

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

MUNICIPIO DE FLORIDA
AUDITORIA 2002-2003
30 DE JUNIO DE 2003

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA**

**SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

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ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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TABLE OF CONTENTS

	<u>Pages</u>
PART I - FINANCIAL	
Independent Auditor's Report on Financial Statements	1-2
Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	3-4
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types	5-6
Combined Statement of Revenues and Expenditures - Budget and Actual - General Fund and Debt Service Fund	7
Notes to Combined Financial Statements	8-29
Schedule of Expenditures of Federal Awards	30-31
Note to Schedule of Expenditures of Federal Awards	32
PART II - INTERNAL CONTROL	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	33-34
Schedule of Reportable Conditions and Recommendations	35-39

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART III - COMPLIANCE	
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	40-41
Schedule of Findings and Questioned Costs	42-44
Schedule of Findings and Questioned Costs for the Prior Fiscal Year	45-46
PART IV - EXHIBIT	
I. Corrective Action Plan	

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Public Accountants
Management Consulting
Services Division

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the Municipality of Florida, as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality of Florida's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of Villas de Florida I, which statements reflect total assets of \$1,966,487 as of June 30, 2003, and total revenues of \$379,865 for the year then ended. Other auditors whose report has been furnished to us audited those statements, and our opinion, insofar as it relates to the amount included in the Special Revenues Fund, General Fixed Assets and General Long-Term Debt Accounts Group for the Municipality, is based solely on the report of the other auditors.

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

As described in Note 6, the Municipality of Florida has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, we were unable to satisfy ourself as to the fixed asset balance of such group amounting to \$13,299,849.

As described in note 16, the Municipality has not performed a study of the estimated landfill closing and post closing costs that will be recognized in the general purpose financial statements, as required by the GASB Statement Number 18, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs." The study did not provide for an estimate of post closing costs, accordingly, no provision for liability has been made in the financial statements as required by this statement.

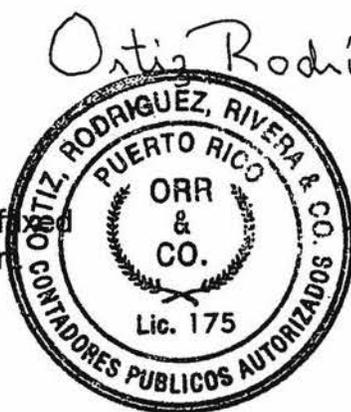
In our opinion based on our audit and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to general fixed assets balances and for the necessary provision for liability post closing costs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Florida as of June 30, 2003, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2003, 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, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

San Juan, Puerto Rico
October 1, 2003

The stamp 1908279 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS
JUNE 30, 2003**

Assets	Governmental Fund Types				Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Asset	General Long Term Debt	Memorandum
Cash in bank (Note 2)	\$ -	\$ 438,105	\$ -	\$ 115,422	\$ -	\$ -	\$ 553,527
Cash with fiscal agent (Note 2)			130,013	46,250			176,263
Restricted deposits (Note 1)		583,103					583,103
Due from other agencies (Note 7)	1,009,018	295,234					1,304,252
Due from other funds (Note 8)	514,567			221,016			735,583
Property and equipment (Note 6)					13,299,849		13,299,849
Other assets		7,526					7,526
Amount available in debt service fund (Note 2)						130,013	130,013
Amount to be provided for retirement of general long-term debt						1,465,927	1,465,927
Amount to be provided through property tax collected for payment of related property tax advances (Note 10)						3,119,033	3,119,033
Amount to be provided for payment of Section 515 Direct Loan (Note 10)						980,561	980,561
Amount to be provided for payment of accrued vacation and sick leave (Note 1)						771,855	771,855
Total assets	\$ 1,523,585	\$ 1,323,968	\$ 130,013	\$ 382,688	\$ 13,299,849	\$ 6,467,389	\$ 23,127,492

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2003**

<u>Liabilities and Fund Equity</u>	<u>Governmental Fund Types</u>				<u>Account Groups</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Fixed Asset</u>	<u>General Long Term Debt</u>	<u>Memorandum</u>
Liabilities							
Bank Overdraft	\$ 30,844	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,844
Account payable and accrued liabilities	169,990	112,802					282,792
Due to other funds (Note 8)	221,016	431,159		83,408			735,583
Due to other agencies (Note 9)	512,780						512,780
Deferred revenues (Note 4)	105,889	154,553					260,442
Accrued vacations and sick leave (Note 1)						771,855	771,855
General long-term debts (Note 10)						1,595,940	1,595,940
Section 515 Direct Loan (Note 10)						980,561	980,561
Property tax advances (Note 10)						3,119,033	3,119,033
Total liabilities	1,040,519	698,514	-	83,408	-	6,467,389	8,289,830
Commitments and Contingencies (Notes 12, 13 and 14)							
Fund Equity (Note 1)							
Investment in general fixed assets					13,299,849		13,299,849
Fund balance							
Reserved for encumbrances	431						431
Reserved for debt services			130,013				130,013
Designated for housing project		613,026					613,026
Designated for capital additions				299,280			299,280
Undesignated equity	482,635	12,428					495,063
Total fund equity	483,066	625,454	130,013	299,280	13,299,849	-	14,837,662
Total liabilities and fund equity	\$ 1,523,585	\$ 1,323,968	\$ 130,013	\$ 382,688	\$ 13,299,849	\$ 6,467,389	\$ 23,127,492

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES-ALL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types			Total	
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
REVENUES					
Property taxes (Note 3)	\$ 324,770	\$ -	\$ 101,053	\$ -	\$ 425,823
Municipal license taxes (Note 4)	244,411				244,411
Licenses and permits	112,566				112,566
Charges for service and rents	137,695				137,695
Inter-governmental revenues (Note 5):					
Federal grants and contributions		1,296,173		49,105	1,345,278
State contributions	4,232,607				4,232,607
Interest, fines, and penalties	6,905		992		7,897
Rental revenue from housing project (Note 1)		379,865			379,865
Other revenues	696,517				696,517
Total revenues	<u>5,755,471</u>	<u>1,676,038</u>	<u>102,045</u>	<u>49,105</u>	<u>7,582,659</u>
EXPENDITURES					
Municipal council	82,822				82,822
Offices:					
Administrative Services	159,315				159,315
Mayor	370,637				370,637
Departments:					
Civil Defense	478,201				478,201
Finance	821,530				821,530
Health	529,225				529,225
Public Works	1,435,017	666,007			2,101,024
Recreation	262,338				262,338
Personnel	507,980				507,980
Capital outlays				301,482	301,482
Collection of property taxes applied to advances (Note 3)	472,805				472,805
General Government	586,234				586,234
Secretary	155,378				155,378
Welfare		940,771			940,771

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY-ALL FUND TYPES (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
Debt services:					
Principal retirement (Note 10)	\$ -	\$ -	\$ 239,549	\$ -	\$ 239,549
Interest payments (Note 10)			301,705		301,705
Total expenditures	<u>5,861,482</u>	<u>1,606,778</u>	<u>541,254</u>	<u>301,482</u>	<u>8,310,996</u>
Excess (deficiency) of revenues over expenditures	<u>(106,011)</u>	<u>69,260</u>	<u>(439,209)</u>	<u>(252,377)</u>	<u>(728,337)</u>
OTHER FINANCING SOURCES (USES)					
Advances of property taxes (Note 3)	472,805				472,805
Operating transfer-in	29,652		427,260		456,912
Operating transfer-out	<u>(326,322)</u>	<u>(100,938)</u>	<u>(29,652)</u>		<u>(456,912)</u>
Total other financing sources (uses)	<u>176,135</u>	<u>(100,938)</u>	<u>397,608</u>	<u>-</u>	<u>472,805</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>70,124</u>	<u>(31,678)</u>	<u>(41,601)</u>	<u>(252,377)</u>	<u>(255,532)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>412,942</u>	<u>657,132</u>	<u>171,614</u>	<u>551,657</u>	<u>1,793,345</u>
FUND BALANCE AT END OF YEAR	<u>\$ 483,066</u>	<u>\$ 625,454</u>	<u>\$ 130,013</u>	<u>\$ 299,280</u>	<u>\$ 1,537,813</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
COMBINED STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL - GENERAL AND DEBT SERVICES FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES (Notes 1 and 15)						
Property taxes	\$ 125,503	\$ 125,503	\$ -	\$ 131,808	\$ 101,053	\$ (30,755)
Municipal license taxes	244,199	244,411	212			
Licenses and permits	107,272	112,566	5,294			
Charges for service and rents	105,180	137,695	32,515			
Inter-governmental revenues:						
State contributions	4,405,201	4,232,607	(172,594)			
Interest, fines, and penalties	8,144	8,565	421		992	
Other revenues	33,089	42,721	9,632			
Total revenues	<u>5,028,588</u>	<u>4,904,068</u>	<u>(124,520)</u>	<u>131,808</u>	<u>102,045</u>	<u>(29,763)</u>
EXPENDITURES (Notes 1 and 15)						
Municipal council	84,316	82,822	1,494			
Offices:						
Administrative Services	162,951	159,315	3,636			
Mayor	372,942	370,637	2,305			
Departments:						
Civil Defense	490,237	478,201	12,036			
Finance	1,017,623	1,066,477	(48,854)			
Health	531,124	529,225	1,899			
Public Works	1,418,865	1,435,017	(16,152)			
Recreation	263,519	262,338	1,181			
Personnel	527,695	507,980	19,715			
Secretary	159,316	155,378	3,938			
Debt service; principal and interest payment		-	-	131,808	143,646	(11,838)
Total expenditures	<u>5,028,588</u>	<u>5,047,390</u>	<u>(18,802)</u>	<u>131,808</u>	<u>143,646</u>	<u>(11,838)</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ (143,322)</u>	<u>\$ (143,322)</u>	<u>\$ -</u>	<u>\$ (41,601)</u>	<u>\$ (41,601)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Municipality of Florida, Puerto Rico (Municipality) was incorporated in 1973. 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 12 members. The members of these branches are elected every four years in the Puerto Rico general elections.

b. Summary of Significant Accounting Policies

The accounting policies of the Municipality are in accordance with the accounting principles generally accepted in the United States of America applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the more significant policies:

1) Fund Accounting

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are grouped in the financial statements into four fund types and other fund category, as follows:

a) Governmental Funds

i. General Fund

The General fund is the operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

ii. Special Revenue Fund

Special revenue fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

iii. Debt Service Fund

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

iv. Capital Project Funds

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessments Funds and Agency Funds).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

b) Fiduciary Funds

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

c) Account Groups

Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

i. General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality.

ii. General Long-term Debt Account Group

This group of accounts is established to account for all long-term debts of the Municipality.

d) Budgetary Control:

The Mayor submits and the Municipal Legislature approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

- i. General Fund appropriations for recurrent and ordinary functions of the Municipality.
- ii. Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

do not require annual legislative budget authorization because they are continuing appropriations.

2) Basis of Accounting

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, measurable, except for unmatured interest on general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees, permits, fines and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

3) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at a year end are reported as reservations of fund balances and do not constitute expenditures

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

or liabilities because the commitments will be honored during the subsequent year.

4) Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

5) Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate the insurance coverage of the Municipality.

6) Inventories

The General and Special Revenue Fund purchase office and printing supplies, gasoline, oil and other items. The cost of current purchases is recorded as expenditures.

7) Interfund Transactions

Interfund transactions represent operating transfers from a fund receiving revenues to a fund through which the resources are to be disbursed.

8) Vacation and Sick Leave

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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.

9) Component Units

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 are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either 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 of the Municipality's balances and transactions or discrete presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

Villas de Florida I (the "Project") is a 89-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 (see Note 10).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The Project has a management contract with Star Management Corp. to manage the apartment complex. The contract provides for management fees to be charged to the operations at 6% of gross collections received. Gross collections include rental income, housing assistance payments and income from other sources. HUD has approved the agent contract and the fees.

Under the regulatory agreement, Project is required to set aside amounts for the replacement of property. This reserve is restricted as to use by USDA-RD and HUD. The balance as of June 30, 2003 was \$583,103.

10) 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 related disclosures at the date of the financial statements and the reported amounts of revenues and 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 (CRIM) caused by the delay of the notification of the real revenues and expenditures to be presented in the financial statements of the agencies mentioned above. Actual results could differ from those estimates.

11) 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>Adoption Required in Fiscal Year</u>
34	Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments	2003-04
37	Reporting Model Omnibus	2003-04

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Statement Number</u>		<u>Adoption Required in Fiscal Year</u>
38	Note Disclosures	2003-04
39	Determining Whether Certain Organizations are Components Units	2003-04
40	Deposit and Investment Risk Disclosure	2004-05
41	Budgetary Comparison Schedules - Perspective Differences	2003-04

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

2. CASH AND CASH WITH FISCAL AGENTS

a. Cash in Bank and Concentration Risk

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance.

The Municipality maintains its cash accounts in one bank located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The following is a summary of the total insured by collateral provided by bank and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

	<u>Total</u>	<u>Insured by FDIC</u>	<u>Insured by Collateral in Treasury Department</u>
Popular Bank	\$564,749	\$100,000	\$ 464,749
Popular Bank (Villas de Florida)	<u>50,193</u>	<u>50,193</u>	<u>-</u>
	<u>\$614,942</u>	<u>\$150,193</u>	<u>\$464,749</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

b. Cash with Fiscal Agents

An additional special tax of 1.25% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the Government Development Bank for debt service purposes. At June 30, 2003, the balance of cash retained by the Government Development Bank amounted to \$130,013.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2003, the balance of cash retained by the Government Development Bank available for the acquisition of real property amounted to \$46,250.

3. PROPERTY TAXES

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) 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 Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The rates are 8.08% for real property and 6.08% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discount made by state to taxpayer	< .20% >	< .20% >
Total	<u>8.08%</u>	<u>6.08%</u>

The "Additional special property tax - municipal" is restricted for debt service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The "Additional special property tax - state" is collected by the Municipal Revenue Collection Center 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 the Treasury assumes payment of the basic tax to the Municipality, except for property assessed of 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 Municipal Revenues Collection Center.

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.

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

sources in the Municipality's General Fund and as an obligation in the General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 1999-2000. The amount that the Municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Central Government to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. The balances of the advances from CRIM presented in the general long term debt account group amounted to \$3,119,033, which will be paid through property taxes advances until the year 2032, including interests (see note 10).

4. DEFERRED REVENUE

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, 2003. 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 Florida, 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. The rates of municipal license in the Municipality of Florida 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 \$105,889, corresponding to the next fiscal year municipal license.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

5. INTERGOVERNMENTAL REVENUES

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Water and Sewer Authority, the Puerto Rico Electric Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services and U.S. Department of Labor.

6. GENERAL FIXED ASSETS

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, is not recorded in this group of accounts. The Municipality has not maintained adequate records for its Fixed Assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department at present is in the process of updating these records in order to maintain a proper system in its future.

The Municipality's management has estimated its real property and other fixed assets as follows:

Real property	\$ 6,833,511
Vehicles, equipment, and furniture	3,381,212
Villas de Florida I	<u>3,085,126</u>
 Total general fixed assets	 <u>\$13,299,849</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

7. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Puerto Rico Electric Power Authority	\$ 474,071	\$ -	\$ 474,071
Puerto Rico Labor Department	273,391		273,391
Transit Secure Commission	5,639		5,639
Municipal Revenues Collection Center	199,267		199,267
Municipality of Barceloneta	56,650		56,650
Commissioner Office of Municipal Affairs (SBGP)		78,971	78,971
U. S. Justice Department	111,457		
Family and Children Department	<u>-</u>	<u>104,806</u>	<u>104,806</u>
Total	<u>\$1,009,018</u>	<u>\$295,234</u>	<u>\$1,304,252</u>

8. DUE FROM (TO) OTHER FUNDS

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due-from) and inter-fund payable (due-to) balances.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The due from and due to other fund balances as of June 30, 2003, are as follows:

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
General Fund		
Special Revenue Fund	\$431,159	\$ -
Capital Project Fund	83,408	221,016
Special Revenue Fund		
General Fund		431,159
Capital Project		
General Fund	<u>221,016</u>	<u>83,408</u>
	<u>\$735,583</u>	<u>\$735,583</u>

9. DUE TO OTHER AGENCIES

The composition of this account is as follows:

	<u>General Fund</u>
Puerto Rico Electric Power Authority	\$401,061
Employees' Retirement System	24,556
Puerto Rico Telephone Company	47,892
Treasury Department	20,143
General Administration Services	<u>19,128</u>
 Total	 <u>\$512,780</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

10. GENERAL LONG-TERM DEBTS

The general long-term debts' transactions as of June 30, 2003 are as follows:

Balance July 1, 2002	\$6,107,341
Payments	(239,549)
Adjustments	(<u>172,258</u>)
 Balance June 30, 2003	 <u>\$5,695,534</u>

General long-term debt obligations at June 30, 2003 are as follows:

Bonds

1999 series, \$230,000 payable in annual installments of \$25,000 to \$40,000 until 2006; with interest at 6% until 7%.	\$ 110,000
2002 series, \$175,000 payable in annual installments of \$30,000 to \$40,000 until 2006; with interest at 5% until 8%.	145,000
2002 series, \$190,000 payable in annual installments of \$30,000 to \$40,000 until 2006; with interest at 5% until 8%.	<u>160,000</u>
	<u>415,000</u>

Notes Payable

1996 series, \$400,000 payable in annual installments of \$10,000 to \$40,000 until July 1, 2016 with interest at 6.63% until 8.00%.	<u>330,000</u>
	<u>330,000</u>

Other

Property tax advance - Prior year, payable in monthly installments of \$603.57, until April 1, 2010.	50,700
\$120,709 due to the Department of Labor - Unemployment Division, payable in annual installments of \$33,228 until July 1, 2004.	38,791

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Payment plan with Treasury Department related with some legal claims to cover damage as per final settlement. This debt was agreed to be payable in 120 monthly installments of \$1,917 including interest, beginning in October 1, 1998.	\$ 110,849
Payment plan with Treasury Department related with income contributions. This debt was agreed to be payable in 59 monthly installments of \$825, and a final installment of \$874, beginning in March 1, 1999, with a first payment of \$5,000.	6,650
Due to the Puerto Rico Health Insurance Administration (ASES) represents the municipal contribution related to the Health Care Reform corresponding to the period from December 1, 1995 through June 30, 1997. This balance will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.	643,950
\$3,157,874 property taxes 1997-98 to 1999-2000, payable in monthly installments of \$19,444 involving interests at 6.1588% until July 1, 2031. (See Note 3)	<u>3,119,033</u> <u>3,969,973</u> <u>\$4,714,973</u>

The annual requirements for the amortization of general long-terms at June 30, 2003, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2004	\$ 365,043
2005	343,268
2006	350,401
2007	302,512
2008	208,402
2009-2013	443,865
2014-2018	553,872
2019-2023	571,498
2024-2028	770,539
2028-2032	<u>805,574</u>
	<u>\$4,714,973</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

As described in Note 3, the Municipality levies an additional special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Municipal Revenues Collection Center as agent for the Municipality.

Mortgage Payable - Villas de Florida I

Mortgage payable consists of permanent residences' loan provided by USDA Rural Development. The land and buildings of the Project secure the mortgage notes. The mortgage is payable in monthly installments of \$8,401 including interest at 8%, through 2019.

\$980,561

The principal annual requirements for next years and thereafter is as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2004	\$ 33,472
2005	35,892
2006	38,486
2007	41,269
2008	44,043
Thereafter	<u>787,399</u>
	<u>\$980,561</u>

The fair value of the mortgage payable is estimated based on the current rates offered to the Project for debt of the same remaining maturates. At June 30, 2003, the fair value of the mortgage payable approximates the amounts recorded in the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

11. 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. ERS was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

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

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

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least 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, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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.

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 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, 2003 was \$214,041. The Municipality's payroll for employees covered by ERS was \$2,307,720. The Municipality total payroll for all employees was \$3,752,899.

12. 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 believed 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 counsels believe that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

13. COMMITMENTS

The Municipality of Florida had several outstanding or planned construction projects as of June 30, 2003. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amounts to \$42,312.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

14. LEASES

Leasing arrangements with the Municipality as lessor are as follows:

- a. The Municipality leases spaces in its market place and facilities under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2003 was approximately \$137,695.
- c. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance costs of the leased assets.

Leasing arrangement with the Municipality as lessee:

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

15. BUDGETARY COMPARISONS

As described in Note 1, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with accounting principles generally accepted in the United States of America.

The principal difference between budgetary basis and accounting principles generally accepted in the United States of America, is as follows:

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.
- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by accounting principles generally accepted in the United States of America.
- c. Under accounting principles generally accepted in the United States of America, the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and at the same time, such amount is recorded as

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.

The necessary adjustments to reconcile the revenues and expenditures at the end of the year from the accounting principles generally accepted in the United States of America to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Generally accepted accounting principles basis	\$5,755,471	\$5,861,482
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	431
Less prior year encumbrances recorded as expenditures on the GAAP basis	-	(81,806)
Plus advances of property taxes recorded as revenue on the budgetary basis	472,805	-
Plus transfer in/out	29,652	326,322
Less collection of property taxes (not exonerated), recorded previously as revenue by the Municipality when received and deducted from the advances payable to the Treasury Department	(672,072)	(472,805)
Non-budgeted funds	(<u>681,788</u>)	(<u>586,234</u>)
Budgetary basis	<u>\$4,904,068</u>	<u>\$5,047,390</u>

The budget prepared for each of the special revenue funds is based on a program period which is not necessarily the same fiscal year of the Municipality. Accordingly, it is not practical to present an annual comparison of budget and actual for the Special Revenue Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The Municipality budget is amended by the majority vote of the Municipal Legislative. Said amendments are included in the budgetary basis.

16. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST CLOSURE COSTS

The Municipality owns and operates a landfill located in the southern portion of the Municipality. State and federal laws will require the Municipality to close the landfill once its capacity is reached and to monitor and maintain the site. The most recent engineering study (1998) reveals that the landfill can operate for the next five years.

In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Cost", the Municipality should perform a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal resolutions and to determine an estimate of post closure costs. The total estimates of the closure and post closure cost of the landfill has not been determined and accounted as required by accounting principles generally accepted in the United States of America as of June 30, 2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor Pass/Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development		
Direct Programs		
Section 8 Vouchers	14.871	\$ 186,102
Pass-through Commonwealth of Puerto Rico/ Commissions Office of Municipal Affairs Community Development Block Grant-States Program SBGP	14.228	<u>666,007</u>
Subtotal U.S. Department of HUD		<u>852,109</u>
U.S. Department of Health and Human Services		
Pass-through the Puerto Rico Elderly Commission		
Special programs for aging Title III Part C, Nutrition Services	93.045	<u>20,031</u>
Subtotal U.S. Department of HHS		<u>20,031</u>
U.S. Department of Agriculture		
Pass-through Governor's Office of Child Services and Community Development:		
Child and Adult Care Food Program	10.558	279,647
Emergency Food Assistance Program	10.569	<u>51,311</u>
Subtotal U.S. Department of Agriculture		<u>330,958</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor Pass/Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Justice		
Pass-through the Governor's Office of Community Public Safety Partnership and Community Policing Grants (COPS)	16.710	\$ <u>73,110</u>
Subtotal U.S. Department of Justice		<u>73,110</u>
TOTAL		<u>\$1,276,208</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Florida's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A reconciliation of amounts included in the Schedule of Expenditures of Federal Awards and the General Purpose Financial Statements (Special Revenue Fund) follows:

	<u>Expenditures</u>
Total federal expenditures	\$1,276,208
Total non federal expenditures accounted for in the Special Revenue Fund of the General Purpose Financial Statements	<u>330,570</u>
Total expenditures accounted for in the Special Revenue Fund of the General Purpose Financial Statements	<u>\$1,606,778</u>

The Schedule of Expenditures of Federal Awards do not include Section 8 Housing Assistance Payments in the amount of \$293,101 (CFDA No. 14.182), which was federal grant received by Villas de Florida I during fiscal year 2002-2003 as payment for rent subsidy, and unpaid balance of mortgage of Rural Housing Loans (CFDA Number 14.855) (see note10).

2. LOAN OUTSTANDING

The Schedule of Expenditures of Federal Awards does not include Rural Rental Housing Loans Program (CFDA No. 14.855) outstanding balance at June 30, 2003, for which grantor imposes continuing compliance requirements. The outstanding balance was included in the Municipality's General Long-Term Debt Account Group (see note 10 of the notes to the general-purposes financial statements).



ORTIZ, RODRIGUEZ, RIVERA & CO.

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Members:

American Institute of Certified
Public Accountants (AICPA)

Puerto Rico Board of Certified
Public Accountants

Management Consulting
Services Division

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

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

We have audited the financial statements of the Municipality of Florida as of and for the year ended June 30, 2003, and have issued our report thereon dated October 1, 2003, which was qualified because insufficient audit evidence exists to support Municipality of Florida' disclosures with respect to the general fixed assets balances and for no provision for liability post closing costs. Except as discussed in the preceding sentence, 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.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Florida's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Florida's internal control over financial reporting in order to determine our auditing procedures for the

purpose of expressing our opinion on general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Florida's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions and recommendations as items from 03-1 to 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all matters reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Municipality of Florida, in a separate letter dated October 1, 2003.

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
October 1, 2003

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. ACCOUNTING SYSTEM

We noted that the Municipality of Florida is not keeping an accounting system as required by accounting principles generally accepted in the United States of America at present time, the Municipality records the transactions in the general, capital project and special revenue funds. These funds are kept under the cash basis method. Also, the system used to record the purchase orders and contracts are not adequate; because does not provide for a segregation between the accounts payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.

Recommendation

We recommend the Municipality of Florida that in coordination with the Municipal Revenue Collection Center and the Commissioner Office of Municipal Affairs, implement an accounting system which should provide the following:

The Municipality's operations are accounted for through several separate funds and account groups, accounting in each of them the related assets, liabilities, and equity and other balances. The individual funds should be summarized in a combined financial statements by fund category. The Municipality should use the general purpose financial statements based on the following fund and accounts groups:

a. Governmental Funds

Governmental funds are used to finance most of the governmental functions. The sources and uses of resources available are systematically registered through the statement of changes in fund balances and not through the determination of net income. The different types of governmental funds are as follows:

1) General

This is the operational fund for the Municipality. It accounts for all financial resources except those required to be accounted for in another funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

2) Special revenue

Is used to account for the proceeds of specific revenue sources (other than expendable trust or mayor capital projects) that are legally restricted for expenditure for specified purposes.

3) Debt service

Is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest and related costs.

4) Capital project

Is used to account for financial resources to be used for the construction or acquisition of major capital facilities (other than those financed by proprietary and trust funds).

The resources that come from bonds and notes are registered as other financial resources in the Capital Project Funds. The expenditures related to the projects are incurred after the bonds and note issuances.

So, the Capital Project Funds can reflect an excess of expenditures over revenues and other resources.

b. Proprietary Fund

Is used to account for operations financed and operated similar to business, whose main objective is the determination of net income. The main objective of this type of fund is to match income with expenses and deriving profits. Depreciation accounts are also used in this type of fund.

c. Trust and Agency Fund

Is used to account for assets held by the Municipality Agency, in the trustee's capacity or as agent whose main responsibility is to ascertain that those assets are disposed of as prescribed by the individual or other governmental unit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

d. Account Groups

Accounts groups are not funds. The same should be used to establish accounting controls and to account for General Fixed Assets and General Long-term Debt.

1) General Fixed Assets accounts group

Is used to provide accounting over general fixed assets, except those already recorded in the proprietary and Trust Funds.

2) General Long-term Debt accounts group

Is used to provide accounting control over General Municipal Long-term Debt; except those accounted in the Proprietary and Trust Funds.

The Municipality's accounting system should provide for the segregation of the encumbrances from accounts payable. Encumbrances represent commitments related with a service to be received or a good to be acquired. This amount should be accumulated in an account named Fund Balance Reserved for Encumbrances at the time the purchase order is issued. The amount of Encumbrances should be reserved for each fund balance since no bilateral agreement exists. The accounts payable and accrued expenses should be recorded when the debt is incurred and the amount is determinable.

2. FIXED ASSETS

The Municipality does not have an effective system to account for fixed assets. There are no controls in place to assure that all property expenditures which should be capitalized or property dispositions are recorded in the fixed assets subsidiary ledger. Procedures are not in place to require that real property acquired with federal and local funds be recorded in the property subsidiary ledger or that any property sales and dispositions be accounted for in the fixed assets subsidiary ledger.

This condition occurs because there are no established procedures to prepare the adjustments necessary to record these transactions in the fixed assets subsidiary ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Article 8.013 of the Municipalities Law and Chapter VII of the Basic Standards establish that the Municipality shall be responsible to safeguard and be accountable for its fixed assets (both real and personal property).

Chapter VII, Sections 3, 4, 14, 15 and 21 of the Basic Standards, establishes the following guidelines regarding property management:

Section 3 establishes that the Finance Director is responsible for the accountability of the capital assets acquired by the Municipality through purchases or donations.

Section 4 establishes that the Municipality Property Administrator shall be responsible to the Mayor and the Finance Director for the direct administration, use and maintenance of the entire real and personal property owned by the Municipality.

Section 14(1) establishes that all Municipal property shall be numbered and identified as to ownership by the Property Department Director.

Section 15(1) establishes that the Property Department Director is responsible for accurately maintaining the central property records.

Section 21(c) establishes that management shall write-off from the property records all property and equipment sold or disposed of when certified by the Internal Auditor of the Municipality upon determination that such disposal is adequate.

The continued failure to have accurate and complete property records has resulted in a disclaimer with respect to the general fixed assets account group. Under the requirements of Statement 34 this can result in a disclaimer of opinion of the entity wide statements. Furthermore, this situation represents a significant risk of loss of property and equipment because there is a lack of accountability for acquired assets. The value of federally funded property that may be lost would need to be repaid to the federal government with local funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Recommendation

The Property Division must require each division that acquires property and equipment to submit a report including a full description of the asset, location, use, responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other than the users, and through public announcement or bids.

The Accounting Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with that recorded in the control account. In addition, the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal funds offices, such as Head Start, and Housing and Urban Development (HUD).



ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

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

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

Compliance

We have audited the compliance of Municipality of Florida 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, 2003. Municipality of Florida'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 Florida's management. Our responsibility is to express an opinion on Municipality of Florida'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 Florida'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 Florida's compliance with those requirements.

In our opinion, Municipality of Florida 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, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 03-1 to 03-2.

Internal Control over Compliance

The management of Municipality of Florida 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 Florida'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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
October 1, 2003

The stamp 1908281 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Florida.
- b. There were reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Florida were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Florida express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Florida 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 Florida was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

See Schedule of Reportable Conditions and Recommendation on pages 35 to 39.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.228	<p>Condition 03-1</p> <p>The program did not comply with the procedures require for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees.</p> <p><u>Cause</u></p> <p>The program does not have adequate control procedures for the cash management.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest costs on the excess cash on hand, which would be paid from local funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient shall adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Recommendation</u></p> <p>The disbursements of funds should be made for not more than three days after received, in order</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<p>SBGP CFDA No. 14.228</p>	<p>to comply with the cash management requirement.</p> <p>Condition 03-2</p> <p>We observed the contracts with OCAM for the federal funds for the year programs 1995, 1997, and 1998 expired on December 31, 2002. The contract of year program 2001 expired on January 31, 2003. The request for an extension was submitted on March 2003.</p> <p><u>Cause</u></p> <p>The contract and period corresponding were not reviewed regularly to avoid this situation.</p> <p><u>Effect</u></p> <p>The contract does not cover the complete period and does not comply with the general requirements.</p> <p><u>Criteria</u></p> <p>The original contract establishes that if it needs an extension, it should be request for at least 30 days before the due date of the contract.</p> <p><u>Recommendation</u></p> <p>We recommend to the Municipality maintain a record with the dates of sign and expiration of the contracts.</p>	<p>\$ <u>-0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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.

-45-

ORTIZ, RODRIGUEZ, 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 FLORIDA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	Condition 01-1 The program maintains high balance in cash.	Condition still continues.
SBGP CFDA No. 14.228	Condition 01-2 The program did not perform the evaluation of Davis Bacon Act requirement.	Condition was not observed.
SBGP CFDA No. 14.228	Condition 02-1 The program maintains high balance in cash.	Condition still continues.
SBGP CFDA No. 14.228	Condition 02-2 The interviews realized to contractors' employers were not signed by them (Davis Bacon Act.)	Condition was not observed.

EXHIBIT I

CORRECTIVE ACTION PLAN

ORTIZ, RODRIGUEZ, RIVERA & CO.

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Estado Libre Asociado de Puerto Rico
 Gobierno Municipal
 P.O. Box 1168
 Florida, Puerto Rico 00650-1168
 Tel. 822-2600

ATIVE ACTION PLAN

October 1, 2003

Following corrective action plan for the year

Firm: Ortiz, Rodríguez, Rivera & Co.,
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DIVISION REGULACION
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Action Taken

The Municipality will establish an internal system which the disbursement vouchers were authorized before request the federal funds to OCAM.

Finding 03-2: SBGP - CFDA 14.228

Reportable Condition: See Condition 03-2

Recommendation

The Municipality should maintain a record with the dates of sign and expiration of the contracts, in order to make the extension into the period established, if is necessary,

Action Taken

The Municipality will establish an internal control system in order to 30 days before end the contracts make the request of the extension of the federal funds.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mrs. Xiomara Pagán Sotomayor at (787) 822-3514.

Sincerely yours,



Xiomara Pagán Sotomayor
Finance Director