

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

**MUNICIPIO DE FLORIDA**  
**AUDITORIA 2003-2004**  
**30 DE JUNIO DE 2004**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004**

**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  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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## ORTIZ, RODRIGUEZ, RIVERA & CO.

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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 financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Florida, as of and for the year ended June 30, 2004, 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 Villas de Florida I Project, as of June 30, 2004. 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 Colinas de Jaguas Project, is based on the report of the other auditors.

Except for 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 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.

As discussed in Note 20, to the financial statements, management has not recorded a provision for liability of closure and postclosure care costs of the landfill. Accounting principles generally accepted in the United States of America require that a provision for liability of closure and postclosure care costs be recorded to comply with applicable state and federal regulations. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonable determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Municipality of Florida as of June 30, 2004, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Municipality of Florida as of June 30, 2004, 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.

As described in Note 2 to the basic financial statements, the Municipality of Florida has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2005, 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 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 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 of the Municipality. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico  
January 25, 2005

The stamp 2000993 was affixed  
to the original of this report.



*Ortiz, Rodriguez, Rivera & Co.*

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**MUNICIPALITY OF FLORIDA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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On July, 2003 the management of the Municipality of Florida implemented Statement No. 34 of the government Accounting Standards Board (GASB) "*Basic Financial Statement Management's Discussion and Analysis-for State and Local Government*".

As management of the Municipality of Florida, we offer readers of the Municipality's financial statements this narrative overview and analysis of the Municipality's financial performance during the fiscal years ended June 30, 2004 and 2003. Please read in conjunction with the Municipality's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Municipality's total net assets increased by \$1,873,453 during 2004.
  - The assets of the Municipality's on the government-wide basis, exceeded its liabilities at the close of fiscal year 2004 by \$6,458,356 (net assets).
  - At the close of the current fiscal year, the Municipality's government funds reported combined ending fund balances of \$966,907 an decrease only \$19,723 in comparison with the prior year. Approximately 64 percent of the total combined fund balances is unreserved.
  - The General Fund, on current financial resources basis, reported an excess of revenues and other financial sources over expenditures and other financing uses of \$138,887.
  - The investment in Capital Assets as of June 30, 2003 was \$9,960,566 (net depreciation).
  - Long term-debt decreased to \$347,395 for this year.
- 

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on page 12) provide information about the activities of the Municipality as a whole and present a longer-term view of the Municipality's finance. Fund financial statements start on page 13. For government activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statement also reports the Municipality's operations in more detail than the government-wide statements by providing information about the Municipality's most significant funds. The remaining statements provide financial information about activities for which the Municipality acts solely as a trustee or agent for the benefit of those outside of the government.

**MUNICIPALITY OF FLORIDA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**REPORTING THE MUNICIPALITY AS A WHOLE**

**The Statements of Net Assets and the Statements of Activities**

The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's net assets and changes in them. You can think of the Municipality's net assets (the difference between assets and liabilities) as one way to measure the Municipality's financial health, or financial position. Over time, increase or decrease in the Municipality's net assets is one indicator of whether its financial health is improving or deteriorating.

The Statement of Net Assets and the Statement of Activities is commonly divided into two kinds of activities:

- Governmental activities - Applies for governmental funds
- Business-type activities - Applies for proprietary funds.

**The Municipality of Florida reports all its activities as governmental activities.**

**FUND FINANCIAL STATEMENTS**

Our analysis of the Municipality's major funds begins on page 3. The fund financial statements begin on page 4 and provide detailed information about the most significant funds, not the Municipality as a whole. The Municipality operates under three major funds the General Fund, Capital Projects, and the Debt Service Fund. Other minor federal funds were presented under the column Other Governmental Funds.

- Governmental funds-Most of the Municipality basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide detailed short-term view of the Municipality general government operations and the basic services it provides.

**MUNICIPALITY OF FLORIDA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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Governmental fund information helps you determine whether there is more or fewer financial resource that can be spent in the near future to finance the Municipality activities. We describe the relationship (or differences) between governmental activities (reported in the Statements of Net Assets the Statement of Activities) and governmental fund in reconciliation at the fund financial statements.

A comparative analysis of overall fund financial activities is presented below:

<b>ASSETS</b>	<b><u>June 30, 2003</u></b>	<b><u>June 30, 2004</u></b>	<b><u>Change</u></b>	<b><u>%</u></b>
Cash, and cash equivalents	\$ 553,527	\$ 1,136,006	\$ 582,477	105%
Cash with fiscal agents	176,263	254,675	78,412	44%
Due from other funds	735,583	693,305	(42,278)	-6%
Due from agencies	<u>1,304,252</u>	<u>858,740</u>	<u>(445,512)</u>	<u>-34%</u>
	<u>2,769,625</u>	<u>2,942,726</u>	<u>173,101</u>	<u>1%</u>
 <b>LIABILITIES</b>				
Account Payable and accrued expenses	313,636	406,880	93,244	30%
Due to other agencies	512,780	546,228	33,448	7%
Due to other funds	735,583	693,305	(42,278)	-6%
General Obligations Bonds payable		144,955	144,955	100%
Deferred revenues municipal taxes	105,889	74,121	(31,768)	30%
Deferred revenues federal financial assistance	<u>154,553</u>	<u>110,330</u>	<u>(44,223)</u>	<u>-29%</u>
	<u>1,822,441</u>	<u>1,975,819</u>	<u>153,378</u>	<u>1%</u>
 <b>FUND EQUITY AND OTHER CREDITS</b>	 947,184	 966,907	 19,723	 -20%

**MUNICIPALITY OF FLORIDA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**REVENUES**

Property taxes	\$ 425,823	\$ 257,779	\$(168,044)	-39%
Municipal taxes	244,111	205,107	(39,304)	-16%
Licenses fees and permits	112,566	126,872	14,306	13%
Intergovernmental	5,577,885	5,971,941	394,056	7%
Charges for services and rent	137,695	131,190	(386,370)	-75%
Interest, fines and penalties	7,897	3,029	(4,868)	62%
Other	<u>696,517</u>	<u>533,397</u>	<u>(163,120)</u>	<u>-23%</u>
	<u>\$7,202,494</u>	<u>\$7,229,315</u>	<u>\$ (26,821)</u>	<u>3%</u>

**EXPENDITURES**

General government	\$2,683,896	\$2,683,896	\$ (458,928)	-17%
Public Safety	478,201	478,085	(116)	0%
Public Works	2,101,024	194,439	(1,906,585)	-91%
Health sanitation and welfare	1,469,996	1,401,282	(68,714)	-5%
Recreation	262,338	275,547	13,209	5%
Capital outlays	301,482	1,865,018	1,563,536	519%
Debt services principal retirement	239,549	561,470	321,921	134%
Debt services interest	<u>301,705</u>	<u>246,387</u>	<u>(55,318)</u>	<u>-18%</u>
	<u>\$7,838,191</u>	<u>\$ 7,247,196</u>	<u>\$ (590,995)</u>	<u>-8%</u>

**THE MUNICIPALITY A WHOLE**

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**REQUIRED FINANCIAL STATEMENTS**

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The financial statements of the Municipality report its financial information using accounting method similar to those used by private sector companies. These statements offer short and long- term financial information about its activities. The Statements of the Net Assets includes all of the Municipality's assets a liability and provides information about the nature and amounts of investment in resource.

**MUNICIPALITY OF FLORIDA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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For the year ended June 30, 2004 net assets changed as follows:

	<b>Governmental Activities</b>
Beginning net assets	\$4,584,903
Increase in net assets	1,873,453
Ending net assets	<u><u>\$6,458,356</u></u>

Since this is the first year to report all activities on the accrual basis of accounting, comparison to the prior year is not possible (with the exception of the above comparison). However, in the future years, this section will explain the differences between the current and prior year assets, liabilities, and changes in net assets.

**Governmental Activities**

Again, because this is the first year to report governmental activities on the accrual basis of accounting, a comparison to the prior year is not possible. However, in next year's discussion this section will show a condensed financial comparison of revenues and expense and provide explanations for significant differences.

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expense is listed first with revenues from that particular program reported after. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the function on the Municipality. It also identifies how much each function draws from the general revenues or if is self-financing through fees and grants.

**MUNICIPALITY OF FLORIDA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**BUDGETARY INFORMATION**

Differences between the budget and actual amounts in the general fund are reasonable to king in consideration the variety of transactions performed in the operation of the Municipality's funds during the year. The information is presented as follows:

	GENERAL FUND			Variance Fav / Unfav
	Original Budget	Amended Budget	Actual	
<b>REVENUES</b>				
Property taxes	\$ 125,503	\$ 125,503	\$ 125,503	\$ -
Municipal taxes	183,345	183,345	205,107	21,762
Licenses, fees and permits	98,652	98,652	126,872	28,220
Intergovernmental	4,656,617	4,656,617	4,840,131	183,514
Charges for services	49,890	49,890	131,190	81,300
Interest	1,978	1,978	2,329	351
Other	447,888	447,888	534,117	86,229
<b>Total revenues</b>	<u>5,563,873</u>	<u>5,563,873</u>	<u>5,965,249</u>	<u>401,376</u>
<b>EXPENDITURES</b>				
General government	2,306,361	2,440,945	2,437,712	3,233
Public safety	546,716	484,332	478,085	6,247
Public works	1,725,927	1,640,879	1,621,501	19,378
Health sanitation and Eduaction and Recreation	724,090 260,779	719,498 278,219	716,646 275,547	2,852 2,672
	<u>\$ 5,563,873</u>	<u>\$ 5,563,873</u>	<u>\$ 5,529,491</u>	<u>\$ 34,382</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	-	435,758	435,758

**MUNICIPALITY OF FLORIDA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**CAPITAL ASSETS**

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At the end of the year June 30, 2004, the Municipality had \$9,960,566, net of depreciation invested in capital assets including land, buildings, parks, and courts, machinery and equipment, and automobiles. This represents a net increase of 14 % percent, over the last year.

	<b>Balance 2003</b>	<b>Balance 2004</b>	<b>Dollar Change</b>	<b>Total Percentage</b>
<b>Non Depreciable Capital Assets</b>				
Land	966,884	966,884	-	0%
<b>Depreciable Capital Assets</b>				
Construction in progress		1,838,866	1,838,866	100%
Buildings, Parks and Courts	12,110,880	12,110,880	-	0%
Machinery and equipment	1,871,53	1,894,340	22,987	1%
Automobiles	1,584,278	1,587,443	3,165	0%
<b>Total Capital Assets</b>	<b>\$ 15,566,511</b>	<b>\$ 15,592,635</b>	<b>26,152</b>	<b>10%</b>
<b>Less Accumulated Depreciation</b>				
Construction in progress	-	-	-	-%
Buildings, Parks and Courts	5,260,382	5,530,173	269,791	5%
Furniture & Fixtures	1,121,979	1,245,826	123,847	10%
Automobiles & Equipment	1,561,707	1,661,846	100,141	6%
	<u>7,944,068</u>	<u>8,437,847</u>	<u>493,779</u>	<u>6%</u>
<b>Net Capital Assets</b>	<b>\$7,622,443</b>	<b>\$9,960,566</b>	<b>\$7,154,816</b>	<b>14%</b>

The year major additions include:

Construction in progress	<u>\$1,838,866</u>
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**MUNICIPALITY OF FLORIDA  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**LONG-TERM DEBT**

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At year-end, the Municipality had \$3,639,317 in general and special bonds and notes. The Municipality is required to maintain a legal debt margin of 10% of the total assessment of property located within the Municipality plus the balance of the property taxes in the debt service fund. The Municipality's outstanding debt as of June 30, 2004 is as follows:

General and special obligation bonds and notes	\$3,639,317
Due to PR Health Insurance Administration	448,929
Component Unit	949,106
Other Long-Term Liabilities	<u>124,657</u>
Total	<u>\$5,162,009</u>

More detailed information about the Municipality's long-term liabilities is presented in Note 10 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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Next year's budget was prepared according to the prior year's experience and information obtained with respect to increases and decreases of certain revenue concepts. For the fiscal year 2004-2005 the budget is \$6,043,453 representing an increase of approximately \$619,000 or 10%, due principally of CRIM notifications about exonerated property and an increase of new garbage disposition contracts with other municipalities.

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

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The financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 822-1232.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Villas de Florida I Project</u>
Cash in bank (Note 2)	\$ 1,136,006	\$ 85,397
Cash with fiscal agent (Note 2)	254,675	
Accounts receivables:		
Rent, licenses, and permits		22,283
Due from other agencies (Note 8)	858,740	
Restricted deposits		
Other assets		16,942
Inventories		571,739
Capital assets, net (Note 10)	9,960,566	1,179,842
 Total assets	 \$ 12,209,987	 \$ 1,876,203
<b><u>Liabilities and Net Assets</u></b>		
<b>Liabilities</b>		
Account payable and accrued liabilities	\$ 406,880	\$ 29,808
Due to other agencies (Note 11)	546,228	
General obligations:		
Bonds	130,000	
Interest	14,955	
Deferred revenues (Note 12):		
Municipal license tax	74,121	
Federal government	110,330	
Accrued interest	226,971	
Noncurrent liabilities (Note 14):		
Due within one year	490,876	34,174
Due in more than one year	4,648,559	914,932
Total liabilities	6,648,920	978,914
<b>Net Assets</b>		
Investment in capital assets, net of related debt	9,700,566	
Restricted for:		
Debt service	4,027	
Capital project	336,307	
Unrestricted	(4,479,833)	897,289
Total net assets	5,561,067	897,289
 Total liabilities and net assets	 \$ 12,209,987	 \$ 1,876,203

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Colinas de Jaguas Project
<b>Primary Government:</b>						
General government	\$ 2,273,795	\$ 258,062	\$ -	\$ -	\$ (2,015,733)	\$ -
Public safety	510,771				(510,771)	
Public works	503,604			12,200	(491,404)	
Recreation	366,262				(366,262)	
Health and welfare	1,413,668		1,119,610		(294,058)	
Interest on long-term debt	226,971				(226,971)	
<b>Total primary government</b>	<b>\$ 5,295,071</b>	<b>\$ 258,062</b>	<b>\$ 1,119,610</b>	<b>\$ 12,200</b>	<b>(3,905,199)</b>	<b>-</b>
<b>Component Unit:</b>						
Villas de Florida I Project	\$ 437,092	\$ 49,710	\$ 326,591	\$ -		(60,791)
General revenues:						
Property taxes					257,779	
Municipal license tax					205,107	
Grants and contributions not restricted to specific programs					4,840,131	
Interest, fines and penalties					3,029	
Miscellaneous					533,397	
<b>Total general revenues</b>					<b>5,839,443</b>	<b>-</b>
Change in net assets					1,934,244	(60,791)
Net assets at beginning of year					3,626,823	958,080
<b>Net assets at end of year</b>					<b>\$ 5,561,067</b>	<b>\$ 897,289</b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2004**

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 2)	\$ 514,374	\$ -	\$ 258,621	\$ 363,011	\$ 1,136,006
Cash with fiscal agent (Note 2)		148,982	105,693		254,675
Due from other agencies (Note 8)	534,158			324,582	858,740
Due from other funds (Note 9)	630,779		62,526		693,305
<b>Total assets</b>	<b>\$ 1,679,311</b>	<b>\$ 148,982</b>	<b>\$ 426,840</b>	<b>\$ 687,593</b>	<b>\$ 2,942,726</b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2004**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>					
Account payable and accrued liabilities	\$ 374,483	\$ -	\$ 7,125	\$ 25,272	\$ 406,880
Due to other funds (Note 9)	62,526		83,408	547,371	693,305
Due to other agencies (Note 11)	546,228				546,228
General obligations:					
Bonds		130,000			130,000
Interest		14,955			14,955
Deferred revenues: (Note 12)					
Municipal licence tax	74,121				74,121
Federal government				110,330	110,330
Total liabilities	<u>1,057,358</u>	<u>144,955</u>	<u>90,533</u>	<u>682,973</u>	<u>1,975,819</u>
<b>Fund Balances</b>					
Reserved for:					
Encumbrances	42,570				42,570
Debt service		4,027			4,027
Capital projects			336,307		336,307
Unreserved fund balance	579,383			4,620	584,003
Total fund balance	<u>621,953</u>	<u>4,027</u>	<u>336,307</u>	<u>4,620</u>	<u>966,907</u>
<b>Total liabilities and fund balance</b>	<u>\$ 1,679,311</u>	<u>\$ 148,982</u>	<u>\$ 426,840</u>	<u>\$ 687,593</u>	<u>\$ 2,942,726</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2004**

Total fund balances - governmental funds	\$ 966,907
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	9,960,566
• 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>(5,366,406)</u>
Net assets of governmental activities	<u>\$ 5,561,067</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes (Note 6)	\$ 125,603	\$ 132,276	\$ -	\$ -	\$ 257,779
Municipal license taxes (Note 7)	205,107				205,107
Licenses, permits, and other local taxes	126,872				126,872
Charges for services	131,190				131,190
Intergovernmental revenues (Note 13):					
Federal grants and contributions				1,119,610	1,119,610
State contributions	4,840,131		12,200		4,852,331
interest, fines, and penalties	2,329	700			3,029
Other revenues	533,397				533,397
Total revenues	<u>5,964,529</u>	<u>132,976</u>	<u>12,200</u>	<u>1,119,610</u>	<u>7,229,315</u>
<b>EXPENDITURES</b>					
Current:					
General government	2,224,968				2,224,968
Public safety	478,085				478,085
Public works	194,439				194,439
Recreation	275,547				275,547
Health and welfare	716,646			684,636	1,401,282
Capital outlays	1,387,062		35,173	442,783	1,865,018
Debt service:					
Principal		561,470			561,470
Interest and other		246,387			246,387
Total expenditures	<u>5,276,747</u>	<u>807,857</u>	<u>35,173</u>	<u>1,127,419</u>	<u>7,247,196</u>
Excess (deficiency) of revenues over (under) expenditures	<u>687,782</u>	<u>(674,881)</u>	<u>(22,973)</u>	<u>(7,809)</u>	<u>(17,881)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from loan			60,000		60,000
Transfer in	720	549,615			550,335
Transfer out	<u>(549,615)</u>	<u>(720)</u>			<u>(550,335)</u>
Total other financing sources (uses)	<u>(548,895)</u>	<u>548,895</u>	<u>60,000</u>	<u>-</u>	<u>60,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	138,887	(125,986)	37,027	(7,809)	42,119
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>483,066</u>	<u>130,013</u>	<u>299,280</u>	<u>12,429</u>	<u>924,788</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 621,953</u>	<u>\$ 4,027</u>	<u>\$ 336,307</u>	<u>\$ 4,629</u>	<u>\$ 966,907</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
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, 2004**

Net change in fund balances - total governmental funds	\$ 42,119
Amounts reported for governmental activities in the statement of activities are different because:	
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	1,865,018
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	(493,779)
<ul style="list-style-type: none"> <li>• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.</li> </ul>	(60,000)
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	561,470
<ul style="list-style-type: none"> <li>• Change in accrued interest expense which does not require the use of current financial resources.</li> </ul>	<u>19,416</u>
Changes in net assets of governmental activities	<u>\$ 1,934,244</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	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		
<b>REVENUES</b>								
Property taxes	\$ 125,503	\$ 125,503	\$ 125,503	\$ -	\$ 143,503	\$ 143,503	\$ 132,276	\$ (11,227)
Municipal license taxes	183,345	183,345	205,107	21,762				
Licenses and permits	98,652	98,652	126,872	28,220				
Charges for services	49,890	49,890	131,190	81,300				
Intergovernmental revenues:								
State contributions	4,656,617	4,656,617	4,840,131	183,514				
Interest, fines, and penalties	1,978	1,978	2,329	351			700	700
Other revenues	447,888	447,888	534,117	86,229				
Total revenues	<u>5,563,873</u>	<u>5,563,873</u>	<u>5,965,249</u>	<u>401,376</u>	<u>143,503</u>	<u>143,503</u>	<u>132,976</u>	<u>(10,527)</u>
<b>EXPENDITURES</b>								
Current:								
General government	2,306,361	2,440,945	2,437,712	3,233				
Public safety	546,716	484,332	478,085	6,247				
Public works	1,725,927	1,640,879	1,621,501	19,378				
Recreation	260,779	278,219	275,547	2,672				
Health and welfare	724,090	719,498	716,646	2,852				
Debt service:								
Principal				-	132,318	132,318	561,470	(429,152)
Interest				-	11,185	11,185	246,387	(235,202)
Total expenditures	<u>5,563,873</u>	<u>5,563,873</u>	<u>5,529,491</u>	<u>34,382</u>	<u>143,503</u>	<u>143,503</u>	<u>807,857</u>	<u>(664,354)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 435,758</u>	<u>\$ 435,758</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (674,881)</u>	<u>\$ (674,881)</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. ORGANIZATION**

The Municipality of Florida, Puerto Rico (Municipality) was founded 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 personality, 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.

**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.

For fiscal year ended June 30, 2004, the Municipality implemented; GASB Statement No. 34 (GASB 34), Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 37 (GASB 37), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus, GASB Statement No. 38 (GASB 38), Certain Financial Statements Disclosures, and GASB Statement No. 39 (GASB 39), Determining whether certain Organizations are Component Units.

GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

GASB 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance - related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers with GASB 34 is implemented.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 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 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.

The Villas de Florida I 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.

Villas de Florida I Project is a 89 rental units 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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.

**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*.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) 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.

3) Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**e. Interfund Receivables and Payables**

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

**f. Capital Assets**

Capital assets 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>
Infrastructure	25-50 years
Buildings and building improvements	20-50 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 balances 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

**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, 2004 amounted to approximately \$152,500. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$161,500 for workers compensation insurance covering all municipal employees.

**i. Compensated Absences**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as 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  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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>
40	Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements.	2004-05
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2004-05
43	Financial Reporting for Post-employment Benefit Other than Pension Plans	2005-06
44	Economic Condition Reporting: The Statistical Section - an amendment on NCGA Statement I	2005-06

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<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	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.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2004 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, 2004 is presented below for the general and debt service funds:

	<b>General Fund</b>	<b>Debt Service Fund</b>
Excess (deficiency) of revenues over (under) expenditures - budgetary basis	\$ 435,758	\$ (674,881)
Entity differences:		
Non-budgeted expenditures	(52,333)	
Non-budgeted transfers in	720	549,615
Non-budgeted transfers out	(549,615)	(720)
Non-budgeted revenues	301,019	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(39,232)	
Current year encumbrances recorded as expenditures for budgetary basis	42,570	
Excess (deficiency) of revenues over expenditures - GAAP basis	\$ 138,887	\$ (125,986)

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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 \$5.1 million difference are as follows:

Note payable	\$3,379,917
Compensated absences	925,931
Bonds payable	260,000
Accrued interest payable	226,971
Other liabilities	<u>573,587</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$5,366,406</u>

**5. DEPOSITS**

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 Municipality's bank balances in commercial banks of approximately \$657,000 in the general fund were fully collateralized at June 30, 2004. In addition, the Capital

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Project governmental funds maintain deposits with commercial banks of approximately \$258,600 that were fully collateralized.

The deposits at GDB of approximately \$105,000 that are restricted principally for capital projects, and the \$149,000 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 a bank 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.

**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 8.08% 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%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>8.08%</u>	<u>6.08%</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 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. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$3.1 million. This amount will be repaid through advances from property taxes (refer to Note 14).

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2002-03, but not the final settlement as the six months period after 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, 2004, the amount received in advances from CRIM exceeded the amount collected from taxpayers and charges by CRIM for the same period by \$35,785. Such amount is presented as intergovernmental payable in the general fund in the basic financial statements (refer to Note 11).

**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, 2004. 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. 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 Florida, are as follows:

Savings and loans associations	= 1.50%
Financial institutions	= 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 \$74,121, corresponding to the next fiscal year municipal license.

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**8. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$474,071
Municipality of Ciales	31,225
Municipality of Barceloneta	28,862
Other governmental funds	<u>324,582</u>
	<u>\$858,740</u>

**9. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2004, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Project	General	\$ 62,526
General	Capital Project	83,408
General	Other Governmental Funds	<u>547,371</u>
		<u>\$693,305</u>

The balance of \$83,408 due to the general fund from the capital projects fund represents amount due from prior years related to state contributions grants.

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2004 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$549,615
General Fund	Debt Service	<u>720</u>
		<u>\$550,335</u>

**COMMONWEALTH OF PUERTO RICO  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The 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.

**10. CAPITAL ASSETS**

Capital asset activity for the Municipality for the year ended June 30, 2004 was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 966,884	\$ -	\$ -	\$ 966,884
Construction in progress	-	1,838,866	-	1,838,866
Total capital assets, not being depreciated	<u>966,884</u>	<u>1,838,866</u>	<u>-</u>	<u>2,805,750</u>
Capital assets, being depreciated:				
Buildings and building improvements	12,110,880	-	-	12,110,880
Furniture and fixtures	1,584,278	3,165	-	1,587,443
Vehicles and equipment	1,871,353	22,987	-	1,894,340
Total capital assets, being depreciated	<u>15,566,511</u>	<u>26,152</u>	<u>-</u>	<u>15,592,663</u>
Less accumulated depreciation for:				
Buildings and building improvements	5,260,382	269,791	-	5,530,173
Furnitures and fixtures	1,121,979	123,847	-	1,245,826
Vehicles and equipment	1,561,707	100,141	-	1,661,848
Total accumulated depreciation	<u>7,944,068</u>	<u>493,779</u>	<u>-</u>	<u>8,437,847</u>
Total capital assets, being depreciated, net	<u>7,622,443</u>	<u>(467,627)</u>	<u>-</u>	<u>7,154,816</u>
Governmental activities capital assets, net	<u>\$ 8,589,327</u>	<u>\$ 1,371,239</u>	<u>\$ -</u>	<u>\$ 9,960,566</u>

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

General government	\$ 48,827
Public safety	32,686
Public works	309,165
Recreation	90,715
Health and welfare	<u>12,386</u>

Total depreciation expense - governmental activities \$493,779

Capital asset activity for Villas de Florida I Project, a discretely presented component unit, for the year ended June 30, 2004 was as follows:

<u>Component Unit- Colinas de Jaguas Project</u>	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Capital assets, not being depreciated:				
Land	\$ 298,702	\$ -	\$ -	\$ 298,702
Total capital assets, not being depreciated	<u>298,702</u>	<u>-</u>	<u>-</u>	<u>298,702</u>
Capital assets, being depreciated:				
Building and building improvements	2,640,103	1,550		2,641,653
Buildings equipment	109,112	3,921		113,033
Furniture and fixtures	25,343	743	2,028	24,058
Equipment	11,866	-		11,866
Total capital assets, being depreciated	<u>2,786,424</u>	<u>6,214</u>	<u>2,028</u>	<u>2,790,610</u>
Total accumulated depreciation	<u>1,759,461</u>	<u>150,280</u>	<u>271</u>	<u>1,909,470</u>
Total capital assets, being depreciated, net	<u>1,026,963</u>	<u>(144,066)</u>	<u>1,757</u>	<u>881,140</u>
Colinas de Jaguas Project capital assets, net	<u>\$ 1,325,665</u>	<u>\$ (144,066)</u>	<u>\$ 1,757</u>	<u>\$ 1,179,842</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**11. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2004 are as follows:

Puerto Rico Electric Power Authority	\$422,009
Treasury Department	13,346
Retirement System Administration	45,967
CRIM	35,785
Puerto Rico Water and Sewer Authority	11,663
General Services Administration	<u>17,458</u>
Total	<u>\$546,228</u>

**12. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of \$74,121 in the general fund related to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

**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.

**13. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**14. LONG-TERM DEBTS**

Bonds and other long-term liabilities outstanding at June 30, 2004 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%.	\$ 40,000
2002 series, \$175,000 payable in annual installments of \$30,000 to \$40,000 until 2006; with interest at 5% until 8%.	80,000
2002 series, \$190,000 payable in annual installments of \$30,000 to \$40,000 until 2006; with interest at 5% until 8%.	85,000
\$2003 series, \$60,000 payable in annual installments of \$5,000 to \$10,000 until 2010; with interest at 2.70% until 5%.	<u>55,000</u>
Total bonds payable	<u>\$260,000</u>

**Notes Payable**

Note payable of \$3,157,874 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$19,444 plus interest rate of 6.1588%.	\$3,079,917
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>300,000</u>
Total notes payable	<u>\$3,379,917</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Other Long-Term Liabilities**

Property tax advance - Prior year, payable in monthly installments of \$603.57, until April 1, 2010. \$ 43,457

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. 81,200

Total other long-term liabilities \$124,657

**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 will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System. \$448,929

**Component Unit**

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. \$949,106

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

<u>Year Ended June 30.</u>	<u>Amount</u>
2005	\$ 34,174
2006	37,333
2007	40,432
2008	43,789
2009	47,421
Thereafter	<u>745,957</u>
	<u>\$949,106</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, 2004, the fair value of the mortgage payable approximates the amounts recorded in the financial statements.

The annual debt service requirements for the bonds payable and note payable at June 30, 2004, are as follows:

	<u>Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 125,000	\$ 10,233	\$ 56,648	\$ 216,738
2006	95,000	5,729	64,344	213,892
2007	10,000	2,400	67,214	209,822
2008	10,000	1,800	70,270	205,566
2009	10,000	1,200	73,524	201,112
2010-2014	10,000	600	459,296	927,586
2015-2019			513,743	768,539
2020-2024			607,185	598,496
2025-2029			830,829	374,854
2030-2034			<u>636,864</u>	<u>84,444</u>
	<u>\$ 260,000</u>	<u>\$ 21,962</u>	<u>\$3,379,917</u>	<u>\$3,801,049</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Long-term liability activity for the year ended June 30, 2004 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 415,000	\$ 60,000	\$ 215,000	\$ 260,000	\$ 125,000
Note payable	3,449,033		69,116	3,379,917	56,648
Total long-term debt	<u>3,864,033</u>	<u>60,000</u>	<u>284,116</u>	<u>3,639,917</u>	<u>181,648</u>
<b>Other long-term liabilities:</b>					
Due to Puerto Rico Treasury Department	57,350		13,893	43,457	7,243
Due to Puerto Rico Labor Department	38,791		38,791	-	-
Due to Puerto Rico Health Insurance Administration	643,951		195,021	448,930	195,000
Claims and judgments	110,850		29,650	81,200	29,650
Compensated absences	771,855	223,864	69,788	925,931	77,335
Total other long-term liabilities	<u>1,622,797</u>	<u>223,864</u>	<u>347,143</u>	<u>1,499,518</u>	<u>309,228</u>
Total noncurrent liabilities, governmental activities	<u>\$ 5,486,830</u>	<u>\$ 283,864</u>	<u>\$ 631,259</u>	<u>\$ 5,139,435</u>	<u>\$ 490,876</u>
<b>Component Unit:</b>					
Villas de Florida I Project mortgage payable	<u>\$ 980,561</u>	<u>\$ -</u>	<u>\$ 31,455</u>	<u>\$ 949,106</u>	<u>\$ 34,174</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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 shall 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 FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 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, 2004 was approximately \$199,079. The Municipality's payroll for employees covered by ERS was approximately \$2.1 million. The Municipality total payroll for all employees was approximately \$3.8 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2004, 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 FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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 under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2004 was \$131,190.
- 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.

**18. 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.



TRAMITE DE CORRESPONDENCIA

Dirigido a:

Fecha: 2/2/05

Hora: \_\_\_\_\_

Oficina del Comisionado

Comisionado

Subcomisionada

\_\_\_ María Antonia Rivera

\_\_\_ Ileana (Margie) Flores

\_\_\_ Asesoramiento Legal

\_\_\_ Hebé Ramírez

\_\_\_ Auditor Principal

\_\_\_ Nydia E. Santiago

Comisionados Auxiliares

\_\_\_ Programas Federales  Reglamentación e Intervención

\_\_\_ Sistema de Información \_\_\_ Organizaciones Comunitarias

\_\_\_ Gerencial y Fiscal

\_\_\_ Administración

(Para uso de la oficina de Administración)

\_\_\_ Recursos Humanos

\_\_\_ Finanzas

\_\_\_ Servicios Generales

\_\_\_ Presupuesto/Planificación

TRAMITE:

\_\_\_ Contestar

\_\_\_ Informar

\_\_\_ Discutir

\_\_\_ Firmar

\_\_\_ Revisar

\_\_\_ Aprobar

Acción Pertinente

Observaciones:

Florida  
Single Audit Report -

Jan 30/05

- 1-2/05 ASD - Comer Luis

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. The Municipality has reported liabilities of \$475,000 for awarded and anticipated unfavorable judgments as of June 30, 2004. This amount was reported within claims and judgments liabilities in the fund financial statements and government-wide statement of net assets. Management believes that the liability in excess of amounts provided, if any, would not be significant.

**19. COMMITMENTS**

The Municipality of Florida had several outstanding or planned construction projects as of June 30, 2004. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$107,400.

**20. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE COSTS**

State and Federal laws and regulations require the Municipality to perform certain closure and postclosure procedures and establish monitoring and maintenance functions at the landfill site for thirty years after closure.

In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure 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 regulations and to determine an estimate of postclosure costs. As of June 30, 2004, no amount has been estimated as post closure cost of the landfill to be accounted for as required by accounting principles generally accepted in the United States of America and state and federal regulations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>		
Direct Programs		
Section 8 Vouchers	14.871	\$ 243,195
Pass-through Commonwealth of Puerto Rico/ Commissions Office of Municipal Affairs Community Development Block Grant-States Program SBGP	14.228	<u>442,783</u>
Subtotal U.S. Department of HUD		<u>685,978</u>
<b>U.S. Department of Health and Human Services</b>		
Pass-through the Office of Administration for Children and Families Child Care and Development Block Grant	93.575	<u>289,544</u>
Subtotal U.S. Department of HHS		<u>289,544</u>
<b>U.S. Department of Agriculture</b>		
Pass-through Governor's Office of Child Services and Community Development: Child and Adult Care Food Program	10.558	<u>40,469</u>
Subtotal U.S. Department of Agriculture		<u>40,469</u>
<b>U.S. Department of Justice</b>		
Pass-through the Governor's Office of Community Public Safety Partnership and Community Policing Grants (COPS)	16.710	<u>101,833</u>
Subtotal U.S. Department of Justice		<u>101,833</u>
<b>TOTAL</b>		<b><u>\$1,117,824</u></b>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Florida 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.



**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 AUDITORS' REPORT ON COMPLIANCE AND  
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 governmental activities, each major fund and the aggregate remaining fund information of Municipality of Florida as of and for the year ended June 30, 2004, which collectively comprise Municipality's basic financial statements and have issued our report thereon dated January 25, 2005. 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 basic 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 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Municipality of Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Municipality of Florida, in a separate letter dated January 25, 2005.

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.

*Ortiz, Rodriguez, Rivera & Co.*

San Juan, Puerto Rico  
January 25, 2005

The stamp 2000994 was affixed  
to the original of this report.





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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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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 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, 2004. Municipality of Florida'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 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, 2004. 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 and questioned costs as item 04-01.

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 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.

*Ortiz, Rodriguez, Rivera & Co.*

San Juan, Puerto Rico  
January 25, 2005

The stamp 2027590 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, 2004**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses a qualified opinion on the basic financial statements of the Municipality of Florida.
- b. There were no 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 with requirements applicable to federal award programs for Municipality of Florida express an unqualified opinion.
- f. Audit findings relative to the major federal award programs for the Municipality of Florida are reported in number 3 of this schedule.
- g. The program tested as major programs is 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**

None.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<b>SBGP CFDA No. 14.228</b>	<p><b>Condition 04-1</b></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 to comply with the cash management requirement.</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, 2004**

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 FLORIDA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>SBGP - CFDA No. 14.228</b>	<b>Condition 01-1</b>  The program maintains high balance in cash.	Condition still continues.
<b>SBGP CFDA No. 14.228</b>	<b>Condition 02-1</b>  The program maintains high balance in cash.	Condition still continues.
<b>SBGP CFDA No. 14.228</b>	<b>Condition 03-1</b>  The Municipality maintains high balance in cash.	Condition still continues.
<b>SBGP CFDA No. 14.228</b>	<b>Condition 03-2</b>  The program did not request for extension of program on time.	Condition was corrected.

**EXHIBIT I**

**CORRECTIVE ACTION PLAN**

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

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## **CORRECTIVE ACTION PLAN**

January 26, 2005

Cognizant or Oversight Agency for Audit:

Municipality of Florida respectfully submits the following corrective action plan for the year ended June 30, 2004

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2004

The findings from the June 30, 2004 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

#### **Finding 04-1: SBGP - CFDA 14.228**

Reportable Condition: See Condition 04-1

#### Recommendation

The disbursements of funds should be made for not more than three days after received, in order to comply with the cash management requirement.

Action Taken

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

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

Sincerely yours,

  
\_\_\_\_\_  
Xiomara Pagán Sotomayor  
Finance Director