

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE FLORIDA

AUDITORIA 2004-2005

30 DE JUNIO DE 2005

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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, aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Municipality of Florida, as of and for the year ended June 30, 2005, 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.

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, 2005, 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 the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Municipality of Florida as of June 30, 2005, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 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 11 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
December 13, 2005

The stamp 2101428 was affixed
to the original of this report.



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**MUNICIPALITY OF FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, 2005 and 2004. Please read in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality's total net assets increased by \$186,696 during 2005.
 - The assets of the Municipality's on the government-wide basis, exceeded its liabilities at the close of fiscal year 2005 by \$6,645,502 (net assets)
 - At the close of the current fiscal year, the Municipality's government funds reported combined ending fund balances of \$573,220 and decreases \$393,687 in comparison with the prior year. Approximately 50% of the total combined fund balances is unreserved.
 - The General Fund, on current financial resources basis, reported an excess of expenditures and other financing uses over revenues and other financial sources of (\$331,450).
 - The investment in Capital Assets as of June 30, 2005, was \$10,257,122
 - Long Term Debt decreased to \$344,822 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's as a whole and present a longer-term view of the Municipality's finance. Fund financial statements start on page 14. 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 statements also report 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 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, 2005**

REPORTING THE MUNICIPALITY AS A WHOLE

The Statement of Net Assets and the Statement 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 governmental funds begins on page 5. The fund financial statements begin on page 5 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.

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

**MUNICIPALITY OF FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

<u>ASSETS</u>	June 30, 2004	June 30, 2005	Changes	
Cash, and cash equivalents	\$ 1,136,006	\$ 855,323	\$ (280,683)	-25%
Cash with fiscal agents	254,675	149,941	(104,734)	-41%
Due from other funds	693,305	494,072	(199,233)	-29%
Due from agencies	858,740	1,044,457	185,717	22%
	<u>\$ 2,942,726</u>	<u>\$ 2,543,793</u>	<u>\$ (398,933)</u>	<u>-14%</u>
<u>LIABILITIES</u>				
Accounts Payable and accrued expenses	406,880	562,101	155,221	38%
Due to other agencies	546,228	631,704	85,476	16%
Due to other fund	693,305	431,403	(261,902)	-38%
General obligation bond payable	144,955	129,979	(14,976)	-10%
Deferred revenue municipal tax	74,121	80,236	6,115	8%
Deferred revenues federal financial assistance	110,330	135,150	24,820	22%
	<u>1,975,819</u>	<u>1,970,573</u>	<u>(5,246)</u>	<u>-0.27%</u>
FUND EQUITY AND OTHER CREDITS	<u>\$ 966,907</u>	<u>\$ 573,220</u>	<u>\$ (393,687)</u>	<u>-41%</u>

**MUNICIPALITY OF FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>REVENUES</u>	June 30, 2004	June 30, 2005		
Property taxes	\$ 257,779	\$ 280,424	\$ 22,645	9%
Municipal license taxes	205,107	179,589	(25,518)	-12%
Licenses and permits	126,872	129,659	-	
Charges for service and rents	131,190	134,035	2,787	2%
Intergovernmental revenues	5,971,941	7,072,392	2,845	2%
Interest, fines, and penalties	3,029	3,990	1,100,451	18%
Other revenues	533,397	1,407,718	961	32%
Total revenues	<u>\$ 7,229,315</u>	<u>\$ 9,207,807</u>	<u>\$ 1,978,492</u>	164%
				27%
 <u>EXPENDITURES</u>				
General government	\$ 2,683,896	\$ 3,137,535	\$ 453,639	17%
Public safety	478,085	636,039	157,954	33%
Public work	194,439	1,116,487	922,048	474%
Recreation	275,547	290,482	14,935	5%
Health and welfare	1,401,282	3,217,170	1,815,888	130%
Economic development			-	
Capital outlays	1,865,018	789,481	(1,075,537)	-58%
Debt service:				
Principal retirement	561,470	213,163	(348,307)	-62%
Interest and other	246,387	201,137	(45,250)	-18%
Total expenditures	<u>\$ 7,706,124</u>	<u>\$ 9,601,494</u>	<u>\$ 1,895,370</u>	25%

THE MUNICIPALITY AS A WHOLE

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Municipality report its financial information using accounting methods 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 and liabilities 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, 2005**

For the year ended June 30, 2005 net assets changed as follows:

	Governmental Activities
Beginning net assets	\$6,458,556
Increase in net assets	186,696
Ending net assets	<u>\$6,645,052</u>

Governmental Activities

This section illustrates governmental activities on the accrual basis of accounting by presenting a comparison of prior year to current year. 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, 2005**

The comparison of Net Assets for Governmental Activities is as follows:

<u>Functions/Programs</u>	<u>June 30, 2005 Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities</u>	<u>June 30, 2004 Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities</u>	<u>Difference</u>
Primary Government:			
General government	\$ (2,779,812)	\$ (2,015,733)	\$ (764,079) 27%
Public safety	(671,622)	(510,771)	\$ (160,851) 24%
Public work	(833,267)	(491,404)	\$ (341,863) 41%
Recreation	(385,472)	(366,262)	\$ (19,210) 5%
Health and welfare	(1,378,524)	(294,058)	\$ (1,084,466) 79%
Economic development	-	-	
Interest on long-term debt	(193,787)	(226,971)	\$ 33,184 -17%
Total primary government	<u>(6,242,484)</u>	<u>(3,905,199)</u>	
General revenues:			
Property taxes	280,424	257,779	\$ 22,645 8%
Municipal license tax	179,589	205,107	\$ (25,518) -14%
Grants and contributions not restricted to specific programs	4,625,805	4,840,131	\$ (214,326) -5%
Interest, fines and penalties	3,990	3,029	\$ 961 24%
Miscellaneous	1,407,718	533,397	\$ 874,321 62%
Total general revenues	<u>6,497,526</u>	<u>5,839,443</u>	
Extraordinary item: loss on disposition of asset	-	-	
Change in net assets	255,042	1,934,244	\$ (1,679,202) -658%
Net assets at beginning of year	5,561,067	3,626,823	\$ 1,934,244 35%
Net assets at end of year	<u>\$ 5,816,109</u>	<u>\$ 5,561,067</u>	

Significant differences can be seen in some comparisons. The change in net assets reflects a 658% change with respect to current year and last year. This change is due to the fact that last year was the first year of implementing the pronouncement of GASB 34, therefore there will be assets being capitalized that have an impact in the assets presented in the Statement of Net Assets that relate to periods before June 30, 2004. On the other hand the impact of the capital assets for this year will relate only to capital assets acquired during the year.

Another significant difference relates to miscellaneous income, which reports an increase of 62% representing revenues from external sources outside of the budget. These items relate to state proposals or acts that are not recurring revenues.

**MUNICIPALITY OF FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

BUDGETARY INFORMATION

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

	GENERAL FUND			
	Original Budget	Amended Budget	Actual	Variance Fav / Unfav
REVENUES				
Property taxes	\$ 125,503	\$ 125,503	\$ 125,503	-
Municipal license taxes	145,000	145,000	179,589	34,589
Licenses and permits	120,000	124,000	129,659	5,659
Charges for service and rents	1,137,163	130,000	134,035	4,035
Intergovernmental revenues:				-
Federal grants and contributions				-
State contributions	4,133,639	4,647,982	4,625,805	(22,177)
Interest, fines, and penalties	13,500	9,500	3,723	(5,777)
Other revenues	200,250	1,097,879	448,807	(649,072)
Total revenues	<u>5,875,055</u>	<u>6,279,864</u>	<u>5,647,121</u>	<u>(632,743)</u>
EXPENDITURES				
General government	1,687,670	2,784,824	2,995,961	211,137
Public safety	720,809	651,870	650,265	(1,605)
Public work	1,303,592	1,832,835	1,867,150	34,315
Recreation	300,191	294,760	292,056	(2,704)
Health and welfare	1,862,793	715,575	716,500	925
Total expenditures	<u>\$ 5,875,055</u>	<u>\$ 6,279,864</u>	<u>\$ 6,521,932</u>	<u>\$ (242,068)</u>
Excess (deficiency) or revenues over (under) expenditures			<u>(874,811)</u>	<u>(874,811)</u>

**MUNICIPALITY OF FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

CAPITAL ASSETS

At the end of the year June 30, 2005, the Municipality had \$ 10,257,122, net of depreciation invested in capital assets including land, buildings, parks, and courts, machinery and equipment and vehicles. This represents a net increase of 3% over the last year.

Governmental Activities:	Balance June 30, 2004	Balance June 30, 2005	Dollar Change	Total Percentage
Capital asset, not being depreciated:				
Land	\$ 966,884	\$ 966,884	-	0%
Construction in progress	1,838,866	2,338,446	499,580	21%
Total capital assets not being depreciated	<u>2,805,750</u>	<u>3,305,330</u>		
Capital assets, being depreciated:				
Buildings and building improvements	12,110,880	12,261,780	150,900	1%
Equipment	1,587,443	1,607,843	20,400	1%
Vehicles and Heavy Equipment	1,894,340	2,012,941	118,601	6%
Vehicles	-	-		
Total capital assets being depreciated	<u>15,592,663</u>	<u>15,882,564</u>	289,901	2%
Less accumulated depreciation for:				
Buildings and building improvements	5,530,173	5,835,684	305,511	5%
Equipment	1,245,826	1,344,224	98,398	7%
Vehicles and and Heavy Equipment	1,661,848	1,750,864	89,016	5%
Total accumulated depreciation	<u>8,437,847</u>	<u>8,930,772</u>	492,925	6%
Total capital assets being depreciated, net	<u>7,154,816</u>	<u>6,951,792</u>		
Governmental activities capital assets, net	<u>9,960,566</u>	<u>10,257,122</u>		

**MUNICIPALITY OF FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

LONG TERM DEBT

At year-end, the Municipality had \$3,456,997 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, 2005 is as follows:

General and special obligation bonds and notes	\$3,456,997
Due to PR Health Insurance Administration	448,930
Component Unit	914,631
Other Long Term Liabilities	888,686
	<hr/>
Total	\$5,709,244
	<hr/> <hr/>

More detailed information about the Municipality's long-term liabilities is presented in Note 14 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Next year's budget was prepared according to prior year's experience and information obtained with respect to increases and decreases of certain revenue concepts. For the fiscal year 2005-2006 the budget is \$6,401,108 representing an increase of approximately \$357,655 or 6% due principally to CRIM notifications about exonerated property and an increase in funds from Puerto Rico Power Authority (AEE).

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The financial report is designated 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, 2005**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Villas de Florida I Project</u>
Cash in bank (Note 2)	\$ 855,323	\$ 83,576
Cash with fiscal agent (Note 2)	149,941	
Accounts receivables:		
Rent, licenses, and permits		11,904
Landfill	62,669	
Due from other agencies (Note 8)	1,044,457	
Restricted deposits		559,424
Other assets		23,126
inventories		1,778
Capital assets, net (Note 10)	<u>10,257,122</u>	<u>1,092,319</u>
Total assets	<u>\$ 12,369,512</u>	<u>\$ 1,772,127</u>
 <u>Liabilities and Net Assets</u> 		
Liabilities		
Account payable and accrued liabilities	\$ 562,101	\$ 28,553
Due to other agencies (Note 11)	631,704	
General obligations:		
Bonds	125,000	
interest	4,979	
Deferred revenues (Note 12):		
Municipal license tax	80,236	
Federal government	135,150	
Accrued interest	219,620	
Noncurrent liabilities (Note 14):		
Due within one year	278,587	37,333
Due in more than one year	<u>4,516,026</u>	<u>877,298</u>
Total liabilities	<u>6,553,403</u>	<u>943,184</u>
 Net Assets		
Investment in capital assets, net of related debt	10,122,122	
Restricted for:		
Debt service	7,703	
Capital project	273,219	
Unrestricted	<u>(4,586,935)</u>	<u>828,943</u>
Total net assets	<u>5,816,109</u>	<u>828,943</u>
 Total liabilities and net assets	 <u>\$ 12,369,512</u>	 <u>\$ 1,772,127</u>

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, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
					<u>Primary Government Activities</u>
Primary Government:					
General government	\$ 3,043,507	\$ 263,694	\$ -	\$ -	\$ (2,779,813)
Public safety	671,622				(671,622)
Public works	1,429,916			596,650	(833,266)
Recreation	385,472		1,849,937		(385,472)
Health and welfare	3,228,462				(1,378,525)
Interest on long-term debt	193,786				(193,786)
Total primary government	<u>\$ 8,952,765</u>	<u>\$ 263,594</u>	<u>\$ 1,849,937</u>	<u>\$ 596,650</u>	<u>(\$ 2,422,484)</u>
Component Unit:					
Villas de Florida I Project	\$ 441,084	\$ 56,610	\$ 316,128	\$ -	(68,346)
General revenues:					
Property taxes					280,424
Municipal license tax					179,589
Grants and contributions not restricted to specific programs					4,625,805
Interest, fines and penalties					3,990
Miscellaneous					1,407,718
Total general revenues					<u>6,497,526</u>
Change in net assets					<u>255,042</u>
Net assets at beginning of year					<u>5,561,067</u>
Net assets at end of year					<u>\$ 5,816,109</u>
					<u>\$ 828,943</u>

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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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, 2005**

<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)	\$ 112,950	-	\$ 244,303	\$ 498,070	\$ 855,323
Cash with fiscal agent (Note 2)		137,682	2,669	9,590	149,941
Account receivable:					
Landfill	62,669				62,669
Due from other agencies (Note 8)	326,545			217,912	1,044,457
Due from other funds (Note 9)	387,741		43,662		431,403
Total assets	<u>\$ 1,389,905</u>	<u>\$ 137,682</u>	<u>\$ 290,634</u>	<u>\$ 725,572</u>	<u>\$ 2,543,793</u>

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

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2005**

<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>
Liabilities					
Account payable and accrued liabilities	\$ 343,800	-	\$ 17,415	\$ 200,886	\$ 562,101
Due to other funds (Note 9)	43,662			387,741	431,403
Due to other agencies (Note 11)	631,704				631,704
General obligations:					
Bonds		125,000			125,000
Interest		4,979			4,979
Deferred revenues: (Note 12)					
Municipal licence tax	80,236				80,236
Federal government				135,150	135,150
Total liabilities	<u>1,099,402</u>	<u>129,979</u>	<u>17,415</u>	<u>723,777</u>	<u>1,970,573</u>
Fund Balances					
Reserved for:					
Encumbrances	12,107				12,107
Debt service		7,703			7,703
Capital projects			273,219		273,219
Unreserved fund balance	278,396			1,795	280,191
Total fund balance	<u>290,503</u>	<u>7,703</u>	<u>273,219</u>	<u>1,795</u>	<u>573,220</u>
Total liabilities and fund balance	<u>\$ 1,389,905</u>	<u>\$ 137,682</u>	<u>\$ 290,634</u>	<u>\$ 725,572</u>	<u>\$ 2,543,793</u>

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

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, 2005**

Total fund balances - governmental funds	\$ 573,220
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	10,257,122
• 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>5,014,233</u>
Net assets of governmental activities	<u>\$ 15,844,575</u>

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

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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, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$ 164,931	\$ 115,493	\$ -	\$ -	\$ 280,424
Municipal license taxes (Note 7)	179,589				179,589
Licenses, permits, and other local taxes	129,659				129,659
Charges for services	134,035				134,035
Intergovernmental revenues (Note 13):					
Federal grants and contributions	4,625,805			1,849,937	1,849,937
State contributions	2,598	1,392			5,222,455
Interest, fines, and penalties	1,407,718				3,990
Other revenues	6,644,335	116,885	596,650	1,849,937	1,407,718
Total revenues	<u>6,644,335</u>	<u>116,885</u>	<u>596,650</u>	<u>1,849,937</u>	<u>9,207,807</u>
EXPENDITURES					
Current:					
General government	3,148,723				3,148,723
Public safety	650,265				661,409
Public works	1,867,150			11,144	1,867,150
Recreation	292,056				292,056
Health and welfare	716,500		659,738	1,841,618	3,217,856
Debt service:					
Principal		213,163			213,163
Interest and other		201,137			201,137
Total expenditures	6,674,694	414,300	659,738	1,852,762	9,601,494
Excess (deficiency) of revenues over (under) expenditures	<u>(30,359)</u>	<u>(297,415)</u>	<u>(63,088)</u>	<u>(2,825)</u>	<u>(393,687)</u>
OTHER FINANCING SOURCES (USES)					
Transfer in	1,125				303,341
Transfer out	(302,216)	302,216			(303,341)
Total other financing sources (uses)	<u>(301,091)</u>	<u>301,091</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(331,450)</u>	<u>3,676</u>	<u>(63,088)</u>	<u>(2,825)</u>	<u>(393,687)</u>
FUND BALANCE AT BEGINNING OF YEAR	621,953	4,027	336,307	4,620	966,907
FUND BALANCE AT END OF YEAR	<u>\$ 290,503</u>	<u>\$ 7,703</u>	<u>\$ 273,219</u>	<u>\$ 1,795</u>	<u>\$ 573,220</u>

Handwritten signature and initials over the Fund Balance at End of Year section.

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, 2005**

Net change in fund balances - total governmental funds \$ (393,687)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 789,481
- 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. (492,925)
- 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. 213,163
- Change in accrued interest expense which does not require the use of current financial resources. 7,351
- Some expenses reported in the statements of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 131,659

Changes in net assets of governmental activities \$ 255,042

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, 2005

	General Fund			Debt Service Fund		
	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Actual
REVENUES						
Property taxes	\$ 125,503	\$ 125,503	\$ 125,503	\$ 168,398	\$ 168,398	\$ 116,885
Municipal license taxes	145,000	145,000	179,589			
Licenses and permits	120,000	120,000	103,614			
Charges for services	680,000	680,000	553,343			
Intergovernmental revenues:						
State contributions	4,117,093	4,117,093	4,119,183			
Interest, fines, and penalties	13,500	13,500	29,768			
Other revenues	673,959	731,139	557,807			
Total revenues	5,875,055	5,932,235	5,668,807	168,398	168,398	116,885
EXPENDITURES						
Current:						
General government	2,292,406	2,455,237	2,753,780			
Public safety	741,240	747,840	645,265			
Public works	1,808,266	2,036,144	1,838,952			
Recreation	300,191	304,691	292,952			
Health and welfare	732,952	735,952	713,035			
Debt service:						
Principal				165,398	168,398	117,675
Interest						10,509
Total expenditures	5,875,055	6,279,864	6,246,984	168,398	168,398	128,184
OTHER FINANCING SOURCES						
Reprogramming funds		347,629	347,629			
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (230,548)	\$ -	\$ -	\$ (11,259)
			\$ (230,548)			\$ (91,727)

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

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

The following is a summary of the more significant policies:

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

b. Government-Wide and Fund Financial Statements

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

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

e. Interfund Receivables and Payables

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

f. Capital Assets

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

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, 2005 amounted to approximately \$137,600. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$185,800 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, 2005**

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>
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
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2008-09
46	Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34.	2005-06
47	Accounting for Termination Benefits	2005-06

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, 2005 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, 2005 is presented below for the general and debt service funds:

	General Fund	Debt Service Fund
Excess of expenditures over revenues - budgetary basis	\$ (230,548)	\$ (11,300)
Entity differences:		
Non-budgeted expenditures	(405,949)	(286,116)
Non-budgeted transfers in	1,125	302,216
Non-budgeted transfers out	(302,216)	(1,125)
Non-budgeted revenues	1,299,501	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(42,570)	
Current year encumbrances recorded as expenditures for budgetary basis	12,107	
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	\$ 331,450	\$ 3,675

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 million difference are as follows:

Note payable	\$ 135,000
Compensated absences	794,272
Bonds payable	3,321,997
Accrued interest payable	219,620
Other liabilities	<u>543,344</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$5,014,233</u>

5. DEPOSITS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The deposits at GDB of approximately \$3,000 that are restricted principally for capital projects, and the \$138,000 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	< <u>.20%</u> >	< <u>.20%</u> >
	<u>8.08%</u>	<u>6.08%</u>

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

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2004-05, 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

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, 2005, the amount collected from taxpayers and charges by CRIM for the same period by \$39,428. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements (refer to Note 8).

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, 2005. 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 \$80,236, corresponding to the next fiscal year municipal license.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$ 457,163
CRIM	39,428
Puerto Rico Labor Department	329,954
Other governmental funds	<u>217,912</u>
	<u>\$1,044,457</u>

9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2005, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Project	General	\$ 43,662
General	Other Governmental Funds	<u>387,741</u>
		<u>\$431,403</u>

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2005 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$302,216
General Fund	Debt Service	<u>1,125</u>
		<u>\$303,341</u>

The transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection the

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, 2005 was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 966,884	\$ -	\$ -	\$ 966,884
Construction in progress	1,838,866	650,480	150,900	2,338,446
Total capital assets, not being depreciated	<u>2,805,750</u>	<u>650,480</u>	<u>150,900</u>	<u>3,305,330</u>
Capital assets, being depreciated:				
Buildings and building improvements	12,110,880	150,900	-	12,261,780
Furniture and fixtures	1,587,443	20,400	-	1,607,843
Vehicles and equipment	1,894,340	118,601	-	2,012,941
Total capital assets, being depreciated	<u>15,592,663</u>	<u>289,901</u>	<u>-</u>	<u>15,882,564</u>
Less accumulated depreciation for:				
Buildings and building improvements	5,530,173	305,511	-	5,835,684
Furnitures and fixtures	1,245,826	98,398	-	1,344,224
Vehicles and equipment	1,661,848	89,016	-	1,750,864
Total accumulated depreciation	<u>8,437,847</u>	<u>492,925</u>	<u>-</u>	<u>8,930,772</u>
Total capital assets, being depreciated, net	<u>7,154,816</u>	<u>(203,024)</u>	<u>-</u>	<u>6,951,792</u>
Governmental activities capital assets, net	<u>\$ 9,960,566</u>	<u>\$ 447,456</u>	<u>\$ 150,900</u>	<u>\$ 10,257,122</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

General government	\$ 37,630
Public safety	35,583
Public works	313,430
Recreation	94,990
Health and welfare	<u>11,292</u>
 Total depreciation expense - governmental activities	 <u>\$492,925</u>

Capital asset activity for Villas de Florida I Project, a discretely presented component unit, for the year ended June 30, 2005 was as follows:

Component Unit- Villas de Florida I	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
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	2,641,653	54,741		2,696,394
Buildings equipment	113,033	7,244		120,277
Furniture and fixtures	24,058	-		24,058
Equipment	11,866	480		12,346
Total capital assets, being depreciated	<u>2,790,610</u>	<u>62,465</u>	<u>-</u>	<u>2,853,075</u>
Total accumulated depreciation	<u>1,909,470</u>	<u>149,988</u>		<u>2,059,458</u>
Total capital assets, being depreciated, net	<u>881,140</u>	<u>(87,523)</u>	<u>-</u>	<u>793,617</u>
Villas de Florida I capital assets, net	<u>\$ 1,179,842</u>	<u>\$ (87,523)</u>	<u>\$ -</u>	<u>\$ 1,092,319</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2005 are as follows:

Puerto Rico Electric Power Authority	\$462,629
Puerto Rico Treasury Department	13,346
Retirement System Administration	46,732
CRIM	37,520
Puerto Rico Water and Sewer Authority	12,197
Puerto Rico General Services Administration	38,204
Puerto Rico Labor Department	<u>21,076</u>
 Total	 <u>\$631,704</u>

12. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$80,236 in the general fund related to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.

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
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

14. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2005 are as follows:

Bonds

2002 series, \$175,000 payable in annual installments of \$30,000 to \$40,000 until 2006; with interest at 5% until 8%.	\$40,000
2002 series, \$190,000 payable in annual installments of \$30,000 to \$40,000 until 2006; with interest at 5% until 8%.	45,000
\$2003 series, \$60,000 payable in annual installments of \$5,000 to \$10,000 until 2010; with interest at 2.70% until 5%.	<u>50,000</u>
Total bonds payable	<u>\$135,000</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%.	\$3,036,997
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>285,000</u>
Total notes payable	<u>\$3,321,997</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Other Long-Term Liabilities

Property tax advance - Prior year, payable in monthly installments of \$603.57, until April 1, 2010.	\$ 36,214
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.	<u>58,200</u>
Total other long-term liabilities	<u>\$94,414</u>

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.	<u>\$448,930</u>
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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.	<u>\$914,631</u>
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

<u>Year Ended</u> <u>June 30,</u>	<u>Amount</u>
2006	\$37,333
2007	40,432
2008	43,789
2009	47,421
2010	51,361
Thereafter	<u>694,295</u>
	<u>\$914,631</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, 2005, 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, 2005, are as follows:

	<u>Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 95,000	\$ 5,728	\$ 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	10,000	600	81,988	196,448
2011-2015			485,286	735,338
2016-2020			512,464	764,339
2021-2025			646,488	598,496
2026-2030			881,740	374,853
2031-2035			438,679	69,785
	<u>\$ 135,000</u>	<u>\$ 11,728</u>	<u>\$3,321,997</u>	<u>\$3,569,651</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Long-term liability activity for the year ended June 30, 2005 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 260,000	\$ -	\$ 125,000	\$ 135,000	\$ 95,000
Note payable	3,379,917		57,920	3,321,997	64,344
Total long-term debt	<u>3,639,917</u>	<u>-</u>	<u>182,920</u>	<u>3,456,997</u>	<u>159,344</u>
Other long-term liabilities:					
Due to Puerto Rico Treasury Department	43,457		7,243	36,214	7,343
Due to Puerto Rico Health Insurance Administration	448,930			448,930	
Claims and judgments	81,200		23,000	58,200	32,900
Compensated absences	925,931		131,659	794,272	79,000
Total other long-term liabilities	<u>1,499,518</u>	<u>-</u>	<u>161,902</u>	<u>1,337,616</u>	<u>119,243</u>
Total noncurrent liabilities, governmental activities	<u>\$ 5,139,435</u>	<u>\$ -</u>	<u>\$ 344,822</u>	<u>\$ 4,794,613</u>	<u>\$ 278,587</u>
Component Unit:					
Villas de Florida I Project mortgage payable	<u>\$ 949,106</u>	<u>\$ -</u>	<u>\$ 34,475</u>	<u>\$ 914,631</u>	<u>\$ 37,333</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
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, 2005

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, 2005 was approximately \$239,040.79. The Municipality's payroll for employees covered by ERS was approximately \$2.6 million. The Municipality total payroll for all employees was approximately \$4.6 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2005, 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, 2005**

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, 2005 was \$134,035.
- 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

19. COMMITMENTS

The Municipality of Florida had several outstanding or planned construction projects as of June 30, 2005. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$193,175.

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, 2005, 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, 2005**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development		
Direct Programs		
Section 8 Vouchers	14.871	\$ 241,394
Pass-through Commonwealth of Puerto Rico/ Commissions Office of Municipal Affairs Community Development Block Grant-States Program SBGP	14.228	<u>1,265,969</u>
Subtotal U.S. Department of HUD		<u>1,507,363</u>
U.S. Department of Health and Human Services		
Pass-through the Office of Administration for Children and Families Child Care and Development Block Grant	93.575	<u>260,209</u>
Subtotal U.S. Department of HHS		<u>260,209</u>
U.S. Department of Agriculture		
Pass-through Governor's Office of Child Services and Community Development: Child and Adult Care Food Program	10.558	<u>38,216</u>
Subtotal U.S. Department of Agriculture		<u>38,216</u>
U.S. Department of Justice		
Pass-through the Governor's Office of Community Public Safety Partnership and Community Policing Grants (COPS)	16.710	<u>11,144</u>
Subtotal U.S. Department of Justice		<u>11,144</u>
U.S. Department of Homeland Security		
Direct Programs: Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	<u>20,000</u>
Subtotal U.S. Department of Homeland Security		<u>20,000</u>
TOTAL		<u><u>\$1,836,932</u></u>

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, 2005**

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.

2. BASIS OF PRESENTATION

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

	<u>Expenditures</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$1,836,932</u>
Expenditures as per basic financial statements:	
Housing and Urban Development Programs	\$1,507,363
Health and Human Services Programs	260,209
Agriculture Programs	38,216
Justice Program	11,144
Homeland Security Programs	<u>20,000</u>
Total	<u>\$1,836,932</u>



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Members:
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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 the Municipality of Florida as of and for the year ended June 30, 2005, which collectively comprise the Municipality of Florida's basic financial statements, and have issued our report thereon dated December 13, 2005. The report on the governmental activities was qualified because management has not recorded a liability for estimated landfill postclosing costs and, accordingly, has not recorded an expense for the current period. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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 financial statements and not to provide an opinion 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 caused by error or fraud in amounts that would be material in relation to the 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 December 13, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Municipality of Florida in a separate letter dated December 13, 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.

San Juan, Puerto Rico
December 13, 2005

Ortiz, Rodriguez, Rivera & Co.

The stamp 2101429 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, 2005. 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, 2005. 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 05-1 and 05-2.

Internal Control over Compliance

The management of Municipality of Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

San Juan, Puerto Rico
December 13, 2005

Ortiz, Rodriguez, Rivera & Co.

The stamp 2101430 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, 2005**

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, 2005**

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.228	<p><u>Condition 05-1</u></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 FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.228	<p>Condition 05-2</p> <p>The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the three (3) construction projects selected for testing, we noted that the contracts do not have the prevailing wage rate clause updated. In addition, some of the contracts selected have the certified payrolls.</p> <p><u>Criteria</u></p> <p>The Davis Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7).</p> <p><u>Cause</u></p> <p>The Municipality failed on preparing the contract avoiding required clause for Davis Bacon Act.</p> <p><u>Effect</u></p> <p>The continued failure to implement internal controls and ensure compliance with the above requirement may expose the Municipality to cost disallowances.</p>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<u>Recommendation</u> The Municipality should assure the construction contracts include the required clause by the Davis Bacon Act in order to ensure that all laborers are paid wages not less than those established.	

**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, 2005**

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.

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ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP - CFDA No. 14.228	Condition 01-1 The Municipality maintains high balance in cash.	Condition still continues.
SBGP CFDA No. 14.228	Condition 02-1 The Municipality maintains high balance in cash.	Condition still continues.
SBGP CFDA No. 14.228	Condition 03-1 The Municipality maintains high balance in cash.	Condition still continues.
SBGP CFDA No. 14.228	Condition 04-1 The Municipality maintains high balance in cash.	Condition still continues.

EXHIBIT I

CORRECTIVE ACTION PLAN

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Tel. 787-822-2672 787-822-3667

CORRECTIVE ACTION PLAN

December 27, 2005

Cognizant or Oversight Agency for Audit:

Municipality of Florida respectfully submits the following corrective action plan for the year ended June 30, 2005

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, 2005

The findings from the June 30, 2005 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 05-1: SBGP - CFDA 14.228

Reportable Condition: See Condition 05-1

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 control system on which the disbursement vouchers are authorized before requesting the federal funds to OCAM.

Finding 05-2: SBGP - CFDA 14.228

Reportable Condition: See Condition 05-2

Recommendation

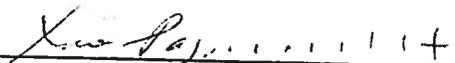
The Municipality should assure the construction contracts include the required clause by the Davis Bacon Act in order to ensure that all laborers are paid wages not less than those established.

Action Taken

The Municipality will establish an internal control system to ensure the construction contract include the required clause of Davis Bacon Act.

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

Cordially,



Xiomara Pagán Sotomayor
Finance Director