93,029</u>

c. Legal Compliance

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

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$11.2 million differences are as follows:

Bonds payable	\$ 4,500,000
Landfill obligation	2,475,000
Compensated absences	1,936,422
Note payable	1,811,880
Accrued interest	416,545
CRIM-LIMS	<u>88,159</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u><u>\$ 11,228,006</u></u>

5. DEPOSITS - CUSTODIAL CREDIT RISK

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

The deposits at GDB of approximately \$1,322,728 that are restricted principally for capital projects and general fund, and the \$1,244,917 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

up to \$250,000. The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. PROPERTY TAXES

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

The rates are 8.58% for real property and 6.58% 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	1.75%	1.75%
Discounts made by state to tax payer	<u>(0.2%)</u>	<u>(0.2%)</u>
	<u>8.58%</u>	<u>6.58%</u>

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

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

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

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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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 a year end. 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.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2008-09, but not the final settlement as the six months period after a fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, for the year ended June 30, 2009, the amount collected from taxpayers and charges by CRIM received by the Municipality is less than amount advanced by CRIM for the same period by approximately \$6,303. Such amount is presented as due to CRIM in the government wide financial statements.

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2009. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Moca, 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 Moca, are as follows:

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

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$831,564, corresponding to the next fiscal year municipal license.

8. SALES AND USE TAXES

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

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

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

- 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.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Municipal Revenues Collection Center (General Fund)	\$ 90,176
HUD - SBGP	<u>270,974</u>
 Total	 <u><u>\$ 361,150</u></u>

10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2009, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 409,795
General	HUD-SBGP	<u>147,578</u>
		 <u><u>\$ 557,373</u></u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2009 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General Fund	\$ 84,519
General Fund	Debt Service	4,504
General Fund	Other Governmental Funds	<u>300,000</u>
		<u><u>\$ 389,023</u></u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

11. CAPITAL ASSETS

Capital asset activity for the Municipality for the year ended June 30, 2009 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,575,456	\$ -	\$ -	\$ 2,575,456
Construction in progress	97,714			97,714
Total capital assets, not being depreciated	<u>2,673,170</u>	<u>-</u>	<u>-</u>	<u>2,673,170</u>
Capital assets, being depreciated:				
Buildings and building improvements	17,818,598	20,876		17,839,474
Furniture and fixture	905,182	125,509		1,030,691
Vehicles and equipment	7,522,388	477,315		7,999,703
Infrastructure	7,946,548	1,344,612		9,291,160
Total capital assets, being depreciated	<u>34,192,716</u>	<u>1,968,312</u>	<u>-</u>	<u>36,161,028</u>
Less accumulated depreciation for:				
Buildings and building improvements	3,964,256	407,408		4,371,664
Furniture and fixture	585,153	71,636		656,789
Vehicles and equipment	4,765,304	624,698		5,390,002
Infrastructure	5,839,839	177,874		6,017,713
Total accumulated depreciation	<u>15,154,552</u>	<u>1,281,616</u>	<u>-</u>	<u>16,436,168</u>
Total capital assets, being depreciated, net	<u>19,038,164</u>	<u>686,696</u>	<u>-</u>	<u>19,724,860</u>
Governmental activities capital assets, net	<u>\$ 21,711,334</u>	<u>\$ 686,696</u>	<u>\$ -</u>	<u>\$ 22,398,030</u>

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

General government	\$ 616,768
Public safety	79,631
Recreation	18,236
Public works	<u>566,981</u>
Total depreciation expense-governmental activities	<u>\$ 1,281,616</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Capital asset activity for Moca Housing Project, a discretely presented component unit, for the year ended June 30, 2009 was as follows:

<u>Component Unit-Moca Housing Project</u>	<u>Balance June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
Capital assets, not being depreciated:				
Land	\$ 60,900	\$ -	\$ -	\$ 60,900
Total capital assets, not being depreciated	<u>60,900</u>	<u>-</u>	<u>-</u>	<u>60,900</u>
Capital assets, being depreciated:				
Land improvements	68,916			68,916
Buildings and building improvements	2,110,388			2,110,388
Building equipment	351,656	1,454		353,110
Furniture and fixtures	45,417	1,386		46,803
Equipment	14,284			14,284
Total capital assets, being depreciated	<u>2,590,661</u>	<u>2,840</u>	<u>-</u>	<u>2,593,501</u>
Less accumulated depreciation	<u>1,883,708</u>	<u>51,285</u>		<u>1,934,993</u>
Total accumulated depreciation	<u>1,883,708</u>	<u>51,285</u>	<u>-</u>	<u>1,934,993</u>
Total capital assets, being depreciated, net	<u>706,953</u>	<u>(48,445)</u>	<u>-</u>	<u>658,508</u>
Moca Housing Project capital assets, net	<u>\$ 767,853</u>	<u>\$ (48,445)</u>	<u>\$ -</u>	<u>\$ 719,408</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2009 are as follows:

Puerto Rico Retirement System Administration	\$ 93,392 ✓
Puerto Rico Electric Power Authority	59,946 ✓
Puerto Rico Water and Sewer Authority	76,352 ✓
Puerto Rico General Services Administration	1,776 ✗
U. S. Department of Housing and Urban Development	<u>22,216 ✗</u>
Total	<u>\$ 253,682</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$831,564 in the general fund related to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. The balance of \$73,729 in the HUD Program is related to the Section 8 Existing Program.

14. INTERGOVERNMENTAL REVENUES

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

The general fund intergovernmental revenues are as follows:

Puerto Rico Electric Power Authority	\$1,807,315
Puerto Rico Treasury Department (Christmas Bonus)	198,510
Equalization Fund (.20 hundredth)	<u>4,378,275</u>
Total	<u><u>\$6,384,100</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

15. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2009 are as follows:

Bonds

\$2,780,000 series of 1995, payable in annual installments of \$40,000 to \$270,000 until July 1, 2017, interest ranging from 4.7% to 6.63%.	\$ 1,630,000
\$430,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	370,000
\$455,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	395,000
\$265,000 series of 2006, payable in annual installments of \$5,000 to \$25,000 until July 1, 2030, interest ranging from 6.25% to 7.25%.	245,000
\$635,000 series of 2007, payable in annual installments of \$25,000 to \$65,000 until July 1, 2021, interest ranging from 6.60% to 7.25%.	555,000
\$415,000 series of 2008, payable in annual installments of \$5,000 to \$35,000 until July 1, 2032, interest from 6.48% to 7.50%.	405,000
\$915,000 series of 2008, payable in annual installments of \$15,000 to \$75,000 until July 1, 2032, interest from 5.40% to 7.50%.	<u>900,000</u>
Total bonds payable	<u>4,500,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Notes

<p>\$385,000 series of 2006, payable in annual installments of \$45,000 to \$65,000 until July 1, 2012; interest ranging from 4.23% to 5.33%.</p>	<p>\$ 185,000</p>
<p>\$835,000 series of 2008, payable in annual installments of \$95,000 to \$150,000 until July 1, 2008, interest ranging from 6.48% to 7.50%.</p>	<p>640,000</p>
<p>\$890,000 series of 2008, payable in annual installments of \$100,000 to \$160,000 until July 1, 2015, interest ranging from 5.40% to 7.50%.</p>	<p>790,000</p>
<p>Note payable to CRIM (Financing of delinquent accounts) - On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$260,193 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non revolving line of credit bearing interest of 6.5% for the first five years and variable for the next 25 years at 125 points over London Interbank offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years will be financed through .48% of the net increase of the subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for 25 years period.</p>	<p>196,880</p>
<p>Total notes payable</p>	<p><u>1,811,880</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Other Long-term Liabilities

Note payable to CRIM (LIMS) - On June 27, 2001, the Municipality entered into a financing agreement with the CRIM in the amount of \$286,847 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$38,472, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center

\$ 88,159

Total other long-term liabilities

\$ 88,159

The annual debt service requirements for the bonds payable and note payable at June 30, 2009, are as follows:

	<i>Bonds</i>		<i>Note Payable</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 225,000	\$ 299,686	\$ 288,560	\$ 116,859
2011	250,000	288,802	303,560	108,310
2012	275,000	272,722	323,560	87,380
2013	295,000	254,998	278,560	65,023
2014	315,000	235,467	303,560	44,240
2015-2019	1,425,000	842,710	202,800	54,594
2020-2024	715,000	493,682	42,800	29,284
2025-2029	670,000	257,852	42,800	15,974
2030-2034	330,000	48,625	25,680	3,194
	<u>\$4,500,000</u>	<u>\$ 2,994,544</u>	<u>\$ 1,811,880</u>	<u>\$ 524,858</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Component Unit

The mortgage payable by the discretely component unit is owed by Moca Housing Project and consists of an 8% mortgage note, payable in monthly installments of \$12,193, including interest, until 2017, collateralized with land and building.

The principal maturities of the mortgage in each of the next five years and thereafter are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2010	\$ 74,150
2011	81,007
2012	88,498
2013	104,359
2014	105,631
Thereafter	<u>392,133</u>
	<u><u>\$ 845,778</u></u>

Landfill Obligations

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$2.5 million as the Municipality's estimated current cost for landfill closure as of June 30, 2009. The reported liability represents the total estimated cost of closure since the Municipality expects to close the landfill in the year 2011. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The balance of closure and postclosure costs of \$2.5 million are reported in the statement of net assets because it will not be funded with available expendable financial resources at June 30, 2009.

Long-term liability activity for the year ended June 30, 2009 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	\$ 3,795,000	\$ 915,000	\$ 210,000	\$ 4,500,000	\$ 225,000
Notes payable	1,185,441	890,000	263,561	1,811,880	288,560
Total long-term debt	<u>4,980,441</u>	<u>1,805,000</u>	<u>473,561</u>	<u>6,311,880</u>	<u>513,560</u>
Other long-term liabilities:					
Landfill obligation	2,475,000			2,475,000	
CRIM - LIMS	119,960		31,801	88,159	33,720
Compensated absences	1,950,203		13,781	1,936,422	
Total other liabilities, governmental activities	<u>4,545,163</u>	<u>-</u>	<u>45,582</u>	<u>4,499,581</u>	<u>33,720</u>
Total noncurrent liabilities, governmental activities	<u>\$ 9,525,604</u>	<u>\$ 1,805,000</u>	<u>\$ 519,143</u>	<u>\$ 10,811,461</u>	<u>\$ 547,280</u>
Component Unit:					
Moca Housing Project mortgage payable	<u>\$ 913,932</u>	<u>\$ -</u>	<u>\$ 68,154</u>	<u>\$ 845,778</u>	<u>\$ 74,150</u>

16. RETIREMENT PLAN

a. Plan Description

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2009 was approximately \$414,144. The Municipality's payroll for employees covered by ERS was approximately \$4.3 million. The Municipality total payroll for all employees was approximately \$6.9 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

17. RISK MANAGEMENT

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

18. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2009 was approximately \$18,220.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

19. LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality adopted the provisions of Statement No. 18, Accounting for Municipal solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws and regulations to incur closure and postclosure care costs.

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. The Municipality has determined that the present value of total estimated closing costs and post closing care costs amount to \$2,475,000. (See Note 15).

20. 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.

21. COMMITMENTS

The Municipality of Moca had several outstanding or planned construction projects as of June 30, 2009. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental fund that amounted to approximately \$656,540.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<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)		
Direct Program:		
Section 8 Vouchers Program	14.871	\$ 271,814
Pass-through State -Commonwealth of Puerto Rico/Commissions Office of Municipal Affairs - Community Development Block Grant - States Program SBGP	14.228	780,234
Subtotal U.S. Department of HUD		<u>1,052,048</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through the Puerto Rico Elderly Commission:		
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	27,322
Special Programs for the Aging Title III, Part E, National Family Caregivers Support	93.052	10,043
Subtotal U.S. Department of HHS		<u>37,365</u>
U.S. Department of Homeland Security		
Pass-through Department of Justice of Puerto Rico State Domestic Preparedness Equipment Support Program		
	97.004	134,120
Subtotal U.S. Department of DHS		<u>134,120</u>
TOTAL		<u>\$ 1,223,533</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Moca and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Expenditures as per basic financial statements:	
Housing and Urban Development Programs	\$ 1,052,048
Federal expenditures included within the other nonmajor governmental funds	<u>171,485</u>
Total expenditures per schedule of expenditures of federal awards	<u><u>\$ 1,223,533</u></u>



ORTIZ, RIVERA, RIVERA & CO.

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**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 Moca
Moca, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Moca' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Municipality of Moca in a separate letter dated November 24, 2009.

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

San Juan, Puerto Rico
November 24, 2009

Ortiz, Rivera, Rivera & Co.

The stamp 2459310 was affixed
to the original of this report.





ORTIZ, RIVERA, RIVERA & CO.

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

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

Compliance

We have audited the compliance of Municipality of Moca with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Municipality of Moca' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Moca' management. Our responsibility is to express and opinion on Municipality of Moca' compliance based on our audit.

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

such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Moca compliance with those requirements.

In our opinion, the Municipality of Moca complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2009.

Internal Control over Compliance

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

San Juan, Puerto Rico
November 24, 2009

Ortiz, Rivera, Rivera & Co.

The stamp 2459311 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Moca.
- b. There were no significant deficiencies on internal control.
- c. No instances of noncompliance material to the financial statements of Municipality of Moca were disclosed during the audit.
- d. There were no significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Municipality of Moca express an unqualified opinion.
- f. Audit findings relative to the major federal award programs for the Municipality of Moca are reported in number 3 of this schedule.
- g. The programs tested as major programs included:

SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Moca was determined to be a low-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Community Development Block Grants/States Program, CFDA No. 14.228	Condition 08-01 The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7).	No. 14.228 Condition was corrected.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Moca Housing Project, as of June 30, 2010. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Moca Housing Project, is based on the report of the other auditors.

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

Based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the Municipality of Moca as of June 30, 2010 and the respective changes in financial position.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2010 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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 obtain during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

San Juan, Puerto Rico
December 21, 2010

Ortiz, Rivera, Rivera & Co.

The stamp 2571493 was affixed to the original of this report.



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Estado Libre Asociado De Puerto Rico
MUNICIPIO DE MOCA
Moca, Puerto Rico

**MUNICIPALITY OF MOCA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the Municipality of Moca (the "Municipality") provides this Management's Discussion and Analysis of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

USING THIS ANNUAL REPORT

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

FINANCIAL HIGHLIGHTS

- *The Municipality net assets increased by \$ 668,545.*
- *In the fund financial statements, general fund balances increased by \$310,028.*
- *Capital expenditures amounted to \$ 3,567,401.*

GOVERNMENT-WIDE-FINANCIAL STATEMENT

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2010 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2010. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

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.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$ 16,923,093 at June 30, 2010.

**Municipality of Moca
Condensed Statement of Net Assets
June 30, 2010 and 2009**

	2010	2009
Current assets	\$ 7,523,174	\$ 7,643,513
Capital assets	24,635,758	22,398,030
Total assets	32,158,932	30,041,543
Current liabilities	3,272,870	3,522,814
Noncurrent liabilities	11,962,969	10,264,181
Total liabilities	15,235,839	13,786,995
Invested in capital assets, net of related debt	18,340,758	17,898,030
Restricted	4,232,730	3,233,023
Unrestricted	(5,650,395)	(4,876,505)
Total net assets	\$ 16,923,093	\$ 16,254,548

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

Changes in Net Assets

The Municipality's net assets increased by \$668,545. Approximately 46 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 24 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works.

Municipality of Moca
Condensed Statement of Activities
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Program revenues		
Charges for services	\$3,582,255	\$3,718,796
Licenses and Permits		
Operating grants and contributions	1,011,347	1,475,461
Capital grants and contributions		
General revenues		
Property taxes	2,911,677	2,682,964
Municipal license tax	1,030,927	842,879
Grants and contributions not restricted to specific programs	7,605,003	9,542,309
Interest, fines and penalties	47,244	86,603
Miscellaneous	419,039	163,697
	<u>16,607,492</u>	<u>18,512,709</u>
Expenses		
General government	\$ 8,304,864	\$ 7,519,795
Public safety	1,036,662	1,081,455
Public works	4,037,845	7,987,430
Culture	209,361	216,840
Recreation	772,867	917,720
Health and welfare	864,763	526,731
Interest on long-term debt	712,585	193,676
	<u>15,938,947</u>	<u>18,443,647</u>
Change in net assets	668,545	69,062
Net assets, beginning of year	<u>16,254,548</u>	<u>16,185,486</u>
Net assets, end of year	<u>\$16,923,093</u>	<u>\$16,254,548</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 \$ 5,338,801, an increase of \$ 254,277 in comparison with the prior year. There are reservations of fund balance. This is the fund balance that is not available for new spending because it has already been committed to pay debt service (\$ 1,045,678).

The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2010, the general fund has a superavit of \$379,464. The superavit increased by \$310,028 during fiscal year ended June 30, 2010.

Notes to the Financial Statements

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required Supplementary Information

The statements are followed by the required supplementary information that contains the budgetary comparison schedule for the General and Debt Service Funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2010, amounts to \$42.4 million, net of accumulated depreciation of \$17.8 million, leaving a net book value of \$24.6 million. This investment in capital assets includes land, buildings, improvements, equipment construction in progress.

The total net increase in the Municipality's investment in capital assets for the current fiscal year was about 10% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$3.6 million for the year. Depreciation charges for the year totaled \$1.3 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2010 the Municipality has \$1,715,664 of unexpended proceeds from bond issuances that are committed to future construction activities.

Long-Term Debt

At year-end, the Municipality had \$ 12,587,286 in general and special bonds and notes and other long term debts. Such amount represents an increase of 16 percent with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2010 and 2009:

Municipality of Moca Outstanding Long-term Debt June 30, 2010 and 2009

	2010	2009
General and special obligations	\$ 7,818,320	\$ 6,311,880
Other long term debts:		
Landfill obligation	2,475,000	2,475,000
CRIM-LIMS	54,438	88,159
Compensated absences	2,239,528	1,936,422
Total	\$ 12,587,286	\$ 10,811,461

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2010-2011 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates.

The Municipality applied an aggressive approach in development budget estimates. The Municipality estimates that the amounts available for appropriations in the General Fund for the fiscal year 2011 will be \$13.3, a increase of approximately 8% with respect to prior year final budget.

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 on the second floor of the Town Hall, Moca, Puerto Rico 00676.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF NET ASSETS
JUNE 30, 2010**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Moca Housing Project</u>
Cash (Notes 2 and 5)	\$ 3,563,032	\$ 68,087
Cash with fiscal agent (Notes 2 and 5)	3,518,762	
† Accounts receivable:		
Municipal licenses taxes	10,274	
Landfill	232,992	
Due from other agencies (Note 9)	149,441	
Other assets		16,980
Restricted funds	48,673	230,950
Capital assets, net (Note 11)	<u>24,635,758</u>	<u>660,870</u>
 Total assets	 <u>\$ 32,158,932</u>	 <u>\$ 976,887</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued liabilities	\$ 692,998	\$ 171,494
Due to other agencies (Note 12)	154,048	
General obligations:		
Bonds	385,000	
Interest	87,052	
Deferred revenues:		
Municipal license tax (Note 13)	837,948	
Federal government (Note 13)	27,327	
Noncurrent liabilities: (Note 15)		
Due within one year	624,317	81,639
Due in more than one year	11,962,969	689,591
Accrued interest	464,180	
Total liabilities	<u>15,235,839</u>	<u>942,724</u>
Net Assets		
Investment in capital assets, net of related debt	18,340,758	
Restricted for:		
Debt service	1,045,678	
Capital projects	3,187,052	
Unrestricted	<u>(5,650,395)</u>	<u>34,163</u>
Total net assets	<u>16,923,093</u>	<u>34,163</u>
 Total liabilities and net assets	 <u>\$ 32,158,932</u>	 <u>\$ 976,887</u>

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

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary</u>	<u>Component</u>
				<u>Governmental Activities</u>	<u>Unit Moca Housing Project</u>
Primary Government:					
General government	\$ 8,304,864	\$ 2,223,366	\$ -	\$ (6,081,498)	\$ -
Public safety	1,036,662			(1,036,662)	
Public works	4,037,845		1,011,347	(3,026,498)	
Culture	209,361			(209,361)	
Recreation	772,867			(772,867)	
Health and welfare	864,763			(864,763)	
Interest on long-term debt	712,585			(712,585)	
Total primary government	<u>\$ 15,938,947</u>	<u>\$ 2,223,366</u>	<u>\$ 1,011,347</u>	<u>\$ (12,704,234)</u>	<u>-</u>
Component Unit:					
Moca Housing Project	440,986	480,747			39,761
Total component unit	<u>\$ 440,986</u>	<u>\$ 480,747</u>	<u>\$ -</u>	<u>-</u>	<u>39,761</u>
General revenues:					
Property taxes (Note 6)				2,911,677	
Municipal license tax (Note 7)				1,030,927	
Sales and uses tax (Note 8)				1,358,889	
Grants and contributions not restricted to specific programs				7,605,003	
Interest and investment earnings				47,244	
Miscellaneous				419,039	
Total general revenues				<u>13,372,779</u>	<u>-</u>
Change in net assets				668,545	39,761
Net assets at beginning of year				16,254,548	(5,598)
Net assets at end of year				<u>\$ 16,923,093</u>	<u>\$ 34,163</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2010

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>State Assigments</u>	<u>Loan \$ 2,045,000</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 570,266	\$ 258,158	\$ 1,895,494	\$ -	\$ -	\$ 839,114	\$ 3,563,032
Cash with fiscal agent (Notes 2 and 5)				1,387,301	1,504,967	626,494	3,518,762
Cash restricted		48,673					48,673
Accounts receivable:							
Municipal license taxes (Note 7)	10,274						10,274
Landfill	232,992						232,992
Due from agencies (Note 9)	34,017				12,763	102,661	149,441
Due from other funds (Note 10)	660,132					38	660,170
Total assets	\$ 1,507,681	\$ 306,831	\$ 1,895,494	\$ 1,387,301	\$ 1,517,730	\$ 1,568,307	\$ 8,183,344

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2010**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>State Assigments</u>	<u>Loan \$ 2,045,000</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities							
Accounts payable and accrued liabilities	\$ 163,672	\$ 72,649	\$ 82,136	\$ -	\$ -	\$ 374,541	\$ 692,998
Due to other agencies (Note 12)	126,559	27,489					154,048
Due to other funds (Note 10)	38	304,744	13,607			341,781	660,170
General obligations:							
Bonds					385,000		385,000
Interest					87,052		87,052
Deferred revenues (Note 13):							
Municipal license tax	837,948						837,948
Federal government		27,327					27,327
Total liabilities	<u>1,128,217</u>	<u>432,209</u>	<u>95,743</u>	<u>-</u>	<u>472,052</u>	<u>716,322</u>	<u>2,844,543</u>
Fund Balances							
Reserved for:							
Encumbrances	260,806						260,806
Debt service					1,045,678		1,045,678
Capital project							
Unreserved fund balance (Deficit)	118,658	(125,378)	1,799,751	1,387,301		851,985	4,032,317
Total fund balance	<u>379,464</u>	<u>(125,378)</u>	<u>1,799,751</u>	<u>1,387,301</u>	<u>1,045,678</u>	<u>851,985</u>	<u>5,338,801</u>
Total liabilities and fund balance	<u>\$ 1,507,681</u>	<u>\$ 306,831</u>	<u>\$ 1,895,494</u>	<u>\$ 1,387,301</u>	<u>\$ 1,517,730</u>	<u>\$ 1,568,307</u>	<u>\$ 8,183,344</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total fund balances - governmental funds	\$ 5,338,801
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	24,635,758
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	<u>(13,051,466)</u>
Net assets of governmental activities	<u>\$ 16,923,093</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General	Housing and Urban Development Programs	State Assignments	Loan \$ 2,045,000	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 6)	\$ 2,144,700	\$ -	\$ -	\$ -	\$ 766,977	\$ -	\$ 2,911,677
Municipal license taxes (Note 7)	1,030,927						1,030,927
Sales and uses tax (Note 8)	550,000				365,181	443,708	1,358,889
Licenses and permits	196,772						196,772
Charges for service and rents	2,026,594						2,026,594
Intergovernmental revenues (Note 14):							
Federal grants and contributions		698,319				313,028	1,011,347
State contributions	6,459,701		33,202			1,112,100	7,605,003
Interest, fines, and penalties	45,827				1,225	192	47,244
Other revenues	365,806	31,398				21,835	419,039
Total revenues	<u>12,820,327</u>	<u>729,717</u>	<u>33,202</u>	<u>-</u>	<u>1,133,383</u>	<u>1,890,863</u>	<u>16,607,492</u>
EXPENDITURES							
General government	6,996,020			8,899		451,438	7,456,357
Public safety	876,881					77,164	954,045
Public works	3,075,149					374,455	3,449,604
Culture	209,361						209,361
Recreation	744,703						744,703
Health and welfare	128,596	708,698	27,469				864,763
Capital outlays		329,673	639,189	648,800		1,864,489	3,482,151
Debt service:							
Principal retirement					572,281		572,281
Interest and other	394,712				270,238		664,950
Total expenditures	<u>12,425,422</u>	<u>1,038,371</u>	<u>666,658</u>	<u>657,699</u>	<u>842,519</u>	<u>2,767,546</u>	<u>18,398,215</u>
Excess (deficiency) of revenues over expenditures	394,905	(308,654)	(633,456)	(657,699)	290,864	(876,683)	(1,790,723)
OTHER FINANCING SOURCES (USES)							
Loan proceeds				2,045,000			2,045,000
Transfers in	569				85,446		86,015
Transfers out	(85,446)				(569)		(86,015)
Total other financing sources (uses)	<u>(84,877)</u>	<u>-</u>	<u>-</u>	<u>2,045,000</u>	<u>84,877</u>	<u>-</u>	<u>2,045,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	310,028	(308,654)	(633,456)	1,387,301	375,741	(876,683)	254,277
FUND BALANCE AT BEGINNING OF YEAR AS RESTATED (Note 22)							
	69,436	183,276	2,433,207	-	669,937	1,728,668	5,084,524
FUND BALANCE (DEFICIT) AT END OF YEAR							
	<u>\$ 379,464</u>	<u>\$ (125,378)</u>	<u>\$ 1,799,751</u>	<u>\$ 1,387,301</u>	<u>\$ 1,045,678</u>	<u>\$ 851,985</u>	<u>\$ 5,338,801</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
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, 2010**

Net change in fund balances - total governmental funds	\$ 254,277
Amounts reported for governmental activities in the statement of activities are different because:	
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 	3,567,401
<ul style="list-style-type: none"> • Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. 	(1,329,673)
<ul style="list-style-type: none"> • Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. 	(2,045,000)
<ul style="list-style-type: none"> • Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of 	572,281
<ul style="list-style-type: none"> • Change in accrued interest expense which does not require the use of current financial resources. 	(47,635)
<ul style="list-style-type: none"> • Some expenditures reported in the governmental funds do not require the use of current financial resources; therefore, are not reported as expense in statement of activities: Accrued vacations and bonus 	<u>(303,106)</u>
Changes in net assets of governmental activities	<u>\$ 668,545</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 2,210,010	\$ 2,210,010	\$ 2,210,010	\$ -	\$ 646,901	\$ 646,901	\$ 766,977	\$ 120,076
Municipal license taxes	1,000,000	1,000,000	1,001,799	1,799				
Licenses and permits	387,000	387,000	196,772	(190,228)				
Sales and use taxes	690,000	690,000	550,000	(140,000)			365,181	365,181
Charges for service and rents	1,968,989	1,968,989	2,108,168	139,179				
Intergovernmental revenues:								
State contributions	5,824,555	5,824,555	4,598,369	(1,226,186)				
Interest, fines, and penalties	85,000	85,000	45,827	(39,173)			1,225	1,225
Other revenues	203,000	203,000	184,529	(18,471)				
Total revenues	<u>12,368,554</u>	<u>12,368,554</u>	<u>10,895,474</u>	<u>(1,473,080)</u>	<u>646,901</u>	<u>646,901</u>	<u>1,133,383</u>	<u>486,482</u>
EXPENDITURES								
General government	6,944,407	6,893,730	5,874,291	1,019,439				
Public safety	918,616	911,144	882,354	28,790				
Public works	3,250,891	3,275,350	3,104,016	171,334				
Culture	235,809	223,242	209,814	13,428				
Health and welfare	266,328	275,401	135,515	139,886				
Recreation	752,503	789,687	764,851	24,836				
Debt service:								
Principal					334,174	334,174	572,281	(238,107)
Interest					312,727	312,727	270,238	42,489
Total expenditures	<u>12,368,554</u>	<u>12,368,554</u>	<u>10,970,841</u>	<u>1,397,713</u>	<u>646,901</u>	<u>646,901</u>	<u>842,519</u>	<u>(195,618)</u>
Excess (deficiency) of expenditures over (under) revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (75,367)</u>	<u>\$ (75,367)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 290,864</u>	<u>\$ 290,864</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. ORGANIZATION

The Municipality of Moca, Puerto Rico (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture, and recreation as well as many other general and administrative services.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government. 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 Moca Housing Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Moca Housing Project is an 80-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

b. Government-Wide and Fund Financial Statements

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The Municipality reports the following major governmental funds:

- 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.

- Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

- State Assignment Fund

This fund used to account for transactions of the State Assignments by Legislature Resolutions. The primarily objective of these assignments is the development of projects on communities, not-for-profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

- Loan Improvement Fund

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

- 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 MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

d. Cash and Cash with Fiscal Agent

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

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

e. Interfund Receivables and Payables

Activities 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

f. Capital Assets

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

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	30-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

g. Reservation of Fund Balance

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

- Encumbrances

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

- Debt Service

Represents net assets available to finance future debt service payments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Capital Projects Fund

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

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, 2010 amounted to approximately \$224,466. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$279,836 for workers' compensation insurance covering all municipal employees.

i. Compensated Absences

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

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

k. Future Adoption of Accounting Pronouncements

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
54	Fund Balance Reporting and Governmental Fund Type Definitions	2010-11
57	OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans	2011-12
59	Financial Instrument Omnibus	2010-11

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

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

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

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2010 representing the original budget.

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2010 is presented below for the general and debt service funds:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General Fund</u>	<u>Debt Service</u>
Excess (deficiencies) of revenues over (under) expenditures-budgetary basis	\$ (75,367)	\$ 290,864
Entity differences:		
Non-budgeted expenditures	1,028,822	
Non-budgeted transfers in	569	*85,446
Non-budgeted transfers out	(85,446)	(569)
Timing differences:		
Current year encumbrances recorded as expenditures for budgetary basis	260,806	
Prior year encumbrances	<u>(819,356)</u>	<u> </u>
Excess of revenues over expenditures - GAAP basis	<u>\$ 310,028</u>	<u>\$ 375,741</u>

c. Legal Compliance

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

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$13 million differences are as follows:

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Bonds payable	\$ 6,295,000
Landfill obligation	2,475,000
Compensated absences	2,239,528
Note payable	1,523,320
Accrued interest	464,180
CRIM-LIMS	<u>54,438</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u><u>\$ 13,051,466</u></u>

5. DEPOSITS - CUSTODIAL CREDIT RISK

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

The deposits at GDB of approximately \$2,013,795 that are restricted principally for capital projects and general fund, and the \$1,504,967 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its investments in two (2) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and 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.

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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 9.58% for real property and 6.58% 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	2.75%	1.75%
Discounts made by state to tax payer	<u>(0.2%)</u>	<u>(0.2%)</u>
	<u>9.58%</u>	<u>6.58%</u>

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

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

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

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

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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 a year end. 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.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2009-10, but not the final settlement as the six months period after a fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, for the year ended June 30, 2010, the amount collected from taxpayers and charges by CRIM received by the Municipality is less than amount advanced by CRIM for the same period by approximately \$9,151. Such amount is presented as due to CRIM in the government wide financial statements.

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2010. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Moca, 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 Moca, are as follows:

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

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The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$837,948, corresponding to the next fiscal year municipal license.

8. SALES AND USE TAXES

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

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

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

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Municipal Revenues Collection Center (General Fund)	\$ 34,017
Municipal Revenues Collection Center (Debt Service Fund)	12,763
Human Resources and Occupational Development Council	<u>102,661</u>
 Total	 <u><u>\$ 149,441</u></u>

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10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2010 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 341,781
General	HUD-SBGP	304,744
General	State Assignment	13,607
Other Governmental Funds	General	<u>38</u>
		<u>\$ 660,170</u>

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2010 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General Fund	\$ 85,446
General Fund	Debt Service	<u>569</u>
		<u>\$ 86,015</u>

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

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11. CAPITAL ASSETS

Capital asset activity for the Municipality for the year ended June 30, 2010 was as follows:

<u>Primary Government</u>	<u>Balance June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,575,456	\$ 683,800	\$ -	\$ 3,259,256
Construction in progress	97,714	1,077,777	97,714	1,077,777
Total capital assets, not being depreciated	<u>2,673,170</u>	<u>1,761,577</u>	<u>97,714</u>	<u>4,337,033</u>
Capital assets, being depreciated:				
Buildings and building improvements	17,839,474	508,553		18,348,027
Furniture and fixture	1,030,691	10,874		1,041,565
Vehicles and equipment	7,999,703	285,159		8,284,862
Infrastructure	9,291,160	1,098,952		10,390,112
Total capital assets, being depreciated	<u>36,161,028</u>	<u>1,903,538</u>	<u>-</u>	<u>38,064,566</u>
Less accumulated depreciation for:				
Buildings and building improvements	4,371,664	416,653		4,788,317
Furniture and fixture	656,789	65,447		722,236
Vehicles and equipment	5,390,002	683,283		6,073,285
Infrastructure	6,017,713	164,290		6,182,003
Total accumulated depreciation	<u>16,436,168</u>	<u>1,329,673</u>	<u>-</u>	<u>17,765,841</u>
Total capital assets, being depreciated, net	<u>19,724,860</u>	<u>573,865</u>	<u>-</u>	<u>20,298,725</u>
Governmental activities capital assets, net	<u>\$ 22,398,030</u>	<u>\$ 2,335,442</u>	<u>\$ 97,714</u>	<u>\$ 24,635,758</u>

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

General government	\$ 630,651
Public safety	82,617
Recreation	28,164
Public works	<u>588,241</u>
Total depreciation expense-governmental activities	<u>\$ 1,329,673</u>

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Capital asset activity for Moca Housing Project, a discretely presented component unit, for the year ended June 30, 2010 was as follows:

<u>Component Unit-Moca Housing Project</u>	<u>Balance June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
* Capital assets, not being depreciated:				
Land	\$ 60,900	\$ -	\$ -	\$ 60,900
Total capital assets, not being depreciated	<u>60,900</u>	<u>-</u>	<u>-</u>	<u>60,900</u>
Capital assets, being depreciated:				
Land improvements	68,916			68,916
Buildings and building improvements	2,110,388			2,110,388
Building equipment	353,110	2,904		356,014
Furniture and fixtures	46,803	770		47,573
Equipment	14,284			14,284
Total capital assets, being depreciated	<u>2,593,501</u>	<u>3,674</u>	<u>-</u>	<u>2,597,175</u>
Less accumulated depreciation	1,934,993	62,212		1,997,205
Total accumulated depreciation	<u>1,934,993</u>	<u>62,212</u>	<u>-</u>	<u>1,997,205</u>
Total capital assets, being depreciated, net	<u>658,508</u>	<u>(58,538)</u>	<u>-</u>	<u>599,970</u>
Moca Housing Project capital assets, net	<u>\$ 719,408</u>	<u>\$ (58,538)</u>	<u>\$ -</u>	<u>\$ 660,870</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2010 are as follows:

Puerto Rico Retirement System Administration	\$ 84,124
Puerto Rico Water and Sewer Authority	30,128
Puerto Rico General Services Administration	2,490
Puerto Rico Treasury Department	666
Municipal Revenues Collection Center	9,151
U. S. Department of Housing and Urban Development	27,489
Total	<u>\$ 154,048</u>

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13. DEFERRED REVENUES

a. Municipal License Tax

- The deferred revenues of \$837,948 in the general fund related to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. The balance of \$27,327 in the HUD Program is related to the Section 8 Existing Program.

14. INTERGOVERNMENTAL REVENUES

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

- The general fund intergovernmental revenues are as follows:

Puerto Rico Electric Power Authority	\$1,861,331
Puerto Rico Treasury Department (Christmas Bonus)	189,638
Equalization Fund (.20 hundredth)	<u>4,408,732</u>
 Total	 <u><u>\$6,459,701</u></u>

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15. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2010 are as follows:

Bonds

\$2,780,000 series of 1995, payable in annual installments of \$40,000 to \$270,000 until July 1, 2017, interest ranging from 4.7% to 6.63%.	\$ 1,480,000
\$430,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	360,000
\$455,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	385,000
\$265,000 series of 2006, payable in annual installments of \$5,000 to \$25,000 until July 1, 2030, interest ranging from 6.25% to 7.25%.	240,000
\$635,000 series of 2007, payable in annual installments of \$25,000 to \$65,000 until July 1, 2021, interest ranging from 6.60% to 7.25%.	525,000
\$415,000 series of 2008, payable in annual installments of \$5,000 to \$35,000 until July 1, 2032, interest from 6.48% to 7.50%.	400,000
\$915,000 series of 2008, payable in annual installments of \$15,000 to \$75,000 until July 1, 2032, interest from 5.40% to 7.50%.	885,000
\$2,045,000 series of 2009, payable in annual installments of \$25,000 to \$165,000 until July 1, 2034, interest from 6.00% to 7.00%.	2,020,000
Total bonds payable	<u><u>\$ 6,295,000</u></u>

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Notes

\$385,000 series of 2006, payable in annual installments of \$45,000 to \$65,000 until July 1, 2012; interest ranging from 4.23% to 5.33%. \$ 125,000

\$835,000 series of 2008, payable in annual installments of \$95,000 to \$150,000 until July 1, 2008, interest ranging from 6.48% to 7.50%. 530,000

\$890,000 series of 2008, payable in annual installments of \$100,000 to \$160,000 until July 1, 2015, interest ranging from 5.40% to 7.50%. 680,000

Note payable to CRIM (Financing of delinquent accounts) - On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$260,193 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non revolving line of credit bearing interest of 6.5% for the first five years and variable for the next 25 years at 125 points over London Interbank offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years will be financed through .48% of the net increase of the subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for 25 years period.

188,320

Total notes payable

\$ 1,523,320

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Other Long-term Liabilities

Note payable to CRIM (LIMS) - On June 27, 2001, the Municipality entered into a financing agreement with the CRIM in the amount of \$286,847 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$38,472, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center

\$ 54,438

Total other long-term liabilities

\$ 54,438

The annual debt service requirements for the bonds payable and notes payable at June 30, 2009, are as follows:

	<u>Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 285,000	\$ 347,321	\$ 303,560	\$ 116,859
2012	310,000	405,372	323,560	68,330
2013	335,000	385,348	278,560	82,506
2014	355,000	363,167	303,560	61,399
2015	390,000	341,456	168,560	43,491
2016-2020	1,525,000	1,350,028	42,800	54,595
2021-2025	1,090,000	933,537	42,800	29,283
2026-2030	1,195,000	540,995	42,800	15,973
2031-2035	810,000	132,500	17,120	3,195
	<u>\$6,295,000</u>	<u>\$ 4,799,724</u>	<u>\$ 1,523,320</u>	<u>\$ 475,631</u>

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Component Unit

The mortgage payable by the discretely component unit is owed by Moca Housing Project and consists of an 8% mortgage note, payable in monthly installments of \$12,193, including interest, until 2017, collateralized with land and building.

The principal maturities of the mortgage in each of the next five years and thereafter are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 81,639
2012	88,065
2013	94,996
2014	102,473
2015	110,537
2016-2017	<u>293,520</u>
	<u>\$ 771,230</u>

Landfill Obligations

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$2.5 million as the Municipality's estimated current cost for landfill closure as of June 30, 2010. The reported liability represents the total estimated cost of closure since the Municipality expects to close the landfill in the year 2011. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and postclosure costs of \$2.5 million are reported in the statement of net assets because it will not be funded with available expendable financial resources at June 30, 2010.

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Long-term liability activity for the year ended June 30, 2010 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	\$ 4,500,000	\$ 2,045,000	\$ 250,000	\$ 6,295,000	\$ 285,000
Notes payable	1,811,880		288,560	1,523,320	303,560
Total long-term debt	<u>6,311,880</u>	<u>2,045,000</u>	<u>538,560</u>	<u>7,818,320</u>	<u>588,560</u>
Other long-term liabilities:					
Landfill obligation	2,475,000			2,475,000	
CRIM - LIMS	88,159		33,721	54,438	35,757
Compensated absences	1,936,422	303,106		2,239,528	
Total other liabilities, governmental activities	<u>4,499,581</u>	<u>303,106</u>	<u>33,721</u>	<u>4,768,966</u>	<u>35,757</u>
Total noncurrent liabilities, governmental activities	<u>\$ 10,811,461</u>	<u>\$ 2,348,106</u>	<u>\$ 572,281</u>	<u>\$ 12,587,286</u>	<u>\$ 624,317</u>
Component Unit:					
Moca Housing Project mortgage payable	<u>\$ 845,778</u>	<u>\$ -</u>	<u>\$ 74,548</u>	<u>\$ 771,230</u>	<u>\$ 81,639</u>

16. RETIREMENT PLAN

d. 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.

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

new program. Persons joining the Municipality on or after January 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2010 was approximately \$411,237. The Municipality's payroll for employees covered by ERS was approximately \$5.5 million. The Municipality total payroll for all employees was approximately \$7.0 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

17. RISK MANAGEMENT

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

18. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2010 was approximately \$18,220.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

19. LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality adopted the provisions of Statement No. 18, Accounting for Municipal solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws and regulations to incur closure and postclosure care costs.

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. The Municipality has determined that the present value of total estimated closing costs and post closing care costs amount to \$2,475,000. (See Note 15).

20. 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.

21. COMMITMENTS

The Municipality of Moca had several outstanding or planned construction projects as of June 30, 2010. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental fund that amounted to approximately \$1,622,354.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

22. RESTATEMENTS

General fund and HUD fund at the beginning of year have been adjusted to reflect the following restatements:

	<u>General Fund</u>	<u>HUD Programs</u>
Beginning balance of the year as previously reported	\$ 128,256	\$ 124,456
Adjustment in due to/from other fund	<u>(58,820)</u>	<u>58,820</u>
Beginning balance of the year as restated	<u>\$ 69,436</u>	<u>\$ 183,276</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<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)		
Direct Program:		
Section 8 Vouchers Program	14.871	\$ 329,251
Pass-through State -Commonwealth of Puerto Rico/Commissions Office of Municipal Affairs - Community Development Block Grant - States Program SBGP	14.228	681,320
Pass-through Department of Family: Homeless Prevention And Rapid Re-Housing Program (Recovery Act Funded)	14.257	<u>27,800</u>
Subtotal U.S. Department of HUD		<u>1,038,371</u>
U.S. Department of Labor		
Pass-through Human Resources and Occupational Development Council:		
Youth Program Activities	17.259	<u>231,200</u>
Subtotal U.S. Department of Labor		<u>231,200</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through the Puerto Rico Elderly Commission:		
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	23,052
Special Programs for the Aging Title III, Part E, National Family Caregivers Support	93.052	<u>11,035</u>
Subtotal U.S. Department of HHS		<u>34,087</u>
U.S. Department of Homeland Security		
Pass-through Department of Justice of Puerto Rico State Domestic Preparedness Equipment Support Program		
	97.004	<u>77,164</u>
Subtotal U.S. Department of DHS		<u>77,164</u>
TOTAL		<u>\$ 1,380,822</u>

See notes to schedule of expenditures of federal awards.

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ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Moca and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Expenditures as per basic financial statements:	
Housing and Urban Development Programs	\$ 1,038,371
General Fund	34,087
Federal expenditures included within the other nonmajor governmental funds	308,364
Total expenditures per schedule of expenditures of federal awards	<u>\$ 1,380,822</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 Moca
Moca, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Moca' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Municipality of Moca in a separate letter dated December 21, 2010.

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

San Juan, Puerto Rico
December 21, 2010

Ortiz, Rivera, Rivera & Co.

The stamp 2571494 was affixed
to the original of this report



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Municipality of Moca's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Moca' major federal programs for the year ended June 30, 2010. Municipality of Moca' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Moca' management. Our responsibility is to express and opinion on Municipality of Moca' compliance based on our audit.

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

examining, on a test basis, evidence about Municipality of Moca' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Moca compliance with those requirements.

In our opinion, the Municipality of Moca complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

The management of Municipality of Moca is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Moca internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

San Juan, Puerto Rico
December 21, 2010

Ortiz, Rivera, Rivera & Co.

The stamp 2571495 was affixed to the original of this report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Moca.
- b. There were no significant deficiencies on internal control.
- c. No instances of noncompliance material to the financial statements of Municipality of Moca were disclosed during the audit.
- d. There were no significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Municipality of Moca express an unqualified opinion.
- f. Audit findings relative to the major federal award programs for the Municipality of Moca are reported in number 3 of this schedule.
- g. The programs tested as major programs included:
 - SBGP - CFDA No. 14.228
 - Section 8 – CFDA No. 14.871
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Moca was determined to be a low-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA**

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

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

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Moca Housing Project, as of June 30, 2011. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Moca Housing Project, is based on the report of the other auditors.

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

Based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Moca as of June 30, 2011, also, the respective changes in financial position thereof, and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2011 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

San Juan, Puerto Rico
December 19, 2011

Estado Libre Asociado De Puerto Rico
MUNICIPIO DE MOCA
Moca, Puerto Rico

MUNICIPALITY OF MOCA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Municipality of Moca (the "Municipality") provides this Management's Discussion and Analysis of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

USING THIS ANNUAL REPORT

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

FINANCIAL HIGHLIGHTS

- *The Municipality net assets increased by \$ 611,165.*
- *In the fund financial statements, general fund balances decreased by \$242,518.*
- *Capital expenditures amounted to \$ 2,201,182.*

GOVERNMENT-WIDE-FINANCIAL STATEMENT

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2011 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2011. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

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.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$ 17,534,258 at June 30, 2011.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

Changes in Net Assets

The Municipality's net assets increased by \$611,165. Approximately 70 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 30 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works.

Municipality of Moca Condensed Statement of Activities June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Program revenues		
Charges for services	\$ 3,567,240	\$ 3,582,255
Licenses and Permits		
Operating grants and contributions	1,572,330	1,011,347
Capital grants and contributions		
General revenues		
Property taxes	3,026,649	2,911,677
Municipal license tax	1,038,163	1,030,927
Grants and contributions not restricted to specific programs	8,985,192	7,605,003
Interest, fines and penalties	118,677	47,244
Miscellaneous	<u>620,023</u>	<u>419,039</u>
Total revenues	<u>18,928,274</u>	<u>16,607,492</u>

Expenses		
General government	9,091,119	8,304,864
Public safety	972,512	1,036,622
Public works	4,542,373	4,037,845
Culture	212,983	209,361
Recreation	908,552	772,867
Health and welfare	1,844,960	864,763
Interest on long-term debt	744,610	712,585
	<hr/>	<hr/>
Total expenses	18,317,109	15,938,947
	<hr/>	<hr/>
Change in net assets	611,165	668,545
Net assets, beginning of year	16,923,093	16,254,548
	<hr/>	<hr/>
Net assets, end of year	\$ 17,534,258	\$ 16,923,093
	<hr/>	<hr/>

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 \$ 5,828,480, an increase of \$ 489,679 in comparison with the prior year. There are reservations of fund balance. This is the fund balance that is not available for new spending because it has already been committed to pay debt service (\$ 1,464,814).

The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2010 the general fund has a superavit of \$136,946. The superavit decreased by \$242,518 during fiscal year ended June 30, 2011.

Notes to the Financial Statements

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required Supplementary Information

The statements are followed by the required supplementary information that contains the budgetary comparison schedule for the General and Debt Service Funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2011, amounts to \$44.7 million, net of accumulated depreciation of \$19.5 million, leaving a net book value of \$25.2 million. This investment in capital assets includes land, buildings, improvements, equipment construction in progress.

The total net increase in the Municipality's investment in capital assets for the current fiscal year was about 12% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$2.2 million for the year. Depreciation charges for the year totaled \$1.7 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2011 the Municipality has \$1,715,664 of unexpended proceeds from bond issuances that are committed to future construction activities.

Long-Term Debt

At year-end, the Municipality had \$ 13,119,813 in general and special bonds and notes and other long term debts. Such amount represents an increase of 16 percent with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2011 and 2010:

**Municipality of Moca
Outstanding Long-term Debt
June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
	\$	\$
General and special obligations	7,589,760	7,818,320
Other long term debts:		
Landfill obligation	2,475,000	2,475,000
CRIM-LIMS	18,681	54,438
ASES	842,908	
Compensated absences	<u>2,193,464</u>	<u>2,239,528</u>
Total	<u>\$ 13,119,813</u>	<u>\$ 12,587,286</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2010-2011 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates.

The Municipality applied an aggressive approach in development budget estimates. The Municipality estimates that the amounts available for appropriations in the General Fund for the fiscal year 2011 will be \$13.3, a increase of approximately 8% with respect to prior year final budget.

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 on the second floor of the Town Hall, Moca, Puerto Rico 00676.

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit Moca Housing Project</u>
Primary Government:					
General government	\$ 9,091,119	\$ 2,682,461	\$ -	\$ (6,408,658)	\$ -
Public safety	972,512			(972,512)	
Public works	4,542,373		796,410	(3,745,963)	
Culture	212,983			(212,983)	
Recreation	908,552			(908,552)	
Health and welfare	1,844,960		775,920	(1,069,040)	
Interest on long-term debt	744,610			(744,610)	
Total primary government	<u>\$ 18,317,109</u>	<u>\$ 2,682,461</u>	<u>\$ 1,572,330</u>	<u>\$ (14,062,318)</u>	<u>-</u>
Component Unit:					
Moca Housing Project	435,633	499,347			63,714
Total component unit	<u>\$ 435,633</u>	<u>\$ 499,347</u>	<u>\$ -</u>	<u>-</u>	<u>63,714</u>
General revenues:					
Property taxes (Note 6)				3,026,649	
Municipal license tax (Note 7)				1,038,163	
Sales and uses tax (Note 8)				884,779	
Grants and contributions not restricted to specific programs				8,985,192	
Interest and investment earnings				118,677	
Miscellaneous				620,023	
Total general revenues				<u>14,673,483</u>	<u>-</u>
Change in net assets				611,165	63,714
Net assets at beginning of year				<u>16,923,093</u>	<u>34,163</u>
Net assets at end of year				<u>\$ 17,534,258</u>	<u>\$ 97,877</u>

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

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

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>State Assignments</u>	<u>Loan \$ 2,045,000</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 486,623	\$ 213,696	\$ 2,423,433	\$ -	\$ -	\$ 1,337,988	\$ 4,461,740
Cash with fiscal agent (Notes 2 and 5)				1,112,552	2,170,265	422,693	3,705,510
Cash restricted		52,322 <i>Sec 8</i>				-	52,322
Accounts receivable:							
Municipal license taxes (Note 7)	1,770 -						1,770
Landfill	142,807 =						142,807
Due from agencies (Note 9)					52,145 <i>julio se cobró</i>		52,145
Due from other funds (Note 10)	728,342 -	25,500 -				100,000	853,842
Total assets	<u>\$ 1,359,542</u>	<u>\$ 291,518</u>	<u>\$ 2,423,433</u>	<u>\$ 1,112,552</u>	<u>\$ 2,222,410</u>	<u>\$ 1,860,681</u>	<u>\$ 9,270,136</u>

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

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

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>State Assigments</u>	<u>Loan \$ 2,045,000</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities							
Accounts payable and accrued liabilities	\$ 159,629	\$ 325,074	\$ 14,993	\$ 69,356	\$ -	\$ 238,674	\$ 807,726
Due to other agencies (Note 12)	122,849	32,198					155,047
Due to other funds (Note 10)	100,000	212,284	16,638			524,920	853,842
General obligations:							
Bonds					600,000		600,000
Interest					157,596		157,596
Deferred revenues (Note 13):							
Municipal license tax	840,118						840,118
Federal government		27,327					27,327
Total liabilities	<u>1,222,596</u>	<u>596,883</u>	<u>31,631</u>	<u>69,356</u>	<u>757,596</u>	<u>763,594</u>	<u>3,441,656</u>
Fund Balances (Deficit)							
Restricted		168,177	2,391,802	1,043,196	1,464,814	1,331,142	6,399,131
Assigned	271,335						271,335
Unassigned (presupuestario)	(134,389)	(473,542)				(234,055)	(841,986)
Total fund balance (deficit)	<u>136,946</u>	<u>(305,365)</u>	<u>2,391,802</u>	<u>1,043,196</u>	<u>1,464,814</u>	<u>1,097,087</u>	<u>5,828,480</u>
Total liabilities and fund balance	<u>\$ 1,359,542</u>	<u>\$ 291,518</u>	<u>\$ 2,423,433</u>	<u>\$ 1,112,552</u>	<u>\$ 2,222,410</u>	<u>\$ 1,860,681</u>	<u>\$ 9,270,136</u>

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

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

Total fund balances - governmental funds \$ 5,828,480

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 25,207,504

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (13,501,726)

Net assets of governmental activities \$ 17,534,258

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Housing and Urban Development Programs	State Assignments	Loan \$ 2,045,000	Debt Service	Other Governmental Funds	* Total Governmental Funds
REVENUES							
Property taxes (Note 6)	\$ 2,254,775	\$ -	\$ -	\$ -	\$ 771,874	\$ -	\$ 3,026,649
Municipal license taxes (Note 7)	1,038,163						1,038,163
Sales and uses tax (Note 8)	325,000				559,779		884,779
Licenses and permits	481,344					438,393	919,737
Charges for service and rents	1,762,724						1,762,724
Intergovernmental revenues (Note 14):							
Federal grants and contributions	22,150	1,214,642	14,237			321,301	1,572,330
State contributions	6,649,672		1,005,237			1,330,283	8,985,192
Interest, fines, and penalties	111,933		3,861		1,512	1,371	118,677
Other revenues	478,591	32,509				3,665	514,765
Total revenues	<u>13,124,352</u>	<u>1,247,151</u>	<u>1,023,335</u>	<u>-</u>	<u>1,333,165</u>	<u>2,095,013</u>	<u>18,823,016</u>
EXPENDITURES							
General government	7,082,472		8,032			691,972	7,782,476
Public safety	877,116					27,850	904,966
Public works	3,210,862						3,210,862
Culture	212,983						212,983
Recreation	677,351					407,363	1,084,714
Health and welfare	602,233	939,926				302,801	1,844,960
Capital outlays		487,212	423,252	344,105		946,613	2,201,182
Debt service:							
Principal retirement					659,317		659,317
Interest and other	483,345				343,532		826,877
Total expenditures	<u>13,146,362</u>	<u>1,427,138</u>	<u>431,284</u>	<u>344,105</u>	<u>1,002,849</u>	<u>2,376,599</u>	<u>18,728,337</u>
Excess (deficiency) of revenues over expenditures	<u>(22,010)</u>	<u>(179,987)</u>	<u>592,051</u>	<u>(344,105)</u>	<u>330,316</u>	<u>(281,586)</u>	<u>94,679</u>
OTHER FINANCING SOURCES (USES)							
Loan proceeds						395,000	395,000
Transfers in	640				89,460	131,688	221,788
Transfers out	(221,148)				(640)		(221,788)
Total other financing sources (uses)	<u>(220,508)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,820</u>	<u>526,688</u>	<u>395,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>(242,518)</u>	<u>(179,987)</u>	<u>592,051</u>	<u>(344,105)</u>	<u>419,136</u>	<u>245,102</u>	<u>489,679</u>
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>379,464</u>	<u>(125,378)</u>	<u>1,799,751</u>	<u>1,387,301</u>	<u>1,045,678</u>	<u>851,985</u>	<u>5,338,801</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ 136,946</u>	<u>\$ (305,365)</u>	<u>\$ 2,391,802</u>	<u>\$ 1,043,196</u>	<u>\$ 1,464,814</u>	<u>\$ 1,097,087</u>	<u>\$ 5,828,480</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
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, 2011**

Net change in fund balances - total governmental funds \$ 489,679

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 2,196,824
- Revenues in the statement of activities that not provide current financial resources are not reported as revenue in the financial statements. 105,258
- 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. (1,730,336)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (395,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 659,317
- Change in accrued interest expense which does not require the use of current financial resources. 82,267
- Some expenditures reported in the governmental funds do not require the use of current financial resources; therefore, are not reported as expense in statement of activities:
Accrued vacations and bonus, and other. (796,844)

Changes in net assets of governmental activities \$ 611,165

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 2,311,304	\$ 2,311,304	\$ 2,288,792	\$ (22,512)	\$ 879,010	\$ 879,010	\$ 771,874	\$ (107,136)
Municipal license taxes	1,000,000	1,000,000	1,016,556	16,556				
Licenses and permits	253,500	253,500	481,344	227,844				
Sales and use taxes	800,000	800,000	325,000	(475,000)			559,779	559,779
Charges for service and rents	2,077,500	2,077,500	1,604,561	(472,939)				
Intergovernmental revenues:								
State contributions	6,653,493	6,653,493	6,353,023	(300,470)				
Interest, fines, and penalties	35,000	35,000	112,572	77,572			1,512	1,512
Other revenues	168,000	168,000	302,360	134,360				
Total revenues	<u>13,298,797</u>	<u>13,298,797</u>	<u>12,484,208</u>	<u>(814,589)</u>	<u>879,010</u>	<u>879,010</u>	<u>1,333,165</u>	<u>454,155</u>
EXPENDITURES								
General government	7,665,715	7,524,390	6,877,137	647,253				
Public safety	920,099	898,471	880,682	17,789				
Public works	3,090,452	3,336,063	3,315,179	20,884				
Culture	240,926	220,976	217,862	3,114				
Health and welfare	605,505	610,505	602,833	7,672				
Recreation	776,100	708,392	689,064	19,328				
Debt service:								
Principal				-	415,000	415,000	659,317	(244,317)
Interest				-	464,010	464,010	343,532	120,478
Total expenditures	<u>13,298,797</u>	<u>13,298,797</u>	<u>12,582,757</u>	<u>716,040</u>	<u>879,010</u>	<u>879,010</u>	<u>1,002,849</u>	<u>(123,839)</u>
Excess (deficiency) of expenditures over (under) revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (98,549)</u>	<u>\$ (98,549)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 330,316</u>	<u>\$ 330,316</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. ORGANIZATION

The Municipality of Moca, Puerto Rico (Municipality) was founded in 1772. 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).
- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure.

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

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units, A legally separate, tax-

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

exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government. 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 Moca Housing Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Moca Housing Project is an 80-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

b. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses

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

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

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

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

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

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

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

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

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

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

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

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

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

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

The Municipality reports the following major governmental funds:

· 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.

· Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

· State Assignment Fund

This fund used to account for transactions of the State Assignments by Legislature Resolutions. The primarily objective of these assignments is the development of projects on communities, not-for-profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

· Loan Improvement Fund

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

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

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.

d. Cash and Cash with Fiscal Agent

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

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

e. Interfund Receivables and Payables

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

f. Capital Assets

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

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Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	30-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

g. Fund Balances

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

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

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use).

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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.

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

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

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

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54. In addition, the financial positions and the results of operations reported in the accompanying fund financial statements as of and for the fiscal year ended June 30, 2011 have not been affected for this change in accounting principle. Accordingly, the accompanying fund financial statements have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2010.

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2011 amounted to approximately \$284,311. The current insurance policies have not been cancelled or terminated. The CRIM also deducted by \$304,852 for workers' compensation insurance covering all municipal employees.

i. Compensated Absences

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

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December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

j. Use of Estimates

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

k. Future Adoption of Accounting Pronouncements

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

Statement Number	Statement Name	Adoption Required in Fiscal Year
57	OPEB Measurement by Agent Employees and Agent Multi-Employers Plans	2011-12
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34	2012-13
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and AICPA Pronouncements	2012-13

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<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2012-13
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53	2011-12

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

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as

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reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

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

b. Budget/GAAP Reconciliation

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

	<u>General Fund</u>	<u>Debt Service</u>
Excess (deficiencies) of revenues over (under) expenditures-budgetary basis	\$ (98,549)	\$ 330,316
Entity differences:		
Non-budgeted expenditures	644,034	
Non-budgeted revenues	(577,845)	
Non-budgeted transfers in	460	89,460
Non-budgeted transfers out	(221,148)	(460)
Timing differences:		
Current year encumbrances recorded as expenditures for budgetary basis	271,336	
Prior year encumbrances	<u>(260,806)</u>	
Excess of revenues over expenditures - GAAP basis	<u>\$ (242,518)</u>	<u>\$ 419,316</u>

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c. Legal Compliance

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

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$13.5 million differences are as follows:

Bonds payable	\$ 6,370,000	
Landfill obligation <i>(overfedoró)</i>	2,475,000	<i>deudas a largo plazo</i>
Compensated absences <i>(Vaca)</i>	2,193,464	
Note payable	1,219,760	
ASES	842,908	
Accrued interest	381,913	
CRIM-LIMS	<u>18,681</u>	

Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u><u>\$ 13,501,726</u></u>
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5. DEPOSITS - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral 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).

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The deposits at GDB of approximately \$1.5 million that are restricted principally for capital projects and general fund, and the \$2.1 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its investments in two (2) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and 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 9.58% for real property and 6.58% 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	2.75%	1.75%
Discounts made by state to tax payer	<u>(0.2%)</u>	<u>(0.2%)</u>
	<u>9.58%</u>	<u>6.58%</u>

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

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

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

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

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2010-11, but not the final settlement as the six months period after a fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the

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preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, for the year ended June 30, 2011 the amount collected from taxpayers and charges by CRIM received by the Municipality is less than amount advanced by CRIM for the same period by approximately \$9,151. Such amount is presented as due to CRIM in the government wide financial statements.

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2011. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Moca, 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 Moca, are as follows:

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

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$840,118, corresponding to the next fiscal year municipal license.

8. SALES AND USE TAXES

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

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

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

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Municipal Revenue Collection Center (Debt Service Fund)	\$ 10,413
Treasury Department of Puerto Rico	<u>41,732</u>
Total	<u><u>\$ 52,145</u></u>

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10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 499,420
General	HUD-SBGP	212,284
General	State Assigment	16,638
Other Governmental Funds	HUD-SBGP	25,500
Other Governmental Funds	General fund	100,000
		<u>\$ 853,842</u>

b. Interfund Transfers:

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General Fund	\$ 89,460
Other Governmental Funds	General Fund	131,688
General Fund	Debt Service	640
		<u>\$ 221,788</u>

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

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11. CAPITAL ASSETS

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

<u>Primary Government</u>	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,259,256	\$ 118,000	\$ -	\$ 3,377,256
Construction in progress	1,077,777	383,127	1,289,514	171,390
Total capital assets, not being depreciated	<u>4,337,033</u>	<u>501,127</u>	<u>1,289,514</u>	<u>3,548,646</u>
Capital assets, being depreciated:				
Buildings and building improvements	18,348,027	1,289,514		19,637,541
Furniture and fixture	1,041,565	141,054		1,182,619
Vehicles and equipment	8,284,862	203,669		8,488,531
Infrastructure	10,390,112	1,456,232		11,846,344
Total capital assets, being depreciated	<u>38,064,566</u>	<u>3,090,469</u>	<u>-</u>	<u>41,155,035</u>
Less accumulated depreciation for:				
Buildings and building improvements	4,788,317	418,383		5,206,700
Furniture and fixture	722,236	86,569		808,805
Vehicles and equipment	6,073,285	664,325		6,737,610
Infrastructure	6,182,003	561,059		6,743,062
Total accumulated depreciation	<u>17,765,841</u>	<u>1,730,336</u>	<u>-</u>	<u>19,496,177</u>
Total capital assets, being depreciated, net	<u>20,298,725</u>	<u>1,360,133</u>	<u>-</u>	<u>21,658,858</u>
Governmental activities capital assets, net	<u>\$ 24,635,758</u>	<u>\$ 1,861,260</u>	<u>\$ 1,289,514</u>	<u>\$ 25,207,504</u>

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

General government	\$ 515,473
Public safety	59,514
Recreation	231,201
Public works	<u>924,148</u>
Total depreciation expense-governmental activities	<u>\$ 1,730,336</u>

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Capital asset activity for Moca Housing Project, a discretely presented component unit, for the year ended June 30, 2011 was as follows:

<u>Component Unit-Moca Housing Project</u>	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 60,900	\$ -	\$ -	\$ 60,900
Total capital assets, not being depreciated	<u>60,900</u>	<u>-</u>	<u>-</u>	<u>60,900</u>
Capital assets, being depreciated:				
Land improvements	68,916			68,916
Buildings and building improvements	2,110,388			2,110,388
Building equipment	356,014	2,332		358,346
Furniture and fixtures	47,573	1,277		48,850
Equipment	14,284			14,284
Total capital assets, being depreciated	<u>2,597,175</u>	<u>3,609</u>	<u>-</u>	<u>2,600,784</u>
Less accumulated depreciation	1,997,205	62,741		2,059,946
Total accumulated depreciation	<u>1,997,205</u>	<u>62,741</u>	<u>-</u>	<u>2,059,946</u>
Total capital assets, being depreciated, net	<u>599,970</u>	<u>(59,132)</u>	<u>-</u>	<u>540,838</u>
Moca Housing Project capital assets, net	<u>\$ 660,870</u>	<u>\$ (59,132)</u>	<u>\$ -</u>	<u>\$ 601,738</u>

12. DUE TO OTHER AGENCIES

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

Puerto Rico Retirement System Administration	\$ 88,409
Puerto Rico Water and Sewer Authority	20,894
Puerto Rico General Services Administration	2,090
State Insurance Corporation	2,305
Municipal Revenues Collection Center	9,151
U. S. Department of Housing and Urban Development	<u>32,198</u>
Total	<u>\$ 155,047</u>

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13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$840,118 in the general fund related to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. The balance of \$27,327 in the HUD Program is related to the Section 8 Existing Program.

14. INTERGOVERNMENTAL REVENUES

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

The general fund intergovernmental revenues are as follows:

Puerto Rico Electric Power Authority	\$2,045,430
Puerto Rico Treasury Department (Christmas Bonus)	181,464
Equalization Fund (.20 hundredth)	<u>4,422,778</u>
 Total	 <u><u>\$6,649,672</u></u>

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15. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2011 are as follows:

Bonds

\$2,780,000 series of 1995, payable in annual installments of \$40,000 to \$270,000 until July 1, 2017, interest ranging from 4.7% to 6.63%.	\$ 1,320,000
\$430,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	350,000
\$455,000 series of 2002, payable in annual installments of \$5,000 to \$35,000 until July 1, 2027, interest ranging from 5% to 6.5%.	370,000
\$265,000 series of 2006, payable in annual installments of \$5,000 to \$25,000 until July 1, 2030, interest ranging from 6.25% to 7.25%.	235,000
\$635,000 series of 2007, payable in annual installments of \$25,000 to \$65,000 until July 1, 2021, interest ranging from 6.60% to 7.25%.	490,000
\$415,000 series of 2008, payable in annual installments of \$5,000 to \$35,000 until July 1, 2032, interest from 6.48% to 7.50%.	390,000
\$915,000 series of 2008, payable in annual installments of \$15,000 to \$75,000 until July 1, 2032, interest from 5.40% to 7.50%.	870,000

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

\$2,045,000 series of 2009, payable in annual installments of \$25,000 to \$165,000 until July 1, 2034, interest from 6.00% to 7.00%.	\$ 1,985,000
\$2,755,000 series of 2010, payable in annual installments of \$30,000 to \$50,000 until July 1, 2017, interest from 6.00% to 7.50%.	245,000
\$115,000 series of 2011, payable in annual installments of \$5,000 until July 1, 2034, interest from 6.00% to 7.50%.	115,000
	115,000
Total bonds payable	\$ 6,370,000

Notes

\$385,000 series of 2006, payable in annual installments of \$45,000 to \$65,000 until July 1, 2012; interest ranging from 4.23% to 5.33%.	\$ 65,000
\$835,000 series of 2008, payable in annual installments of \$95,000 to \$150,000 until July 1, 2008, interest ranging from 6.48% to 7.50%.	410,000
\$890,000 series of 2008, payable in annual installments of \$100,000 to \$160,000 until July 1, 2015, interest ranging from 5.40% to 7.50%.	565,000

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

Note payable to CRIM (Financing of delinquent accounts) - On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$260,193 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non revolving line of credit bearing interest of 6.5% for the first five years and variable for the next 25 years at 125 points over London Interbank offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years will be financed through .48% of the net increase of the subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for 25 years period.

\$ 179,760

Total notes payable

\$ 1,219,760

Other Long-term Liabilities

Note payable to CRIM (LIMS) - On June 27, 2001, the Municipality entered into a financing agreement with the CRIM in the amount of \$286,847 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$38,472, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

\$ 18,681

Total other long-term liabilities

\$ 18,681

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 350,000	\$ 327,449	\$ 323,560	\$ 54,464
2013	375,000	359,223	278,560	54,149
2014	400,000	338,417	303,560	38,941
2015	435,000	316,281	168,560	19,984
2016	475,000	291,547	8,560	9,051
2017-2021	1,420,000	1,142,916	42,800	37,271
2022-2026	1,115,000	832,229	42,800	23,960
2027-2031	1,210,000	468,207	42,800	10,649
2032-2036	590,000	74,375	8,560	532
	<u>\$6,370,000</u>	<u>\$ 4,150,644</u>	<u>\$ 1,219,760</u>	<u>\$ 249,001</u>

Component Unit

The mortgage payable by the discretely component unit is owed by Moca Housing Project and consists of an 8% mortgage note, payable in monthly installments of \$11,454, including interest, until 2017, collateralized with land and building.

The principal maturities of the mortgage in each of the next five years and thereafter are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 88,065
2013	94,996
2014	102,473
2015	110,537
2016	293,520
2017	99
	<u>\$ 689,690</u>

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

Landfill Obligations

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$2.5 million as the Municipality's estimated current cost for landfill closure as of June 30, 2010. The reported liability represents the total estimated cost of closure since the Municipality expects to close the landfill in the year 2011. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and postclosure costs of \$2.5 million are reported in the statement of net assets because it will not be funded with available expendable financial resources at June 30, 2011.

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

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 6,295,000	\$ 395,000	\$ 320,000	\$ 6,370,000	\$ 350,000
Notes payable	1,523,320		303,560	1,219,760	323,560
Total long-term debt	<u>7,818,320</u>	<u>395,000</u>	<u>623,560</u>	<u>7,589,760</u>	<u>673,560</u>
Other long-term liabilities:					
Landfill obligation	2,475,000			2,475,000	
ASES		842,908		842,908	
CRIM - LIMS	54,438		35,757	18,681	18,681
Compensated absences	2,239,528		46,064	2,193,464	219,346
Total other liabilities, governmental activities	<u>4,768,966</u>	<u>842,908</u>	<u>81,821</u>	<u>5,530,053</u>	<u>238,027</u>
Total noncurrent liabilities, governmental activities	<u>\$ 12,587,286</u>	<u>\$ 1,237,908</u>	<u>\$ 705,381</u>	<u>\$ 13,119,813</u>	<u>\$ 911,587</u>
Component Unit:					
Moca Housing Project mortgage payable	<u>\$ 771,230</u>	<u>\$ -</u>	<u>\$ 81,540</u>	<u>\$ 689,690</u>	<u>\$ 88,065</u>

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

16. FUND BALANCES

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

	General	Housing and Urban Development Programs	State Assignment	Loan 2,045,000	Debt Service	Other Governmental Funds	Total
Restricted:							
General government	\$ -	\$ -	\$ 735,559	\$ -	\$ -	\$ 854,399	\$1,589,958
Public safety							
Public works							
Culture							
Recreation							
Health and welfare		168,177					168,177
Capital outlays			1,656,243	1,043,196		476,743	3,176,182
Debt service					1,464,814		1,464,814
Assigned:							
General government	146,360						146,360
Public safety	3,566						3,566
Public works	104,317						104,317
Culture	4,879						4,879
Recreation	11,713						11,713
Health and welfare	500						500
Unassigned	(134,389)	(473,542)				(234,055)	(841,986)
	<u>\$136,946</u>	<u>\$ (305,365)</u>	<u>\$2,391,802</u>	<u>\$1,043,196</u>	<u>\$1,464,814</u>	<u>\$ 1,097,087</u>	<u>\$5,828,480</u>

17. FUND BALANCE DEFICIT

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

<u>Fund</u>	<u>Deficit</u>
HUD Program	\$ <u>305,365</u>
Total	\$ <u>305,365</u>

The deficit of this fund will be eliminated by grant proceeds in fiscal year 2012.

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

18. NET ASSETS

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

Capital assets, net of accumulated depreciation.	\$25,207,504
Outstanding balance on capital related debt	6,370,000
Unspent capital debt proceeds	<u>1,535,245</u>
Total invested in capital assets, net of related debt	<u>\$17,302,259</u>

19. RETIREMENT PLAN

a. Plan Description

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

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

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

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

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least

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

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation.

Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

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

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

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

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

under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2011 was approximately \$397,375. The Municipality's payroll for employees covered by ERS was approximately \$5.5 million. The Municipality total payroll for all employees was approximately \$7.0 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

20. 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.

21. 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.

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

- b. Total income from leases during the year ended June 30, 2011 was approximately \$17,246.
- 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.

22. LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality adopted the provisions of Statement No. 18, Accounting for Municipal solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws and regulations to incur closure and postclosure care costs.

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. The Municipality has determined that the present value of total estimated closing costs and post closing care costs amount to \$2,475,000. (See Note 15).

23. 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 MOCA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

24. COMMITMENTS

The Municipality of Moca had several outstanding or planned construction projects as of June 30, 2011. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental fund that amounted to approximately \$1,457,693.

25. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through December 19, 2011, the date the financial statements were issued.

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct Program:		
Section 8 Vouchers Program	14.871	\$ 321,606
Pass-through State -Commonwealth of Puerto Rico/Commissions Office of Municipal Affairs - Community Development Block Grant - States Program SBGP	14.228	713,839
Pass-through State -Commonwealth of Puerto Rico/Commissions Office of Municipal Affairs - Community Development Block Grant - States Program SBGP-ARRA	14.255	213,196
Pass-through Department of Family: Homeless Prevention And Rapid Re-Housing Program (Recovery Act Funded)	14.257	178,497
Subtotal U.S. Department of HUD		<u>1,427,138</u>
U.S. Department of Labor		
Pass-through Human Resources and Occupational Development Council: Youth Program Activities	17.259	123,946
Subtotal U.S. Department of Labor		<u>123,946</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through the Puerto Rico Elderly Commission:		
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	49,703
Special Programs for the Aging Title III, Part E, National Family Caregivers Support	93.052	8,738
Subtotal U.S. Department of HHS		<u>58,441</u>
U.S. Department of Agriculture		
Direct Program:		
Housing Preservation Grant	10.433	25,268
Subtotal U.S. Department of Agriculture		<u>25,268</u>
U.S. Department of Education		
Pass-through Department of Education		
Tecnology without limits	BP031	8,277
Subtotal U.S. Department of Education		<u>8,277</u>
U.S. Department of Homeland Security		
Pass-through Puerto Rico Governor's Office (Governor's Authorized Representative GAR) Hazard Mitigation		
Subtotal U.S. Department of HS	97.039	<u>10,034</u>
U.S. Department of Energy		
Direct Program:		
Energy Efficiency and Conservation Block Grant	81.128	153,587
Subtotal U.S. Department of Energy		<u>153,587</u>
U.S. Department of Transportation		
Pass-through Department of Transportation (Traffic Safety Commission)		
State and Community Highway	20.600	8,032
Subtotal U.S. Department of Transportation		<u>8,032</u>

See notes to schedule of expenditures of federal awards.

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

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Moca and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Expenditures as per basic financial statements:	
Housing and Urban Development Programs	\$ 1,427,138
General Fund	77,718
State Assignment Fund	8,032
Federal expenditures included within the other nonmajor governmental funds	<u>301,835</u>
 Total expenditures per schedule of expenditures of federal awards	 <u><u>\$ 1,814,723</u></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 Moca
Moca, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Moca, as of and for the year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Moca's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

San Juan, Puerto Rico
December 19, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Municipality of Moca's 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 Municipality of Moca's major federal programs for the year ended June 30, 2011. Municipality of Moca's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Moca's management. Our responsibility is to express an opinion on Municipality of Moca's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Moca's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Moca's compliance with those requirements.

In our opinion, the Municipality of Moca, complied in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as questioned cost as items 11-1 through 11-2.

Internal Control over Compliance

Management of Municipality of Moca is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Moca's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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

San Juan, Puerto Rico
December 19, 2011

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

1. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

Material weakness (es) identified? Yes X No

Significant deficiency (ies) identified? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness (es) identified? Yes X No

Significant deficiency (ies) identified? X Yes No

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

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

Identification of major programs:

14.228	SBGP
14.255	SBGP - Recovery Act Funded
14.257	Homeless Prevention and Rapid Re-Housing Program

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

Audited qualified as low-risk auditee? X Yes No

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

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

a. Community Development Block Grant - CFDA No. 14.228

Condition 11-1 - Program Income

The Municipality did not comply with the requirement of preparing and filing the program income quarterly report for the period ended September 30, 2010, December 2010, March 31, 2011 and, June 30, 2010, in a timely basis. During our examination, we noted that the Municipality did not send or not send in time the quarterly report for the following period ended:

<u>Report</u>	<u>Report Period</u>	<u>Due Date</u>	<u>Submitted</u>
September 2010	July to September 2010	10/30/10	11/2/10
December 2010	October to December 2010	1/31/11	3/10/11
March 2011	January to March 2011	4/30/11	Not submitted
June 2011	April to June 2011	7/31/11	Not submitted

Program

Cause

The above situation occurred because the Municipality did not ensure to verify the due date to submit this report to the Agency.

Effect

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

Criteria

Based on the OCAM Circular 2008-11, the program income quarterly report for period, must be submitted on the established date.

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

Recommendation

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

Questioned Costs

None

b. Homeless Prevention and Rapid - Re Housing - CFDA No. 14.257

Condition 11-2 - Period of Availability of Federal Funds

The Municipality did not comply with the requirement that they must spend at least 60 percent of such funds within 2 years of the date on which funds became available for obligation and spend 100 percent of such funds within 3 years of such date.

Cause

The Municipality did not spend at least 60 percent of the funds in two years.

Effect

The Municipality is not in compliance with the period of availability of funds.

Criteria

Based in the American Recovery and Reinvestment Act of 2009 (ARRA, 123 Stat 221), the Municipality has a period of 2 years to spend at least 60 percent of funds and 3 year in which the 100% of funds should be spend.

Recommendation

The Municipality must establish procedures to increase the expenses in the next months in order to comply with this requirement.

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

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MOCA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

No prior years findings.

