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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA**

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

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

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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, 2007, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 21, 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, 2007, 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, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2006, 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 14 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
November 28, 2007

The stamp 2286463 was affixed to the original of this report.



Management's Discussion and Analysis

As management of the Municipality of Florida (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's assets amounted to \$13,816,904 at June 30, 2007, of which \$20,912,056 consist of capital assets (net of accumulated depreciation and amortization of \$11,106,255), \$1,785,915 consist of cash and cash equivalents which are restricted for specific purposes, \$854,731 consist of intergovernmental receivable, and \$78,847 consist of others receivables.
- The Municipality's liabilities amounted to \$6,109,746 at June 30, 2007, of which \$3,953,372 consist of bonds and notes payable, \$791,558 consist of Intergovernmental payable, \$693,082 consist of compensated absences, \$ 470,065 consist of accounts payable and accrued liabilities, and \$251,983 consist of deferred revenues.
- The Municipality's assets exceeded its liabilities (net assets/surplus) by \$7,448,143 at June 30, 2007.
- The Municipality's revenues amounted to \$9,247,168 for the fiscal year ended June 30, 2007, of which \$5,822,529 arose from taxes, \$2,831,309 arose from intergovernmental grants and contributions, \$544,842 arose from charges for services, \$31,409 arose from miscellaneous revenue streams and \$17,079 arose from charges from interest revenues.
- The Municipality's expenses amounted to \$7,526,002 for the fiscal year ended June 30, 2007, of which \$5,046,902 were incurred in providing direct services and benefits to citizens in relation to urban and economic development, health and sanitation, public safety, public housing and welfare, culture, recreation and education. In addition, the Municipality incurred \$208,997 of its total expenses, in interests related to its long-term obligations, and \$2,465,554 in general government activities to support the Municipality's functions and programs. The Municipality's expenses include depreciation and amortization of capital assets in the amount of \$433,308 for the fiscal year ended June 30, 2007.
- The Municipality's net assets increased by \$1,734,712 during the fiscal year ended June 30, 2007.

Governmental Funds' Highlights:

- The total fund balance of governmental funds amounted to \$1,108,497 at June 30, 2007, of which \$1,620,930 is reserved for capital projects, debt service, encumbrances, advances from other

governmental funds, intergovernmental grants and contributions, while \$512,433 represents an unrestricted deficit.

- The total fund balances of governmental funds increased by \$886,962 during the fiscal year ended June 30, 2007.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2007. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), and (3) notes to the basic financial statements (NBFS). This report also contains additional required and other supplementary information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

a) Government-wide Financial Statements

The GWFS are composed of: (1) the statements of net assets (SNA) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2007. The GWFS are prepared using methods that are similar to those used by most private businesses.

1. Statement of Net Assets

The purpose of SNA is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases,

compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets and total liabilities reported in SNA is presented as *net assets*, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net assets, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

2. Statement of Activities

The SA presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2007, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although SA looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as *net change in net assets*, which is essentially the same concept.

The focus of SA is on the *net cost* of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

GWFS and GFFS present all of the Municipality's governmental activities, which are supported mostly by taxes and intergovernmental revenues (such as federal and state grants and contributions). All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

b) Governmental Fund Financial Statements

The Municipality's GFFS consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

Governmental funds are used to account for all of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of GFFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, GFFS report the Municipality's operations in more detail than the GWFS.

GFFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

GFFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, GFFS focus on near-term inflows and outflows of expendable financial resources, consequently, generally measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

Because the focus of GFFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

The Municipality has four major governmental funds. Each major fund is presented in a separate column in the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances. The four major governmental funds are: (1) general fund, (2) debt service fund, (3) capital improvements bonds fund, and (4) legislative joint resolutions fund.

c) Notes to Basic Financial Statements

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and GFFS. The NBFS can be found immediately following the basic financial statements.

d) Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of: (1) budgetary comparison schedule – general fund and (2) budgetary comparison schedule - debt service fund.

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Municipality's overall financial position and operations for the prior and the current fiscal year are summarized as follows, based on the information included in the accompanying GWFS:

**Condensed Statement of Net Assets
Governmental Activities
June 30, 2006 and 2007**

	<u>2006</u>	<u>2007</u>
Assets:		
Current assets	\$ 479,204	\$ 1,855,918
Non current assets:		
Capital assets, net of accumulated depreciation	10,507,604	11,106,255
Other non current assets	885,459	854,731
Total assets	<u>\$ 11,872,267</u>	<u>\$ 13,816,904</u>
Liabilities:		
Current liabilities, excluding long-term obligations	\$ 1,300,334	\$ 1,735,853
Long-term obligations due within one year	310,741	404,814
Long-term obligations due after one year	4,598,865	4,228,094
Total liabilities	<u>\$ 6,209,940</u>	<u>\$ 6,368,761</u>
Net assets (deficit):		
Invested in capital assets, net of related debt	\$ 10,407,604	\$ 10,814,790
Restricted	222,138	1,501,832
Unrestricted	(4,967,415)	(4,868,479)
Total net assets	<u>\$ 5,662,327</u>	<u>\$ 7,448,143</u>

At June 30, 2007, the Municipality's current assets, amounting to \$1,855,918, are mainly composed of cash and cash equivalents (\$1,777,071), and accounts receivable (\$78,847), net of reserve for doubtful accounts.

The restricted cash represents resources legally designated for: (1) the payment of debt service, (2) the acquisition, construction and improvement of major capital assets, and (3) the operations of federally and state funded grant programs. Restricted cash also consists of unspent proceeds of bonds issued for acquisition, construction and improvement of major capital assets. Restricted property taxes receivable represent resources set aside to redeem the bonds of the Municipality in minimum annual or biannual principal and interest payments.

The Municipality's non-current assets, amounting to \$11,106,255 at June 30, 2007, are substantially composed of capital assets, with a cost basis of \$20,912,056, which are reported net of accumulated depreciation and amortization of \$9,805,801.

At June 30, 2007, the Municipality's current liabilities amounting to \$1,686,408 are mainly composed of intergovernmental payables (\$791,558), accounts payable (\$470,065), deferred revenues (\$251,983) and the portions due within one year (\$223,116) of bonds and notes payable, intergovernmental payable, obligation under capital leases and compensated absences. Deferred revenues principally consist of deferred revenues associated with municipal license taxes and intergovernmental grants and contributions related to state and federally funded grant programs.

The Municipality's non-current liabilities, amounting to \$4,228,094 at June 30, 2007, are mainly composed of portions due after one year of bonds and noted payable (\$3,600,012), and compensated absences (\$628,082).

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. The assets of the Municipality exceeded liabilities by \$7,448,143 at June 30, 2007. The most significant portion of net assets (\$10,814,790) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, furniture, fixtures, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Another significant portion of net assets (\$1,418,442) at June 30, 2007, represents resources that are restricted for grants.

The remaining component of total net assets consists of unrestricted net liabilities amounting to (\$4,868,479) at June 30, 2007. These unrestricted net liabilities are the consequence of previous budgets that did not provide sufficient funding for incurred long-term obligations, such as bonds and notes payable, compensated absences, claims and judgments, certain obligations under capital leases, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net assets of the Municipality increased by \$1,734,712 for the fiscal year ended June 30, 2007.

The following is a condensed presentation of the Municipality's results of operations as reported in the GWFS:

**Condensed Statement of Activities
Governmental Activities
Fiscal Years Ended June 30, 2006 and 2007**

	<u>2006</u>	<u>2007</u>
Program revenues:		
Program-specific operating grants and contributions	\$ 1,493,137	\$ 1,715,432
Program-specific capital grants and contributions	102,174	1,115,877
Charges for services	175,971	544,842
Total program revenues	<u>1,771,282</u>	<u>3,376,151</u>
General revenues:		
Property taxes	668,634	799,775
Municipal license taxes	147,845	52,132
Construction excise taxes	-	-
Sales and use tax	-	95,943
Unrestricted grants and contributions	4,591,964	4,874,679
Other general revenues (various sources)	1,353,388	48,488
Total general revenues	<u>6,761,831</u>	<u>5,871,017</u>
Total revenues	<u>8,533,113</u>	<u>9,247,168</u>
Program expenses:		
General government	3,504,551	2,465,554
Urban and economic development	1,709,879	1,700,271
Health and sanitation	1,389,365	1,093,707
Public safety	670,447	729,552
Public housing and welfare	851,545	683,830
Culture, recreation and education	363,059	630,545
Interest on long-term obligations	198,049	208,997
Total expenses	<u>8,686,895</u>	<u>7,512,456</u>
Net increase (decrease) in net assets	<u>(153,782)</u>	<u>1,734,712</u>
Net assets, at beginning of fiscal year	5,816,109	5,662,327
Prior-period adjustments	-	51,104
Net assets, at beginning of fiscal year, as restated	<u>-</u>	<u>5,713,431</u>
Net assets, at end of fiscal year	<u>\$ 5,662,327</u>	<u>\$ 7,448,143</u>

As previously mentioned, the Municipality's net assets increased by \$1,734,712 during the current fiscal year. Approximately 55% of the Municipality's total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes (\$947,850). Grants,

contributions and charges for services (program revenues), amounting to \$3,376,151, provided 36% of the total revenues for the current fiscal year. Unrestricted grants and contributions, interests on deposits and miscellaneous revenues provided the remaining 8% of total revenues.

The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2007 were related to: (1) general administrating and operating costs (\$2,465,554), which were classified as "general government", (2) urban and economic development (\$1,700,271), (3) health and sanitation (\$1,093,707), (4) public safety (\$729,552), (5) public housing and welfare (\$683,830), (6) culture, recreation and education (\$630,545), and (7) interest on long-term obligations (\$208,997). These expenses include depreciation and amortization of capital assets and deferred charges in the amounts of \$627,697 for the fiscal year ended June 30, 2007.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

At June 30, 2007, the total assets of governmental funds amounted to \$2,866,114, which consisted principally of: (1) cash and cash equivalents of \$1,777,071, (2) intergovernmental fund receivable of \$854,731, (3) interfund receivables of \$155,465 and (4) other receivables of \$78,847. Such assets that are restricted for debt service, capital projects, encumbrances and other specific purposes.

At June 30, 2007, the total liabilities of governmental funds amounted to \$1,757,617, which consisted principally of: (1) intergovernmental payable of \$791,558, (2) accounts payable and accrued liabilities of \$470,065, (3) deferred revenues of \$251,983, (4) interfund payables \$155,465 and (5) matured bonds and interests due and payable of \$88,546.

The fund balances of governmental funds increased by \$886,962 during the fiscal year ended June 30, 2007.

Condensed Balance Sheet - Governmental Funds June 30, 2006 and 2007

Assets:

Total assets - major governmental funds	\$ 1,218,561	\$ 2,694,448
Total assets - other governmental funds	<u>302,779</u>	<u>171,666</u>
Combined total assets	<u>1,521,340</u>	<u>2,866,114</u>

Analysis of Operating Results of Governmental Funds

**Condensed Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
Fiscal Years Ended June 30, 2006 and 2007**

	2006	2007
Revenues:		
Total revenues - major governmental funds	\$ 7,033,703	\$ 8,586,797
Total revenues – other governmental funds	1,499,410	1,115,877
Combined total revenues	8,533,113	9,702,674
Expenditures:		
Total expenditures - major governmental funds	7,499,197	7,659,743
Total expenditures - other governmental funds	1,501,705	1,155,969
Combined total expenditures	9,000,902	8,815,712
Excess deficiency of revenues over (under) expenditures	(467,789)	886,962
Other financing sources, net:		
Other financing sources, net - major governmental funds	-	-
Other financing sources (uses), net - other governmental funds	65,000	-
Combined other financing sources (uses), net	65,000	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(402,789)	886,962
Fund balance, at beginning of fiscal year (restated)	573,220	221,535
Fund balance, at end of fiscal year	\$ 170,431	\$ 1,108,497

Major Governmental Funds

General fund – The total fund balance of the GF increased by \$886,962 during current fiscal year.

Approximately 52% (\$5,070,419) of the GF’s total revenues for the current fiscal year came from property, municipal license, construction excise taxes and sales and use taxes, while (\$3,949,499) resulted from intergovernmental grants and contributions and charges for services.

The largest expenses of the GF for the fiscal year ended June 30, 2007 were related to: (1) general administrating and operating costs (\$2,425,739), which were classified as "general government", (2) urban and economic development (\$1,658,647), (3) health and sanitation (\$1,053,892), (4) capital outlays (\$1,033,739) (5) public safety (\$689,737), (6) public housing and welfare (\$644,015), (7) culture, recreation and education (\$590,730), and (8) principal and interest on long-term obligations (\$209,583).

Debt service fund (DSF) – The total fund balance of the DSF increased by \$56,164 during current fiscal year. Approximately \$118,629 of DSF's total revenues for the current fiscal year came from restricted property taxes. DSF's total expenditures for the current fiscal year came from principal and interests on bonds payable (\$379,945).

Capital improvements bond fund (CIBF)- The total fund balance of the CIBF increased by \$1,146,377 during current fiscal year. CIBF's revenues for the current fiscal year came from state grants and contribution amounting to \$1,715,432, proceeds from bonds amounting to \$295,000 and interest revenues amounting to \$7,232. CIBF's expenditures for the current fiscal year came from capital outlays amounting to \$838,164, operating transfers-out to other funds amounting to \$18,475, public housing and welfare amounting to \$12,703, general fund amounting to \$1,824 and urban economic development amounting to \$121.

Other governmental funds (OGF) – The total fund balance of the OGF decreased by \$40,092 during current fiscal year. Substantially all of OGF's revenues for the current fiscal year came from intergovernmental grants and contributions of \$1,115,877. Total expenditures were mainly related to the operating costs of state and federal funded programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$20,912,056 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$9,805,829 at June 30, 2007. The net capital assets increased during the current fiscal year due to the current fiscal year's capital additions (\$4,316,160), which were partially offset by the depreciation and amortization expense.

b) Debt Administration

The Municipality finances a significant portion of its construction activities through bond and note issuances, and through state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

At June 30, 2007, the Municipality's total bonded debt amounted to \$3,355,960, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The following is a summary of the debt activity for the fiscal year ended June 30, 2007:

- Bonds payable decreased by (\$170,362) due to the total principal payments on made during the current fiscal year.
- The Municipality has also certain outstanding notes payable. Such notes payable also decreased during the current fiscal year mainly due to the principal payments made during the same period.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Municipality's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality of Florida, Department of Finance.

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

<u>Assets</u>	<u>Governmental Activities</u>	<u>Villas de Florida I Project</u>
Cash in bank (Notes 2 and 5)	\$ 1,314,736	\$ 70,109
Cash with fiscal agent (Notes 2 and 5)	462,335	
Accounts receivable:		
Municipal license taxes	7,180	
Sales and use tax	4,217	
Rent, licenses, and permits		7,593
Interest	1,398	
Other	66,052	
Due from other agencies (Note 9)	854,731	
Restricted deposits		687,669
Other assets		15,450
Inventories		4,440
Capital assets, net (Note 11)	<u>11,106,255</u>	<u>812,930</u>
 Total assets	 <u>\$ 13,816,904</u>	 <u>\$ 1,598,191</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payables and accrued liabilities	\$ 470,065	\$ 32,412
Due to other agencies (Note 12)	791,558	
Deferred revenues (Note 13):		
Municipal license tax	198,516	
Federal government	53,467	
Accrued interest	222,247	
Noncurrent liabilities (Note 15):		
Due within one year	404,814	43,789
Due in more than one year	4,228,094	793,077
Total liabilities	<u>6,368,761</u>	<u>869,278</u>
Net Assets		
Investment in capital assets, net of related debt	10,814,790	
Restricted for:		
Debt service	77,139	
Capital project	1,418,442	
Federal programs	6,251	
Unrestricted	<u>(4,868,479)</u>	<u>728,913</u>
Total net assets	<u>7,448,143</u>	<u>728,913</u>
 Total liabilities and net assets	 <u>\$ 13,816,904</u>	 <u>\$ 1,598,191</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, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary Government:					
General government	\$ 2,465,554	\$ 544,842	\$ -	\$ -	\$ (1,920,712)
Public safety	729,552				(729,552)
Public housing and welfare	683,830			1,715,432	1,031,602
Recreation	630,545				(630,545)
Health and sanitation	1,093,707		1,115,877		22,170
Economic development	1,700,271				(1,700,271)
Interest on long-term debt	208,997				(208,997)
Total primary government	<u>\$ 7,512,456</u>	<u>\$ 544,842</u>	<u>\$ 1,115,877</u>	<u>\$ 1,715,432</u>	<u>(4,136,305)</u>
Component Unit:					
Villas de Florida I Project	<u>\$ 431,685</u>	<u>\$ 388,737</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(42,948)</u>
General revenues:					
Property taxes				799,775	
Municipal license tax				52,132	
Sales and use taxes				95,943	
Grants and contributions not restricted to specific programs				4,874,679	
Interest, fines and penalties				17,079	
Miscellaneous				31,409	
Total general revenues				<u>5,871,017</u>	<u>-</u>
Change in net assets				<u>1,734,712</u>	<u>(42,948)</u>
Net assets at beginning of year, as restated (Note 23)				<u>5,713,431</u>	<u>771,861</u>
Net assets at end of year				<u>\$ 7,448,143</u>	<u>\$ 728,913</u>

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, 2007**

<u>Assets</u>	<u>General</u>	<u>Capital Improvements Bond Fund</u>	<u>Debt Service</u>	<u>Joint Resolution Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 2)	\$ -	\$ -	\$ -	\$ 1,240,509	\$ 74,227	\$ 1,314,736
Cash with fiscal agent (Note 2)		293,563	166,730		2,042	462,335
Accounts receivable:						
Municipal license taxes	7,180					7,180
Sales and use taxes	4,217					4,217
Rent, licenses, and permits						
Interest		334	311	753		1,398
Other	66,052					66,052
Due from other agencies (Note 9)	754,647				100,084	854,731
Due from other funds (Note 10)	102,221			53,244		155,465
Total assets	\$ 934,317	\$ 293,897	\$ 167,041	\$ 1,294,506	\$ 176,353	\$ 2,866,114

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, 2007**

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>Capital Improvements Bond Fund</u>	<u>Debt Service</u>	<u>Joint Resolution Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities						
Account payable and accrued liabilities	\$ 284,334	\$ -	\$ -	\$ 169,627	\$ 16,104	\$ 470,065
Due to other funds (Note 10)	53,244	334	1,356		100,531	155,465
Due to other agencies (Note 12)	791,558					791,558
General obligations:						
Bonds			75,000			75,000
Interest			13,546			13,546
Deferred revenues: (Note 13)						
Municipal licence tax	198,516					198,516
Federal government	-				53,467	53,467
Total liabilities	<u>1,327,652</u>	<u>334</u>	<u>89,902</u>	<u>169,627</u>	<u>170,102</u>	<u>1,757,617</u>
Fund Balances (Deficit)						
Reserved for:						
Encumbrances	117,631					117,631
Federal programs					6,251	6,251
Debt service			77,139			77,139
Advances	1,467					1,467
Capital projects		293,563		1,124,879		1,418,442
Unreserved fund balance (deficit)	(512,433)					(512,433)
Total fund balance (deficit)	<u>(393,335)</u>	<u>293,563</u>	<u>77,139</u>	<u>1,124,879</u>	<u>6,251</u>	<u>1,108,497</u>
Total liabilities and fund balance (deficit)	<u>\$ 934,317</u>	<u>\$ 293,897</u>	<u>\$ 167,041</u>	<u>\$ 1,294,506</u>	<u>\$ 176,353</u>	<u>\$ 2,866,114</u>

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

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

Total fund balances - governmental funds	\$ 1,108,497
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	11,106,255
• 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>(4,766,609)</u>
Net assets of governmental activities	<u>\$ 7,448,143</u>

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

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CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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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, 2007**

	General	Capital Improvements Bond Fund	Debt Service	Joint Resolution Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 6)	\$ 681,146	\$ -	\$ 118,629	\$ -	\$ -	\$ 799,775
Municipal license taxes (Note 7)	52,132					52,132
Sales and use taxes (Note 8)	95,943					95,943
Licenses, permits, and other local taxes	86,312					86,312
Charges for services	458,530					458,530
Intergovernmental revenues (Note 14):						
Federal grants and contributions					1,115,877	1,115,877
State contributions	4,874,679			1,715,432		6,590,111
Interest, fines, and penalties	6,144	4,944	3,703	2,288		17,079
Other revenues	31,409					31,409
Total revenues	6,286,295	4,944	122,332	1,717,720	1,115,877	9,247,168
EXPENDITURES						
Current:						
General government	2,423,915	1,824				2,425,739
Public safety	689,737					689,737
Public housing and welfare	357,269			12,703	274,043	644,015
Recreation	416,485				174,245	590,730
Health and sanitation	987,777				66,115	1,053,892
Economic development	1,212,535			121	447,799	1,660,455
Capital outlays		64,990		773,174	193,767	1,031,931
Debt service:						
Principal			349,124			349,124
Interest and other			209,583			209,583
Total expenditures	6,087,718	66,814	558,707	785,998	1,155,969	8,655,206
Excess (deficiency) of revenues over (under) expenditures	198,577	(61,870)	(436,375)	931,722	(40,092)	591,962
OTHER FINANCING SOURCES (USES)						
Loan proceeds		295,000				295,000
Transfer in	21,983		496,047			518,030
Transfer out	(496,047)	(4,944)	(3,508)	(13,531)		(518,030)
Total other financing sources (uses)	(474,064)	290,056	492,539	(13,531)	-	295,000
Excess (deficiency) of revenues and other sources over expenditures and other uses:	(275,487)	228,186	56,164	918,191	(40,092)	886,962
FUND BALANCE AT BEGINNING OF YEAR AS RESTATED (Note 23)	(117,848)	65,377	20,975	206,688	46,343	221,535
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (393,335)	\$ 293,563	\$ 77,139	\$ 1,124,879	\$ 6,251	\$ 1,108,497

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

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**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, 2007**

Net change in fund balances - total governmental funds	\$ 886,962
Amounts reported for governmental activities in the statement of activities are different because:	
• Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	1,031,931
• 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.	(433,280)
• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.	(295,000)
• Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities.	349,124
• Change in accrued interest expense which does not require the use of current financial resources.	586
• 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.	<u>194,389</u>
Changes in net assets of governmental activities	<u>\$ 1,734,712</u>

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

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

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 581,281	\$ 581,281	\$ 580,149	\$ (1,132)	\$ 122,137	\$ 122,137	\$ 118,629	\$ (3,508)
Municipal license taxes	137,000	137,000	90,581	(46,419)				
Licenses and permits	75,000	75,000	86,311	11,311				
Charges for services	395,000	395,000	448,554	53,554				
Intergovernmental revenues:								
State contributions	4,529,155	4,529,155	4,703,337	174,182				
Interest, fines, and penalties	2,000	2,000	6,144	4,144			3,703	3,703
Other revenues	13,100	13,100	31,409	18,309				
Total revenues	<u>5,732,536</u>	<u>5,732,536</u>	<u>5,946,485</u>	<u>213,949</u>	<u>122,137</u>	<u>122,137</u>	<u>122,332</u>	<u>195</u>
EXPENDITURES								
Current:								
General government	2,058,123	2,243,262	2,499,524	(256,262)				
Public safety	569,166	554,668	553,165	1,503				
Public housing and welfare	244,363	212,914	213,039	(125)				
Culture and recreation	286,568	281,065	278,313	2,752				
Health and sanitation	684,011	639,180	673,604	(34,424)				
Economic development	1,890,305	1,801,447	1,797,214	4,233				
Debt service:								
Principal					10,597	10,597	349,124	(338,527)
Interest					111,540	111,540	209,583	(98,043)
Total expenditures	<u>5,732,536</u>	<u>5,732,536</u>	<u>6,014,859</u>	<u>(282,323)</u>	<u>122,137</u>	<u>122,137</u>	<u>558,707</u>	<u>(436,570)</u>
Deficiency of revenues under expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (68,374)</u>	<u>\$ (68,374)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (436,375)</u>	<u>\$ (436,375)</u>

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

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

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, 2007**

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

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

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government 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, 2007**

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, 2007**

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under 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, 2007**

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) Joint Resolution Fund

This is the fund used to account for all the transactions of the State Contribution by Legislature Resolutions. The primary objectives of these assignments is the development of projects on communities, not-for-profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

4) Capital Improvement Bond Fund

This fund is used to account for the financial resources used for the acquisition of personal property and/or construction of major improvements which are not financed by other funds.

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

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

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

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

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

d. Cash and Cash with Fiscal Agent

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

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

e. Interfund Receivables and Payables

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.

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

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

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

g. Reservation of Fund Balance

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

1) Encumbrances

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

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
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4) Other Specific Purposes

Represent financial resources set aside for use in federal and state grant program.

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2007 amounted to approximately \$168,627. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$244,689 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.

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

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

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

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3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

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

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

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

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b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2007 is presented below for the general and debt service funds:

	General Fund	Debt Service Fund
Excess of expenditures over revenues - budgetary basis	\$ (68,374)	\$ (436,375)
Entity differences:		
Non-budgeted transfers in	21,983	496,047
Non-budgeted transfers out	(496,047)	(3,508)
Non-budgeted revenues	230,772	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(81,452)	
Current year encumbrances recorded as expenditures for budgetary basis	117,631	
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	\$ (275,487)	\$ 56,164

c. Legal Compliance

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

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4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$5 million difference are as follows:

Note payable	\$3,172,477
Compensated absences	693,082
Bonds payable	355,000
Accrued interest payable	208,701
Other liabilities	<u>337,349</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$4,766,609</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).

The deposits at GDB of approximately \$295,605 that are restricted principally for capital projects, and the \$166,730 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.

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

6. PROPERTY TAXES

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

The rates are 8.08% 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.

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

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

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Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after 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 15).

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

Based on the preliminary settlement already received, during the year ended June 30, 2007, the amount collected from taxpayers and charges by CRIM for the same period

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by \$152,894. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements (refer to Note 9).

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2007. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of 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 \$198,516, corresponding to the next fiscal year municipal license.

8. SALES AND USE TAXES

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to

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

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$515,394
CRIM	152,894
Puerto Rico Treasury Department	86,359
Other governmental funds	<u>100,084</u>
	<u>\$854,731</u>

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10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Joint Resolution	General	\$ 53,244
General	Other Governmental Funds	100,531
General	Capital Improvements Bond	334
General	Debt Service	<u>1,356</u>
		<u>\$155,465</u>

b. Interfund Transfers:

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$496,047
General Fund	Debt Service	3,508
General Fund	Capital Improvement Bonds	4,944
General Fund	Joint Resolution	<u>13,531</u>
		<u>\$518,030</u>

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

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11. CAPITAL ASSETS

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

<u>Primary Government</u>	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 966,884	\$ 307,194	\$ -	\$ 1,274,078
Construction in progress	2,982,315	964,088	1,521,701	2,424,702
Total capital assets, not being depreciated	<u>3,949,199</u>	<u>1,271,282</u>	<u>1,521,701</u>	<u>3,698,780</u>
Capital assets, being depreciated:				
Buildings and building improvements	12,282,780	1,214,507	-	13,497,287
Furniture and fixtures	1,614,569	2,853	-	1,617,422
Vehicles and equipment	2,033,577	64,990	-	2,098,567
Total capital assets, being depreciated	<u>15,930,926</u>	<u>1,282,350</u>	<u>-</u>	<u>17,213,276</u>
Less accumulated depreciation for:				
Buildings and building improvements	6,123,653	338,929	-	6,462,582
Furnitures and fixtures	1,442,694	43,260	-	1,485,954
Vehicles and equipment	1,806,174	51,091	-	1,857,265
Total accumulated depreciation	<u>9,372,521</u>	<u>433,280</u>	<u>-</u>	<u>9,805,801</u>
Total capital assets, being depreciated, net	<u>6,558,405</u>	<u>849,070</u>	<u>-</u>	<u>7,407,475</u>
Governmental activities capital assets, net	<u>\$ 10,507,604</u>	<u>\$ 2,120,352</u>	<u>\$ 1,521,701</u>	<u>\$ 11,106,255</u>

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Capital asset activity for Villas de Florida I Project, a discretely presented component unit, for the year ended June 30, 2007 was as follows:

Component Unit- Villas de Florida I	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
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	2,697,764			2,697,764
Buildings equipment	121,304	1,328		122,632
Furniture and fixtures	24,247			24,247
Equipment	15,884	448		16,332
Total capital assets, being depreciated	<u>2,859,199</u>	<u>1,776</u>	<u>-</u>	<u>2,860,975</u>
Total accumulated depreciation	<u>2,209,989</u>	<u>136,758</u>		<u>2,346,747</u>
Total capital assets, being depreciated, net	<u>649,210</u>	<u>(134,982)</u>	<u>-</u>	<u>514,228</u>
Villas de Florida I capital assets, net	<u>\$ 947,912</u>	<u>\$ (134,982)</u>	<u>\$ -</u>	<u>\$ 812,930</u>

12. DUE TO OTHER AGENCIES

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

Puerto Rico Electric Power Authority	\$515,394
Puerto Rico Treasury Department	548
Puerto Rico Retirement System Administration	54,172
Puerto Rico Water and Sewer Authority	110,228
Puerto Rico General Services Administration	80,816
U. S. Department of Education	68
United States District Court	7,000
Internal Revenue Service	<u>23,332</u>
Total	<u>\$791,558</u>

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13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$198,516 in the general fund related to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant.

14. 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.

15. LONG-TERM DEBTS

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

Bonds

\$2003 series, \$60,000 payable in annual installments of \$5,000 to \$10,000 until 2010; with interest at 2.70% until 5%.	\$ 40,000
2006 series, \$65,000 payable in annual installments of \$5,000 to \$10,000 until 2012; with interest at 6.25% until 7%.	60,000
2007 series, \$295,000 payable in annual installments of \$35,000 to \$50,000 until July 2013; with interest at 6.6% until 7.5%.	<u>295,000</u>
Total bonds payable	<u>\$395,000</u>

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Notes Payable

<p>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%.</p>	<p>\$2,942,477</p>
<p>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%.</p>	<p><u>265,000</u></p>
<p>Total notes payable</p>	<p><u>\$3,207,477</u></p>

Other Long-Term Liabilities

<p>Property tax advance - Prior year, payable in monthly installments of \$603.57, until April 1, 2010.</p>	<p>\$21,728</p>
<p>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.</p>	<p>12,196</p>
<p>Payment plan with Labor Department related to the debt cover various trimeters. This debt was agreed to be payable in 36 monthly installments of \$1,386 including interest, beginning in July 1, 2006.</p>	<p><u>33,257</u></p>
<p>Total other long-term liabilities</p>	<p><u>\$67,181</u></p>

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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.

\$270,168

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.

\$836,866

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

<u>Year Ended</u> <u>June 30,</u>	<u>Amount</u>
2008	\$ 43,789
2009	47,421
2010	51,361
2011	55,625
2012	60,242
Thereafter	<u>578,428</u>
	<u>\$836,866</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, 2007, the fair value of the mortgage payable approximates the amounts recorded in the financial statements.

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

	<u>Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 55,000	\$ 23,137	\$ 69,981	\$ 199,110
2009	55,000	20,563	71,528	192,668
2010	60,000	16,425	74,767	187,927
2011	60,000	12,275	78,207	182,644
2012	55,000	8,200	86,865	101,532
2013-2018	110,000	3,750	551,173	789,975
2019-2022			537,289	626,759
2023-2027			728,671	435,377
2028-2032			1,008,996	175,625
	<u>\$ 395,000</u>	<u>\$ 84,350</u>	<u>\$3,207,477</u>	<u>\$2,891,617</u>

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Long-term liability activity for the year ended June 30, 2007 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 100,000	\$ 295,000	\$ -	\$ 395,000	\$ 55,000
Note payable	3,255,960		48,483	3,207,477	69,981
Total long-term debt	<u>3,355,960</u>	<u>295,000</u>	<u>48,483</u>	<u>3,602,477</u>	<u>124,981</u>
Other long-term liabilities:					
Due to Puerto Rico Treasury Department	28,971		7,243	21,728	7,243
Due to Puerto Rico Labor Department	49,889		16,632	33,257	16,632
Due to Puerto Rico Health Insurance Administration	448,930		178,762	270,168	178,762
Claims and judgments	35,200		23,004	12,196	12,196
Compensated absences	887,471		194,389	693,082	65,000
Total other long-term liabilities	<u>1,450,461</u>	<u>-</u>	<u>420,030</u>	<u>1,030,431</u>	<u>279,833</u>
Total noncurrent liabilities, governmental activities	<u>\$ 4,806,421</u>	<u>\$ 295,000</u>	<u>\$ 468,513</u>	<u>\$ 4,632,908</u>	<u>\$ 404,814</u>
Component Unit:					
Villas de Florida I Project mortgage payable	<u>\$ 877,298</u>	<u>\$ -</u>	<u>\$ 40,432</u>	<u>\$ 836,866</u>	<u>\$ 43,789</u>

16. RETIREMENT PLAN

a. Plan Description

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

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

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

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

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least 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.

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

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, 2007 was approximately \$245,854. The Municipality's payroll for employees covered by ERS was approximately \$2.7 million. The Municipality total payroll for all employees was approximately \$3.9 million.

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

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

17. RISK MANAGEMENT

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

18. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2007 was \$129,405.
- 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.

19. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

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

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

20. COMMITMENTS

The Municipality of Florida had several outstanding or planned construction projects as of June 30, 2007. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Joint Resolution funds that amounted to approximately \$225,000.

21. 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, 2007, 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.

22. SUBSEQUENT EVENT

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

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

of the Municipal Development Fund, the Municipal Redemption Fund, and the Municipal Improvement Fund, as well as for matters relative to the purposes, implementation and administration of said funds and to provide for the establishment of the necessary mechanisms for the collection of the municipal tax.

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

23. RESTATEMENTS

The beginning fund balances of General, Debt Service, Joint Resolution, Other Governmental funds and the beginning net assets in the statement of net assets has been restated to correct understatements and overstatements of revenues as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Joint Resolution</u>	<u>Other Governmental</u>	<u>Statement of Net Assets</u>
Beginning balance of the year as previously reported	\$(118,880)	\$21,892	\$200,546	\$ 1,796	\$ 5,662,327
Understatement/overstatement of revenues	<u>1,032</u>	<u>(917)</u>	<u>6,442</u>	<u>44,547</u>	<u>51,104</u>
Beginning balance of the year as restated	<u>\$(117,848)</u>	<u>\$20,975</u>	<u>\$206,988</u>	<u>\$ 46,343</u>	<u>\$ 5,713,431</u>

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct Programs		
Section 8 - Vouchers	14.871	\$ 269,043
Pass through Commonwealth of Puerto Rico/Commissions Office of Municipal Affairs - Community Development Block Grants/State Program - SBGP	14.228	<u>348,301</u>
Subtotal U.S. Department of HUD		<u>617,344</u>
U.S. Department of Health and Human Services (HHS)		
Pass through the Office of Administration of Families and Children:		
Child Care and Development Block Grant	93.575	<u>220,687</u>
Subtotal U.S. Department of HHS		<u>220,687</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>10,194</u>
Subtotal U.S. Department of Agriculture		<u>10,194</u>
TOTAL		<u>\$ 848,225</u>

See notes to Schedule of Expenditures of Federal Awards.

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

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of 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>\$848,225</u>
Expenditures as per basic financial statements included within Other governmental funds	<u>\$848,225</u>



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**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, 2007, which collectively comprise the Municipality of Florida's basic financial statements, and have issued our report thereon dated November 28, 2007. 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 Municipality of Florida's internal control over financial reporting a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Florida's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality of

Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Municipality of Florida's financial statements that is more than inconsequential will not be prevented or detected by Municipality of Florida's internal control.

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

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

Compliance and Other Matters

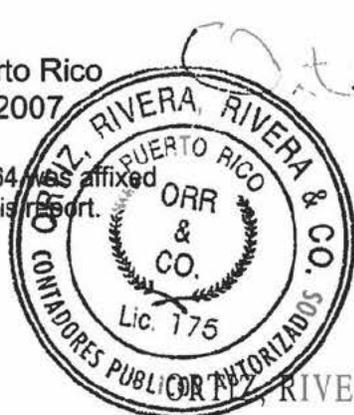
As part of obtaining reasonable assurance about whether the Municipality of Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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 November 28, 2007.

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

San Juan, Puerto Rico
November 28, 2007

The stamp 2286464 was affixed
to the original of this report.



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

To the Honorable Mayor
and Municipal Legislature
Municipality of 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, 2007. 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, 2007. 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 07-1 to 07-4.

Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-2 and 07-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Municipality's internal control. However, we believe that none of the significant deficiencies described above is a material weaknesses.

Municipality's internal control. However, we believe that none of the significant deficiencies described above is a material weaknesses.

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

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

San Juan, Puerto Rico
November 28, 2007

Ortiz, Rivera, Rivera & Co.

The stamp 2286465 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, 2007**

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 significant deficiencies 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 significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Municipality of 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 programs tested as major programs are:
 - SBGP - CFDA No. 14.228.
 - Section 8 - CFDA No. 14.871
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of 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, 2007**

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

a. SBGP - CFDA No. 14.228

● **Condition 07-1**

The program did not comply with the procedures for minimizing the time elapsing between the transfer of funds received from the Agency and disbursement by grantee.

Cause

The program does not have adequate control procedures for the cash management of the federal funds.

Effect

The continued occurrence of this condition may expose the program to the assessment of interest costs on the excess of cash on hand.

Criteria

The Agency (OCAM) establishes procedures that the program should realize the disbursements into five labors days after received the federal funds, in order to maintain minimal cash on hand.

Recommendation

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

Questioned Costs

\$ -0-

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

● **Condition 07-2**

The Municipality did not comply with the requirement of preparing and filing its federal financial reports on a timely basis. During our examination of the Federal Financial Reports, we noted that the Municipality did not send on time the quarterly report for the following period ended:

<u>Report</u>	<u>Report Period</u>	<u>Due Date</u>	<u>Date Submitted</u>
Quarterly	December 2006	02-14-07	03-30-07
Quarterly	March 2007	05-15-07	06-08-07
Program Income	December 2006	01-31-07	02-02-07

Criteria

The Municipality is not in compliance with 24 CFR 85.40 (b) (1) which requires federal fund recipients to periodically monitor the performance of grant-supported activities to ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved by the preparation of federal financial reports. To achieve these goals, program management should prepare accurate and timely federal financial reports. The Municipality should submit quarterly or semi-annual reports 30 days after the reporting period. The Office of Municipal Affairs granted ten days to this reporting requirement.

Cause

The above situation occurred because the Municipality did not ensure to verify and understand its reporting requirements for this program.

Effect

The continued failure to file the required reports may result in sanctions by the Federal grantor, such as grant payment withholdings.

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

Recommendation

The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially when new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government.

Questioned Costs

\$ -0-

● **Condition 07-3**

The Municipality is not including in their construction contracts subject to Davis Bacon Act a clause or requirement that the contractor or subcontractor must comply with the requirements of the Davis Bacon Act and the U. S. Department of Labor regulations.

Criteria

The Municipality is not in compliance with 29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction", Section 5.5 and 5.6, which requires that for all construction contracts in excess of \$2,000 financed by federal assistance funds includes a clause where the contractor or subcontractor comply with the requirements of the Davis Bacon Act. This includes a requirements for the contractor or subcontractor to submit to the Municipality weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Cause

The program's management filed to monitor that the required clause is included in the construction contracts.

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

Effect

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

Recommendation

The Municipality must include the required clauses in all construction contracts financed by federal assistance funds.

Questioned Costs

\$ -0-

b. Section 8 - CFDA No. 14.871

● **Condition 07-4**

The Section 8 Program failed in the timely submission of federal financial reports of the Program.

We requested a sample of reports of the program and they did not comply with the reporting date's submission requirements. The result of the sample tested was the following:

Voucher Management System Report

<u>Report</u>	<u>Period Included</u>	<u>Date to be Submitted</u>	<u>Date Submitted</u>	<u>According to the Law</u>
Voucher Management Systems	July to Sept.	10-31-06	11-15-06	N

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

Criteria

As per grant agreement with HUD Department, the Municipality of Florida should submit the Voucher Management System (VMS) report quarterly during the fifteen until the last day of the following month of the quarterly.

Cause

The above situation occurred because the Municipality did not ensure to verify and understand its reporting requirements for this program.

Effect

The delays was caused by the electronic system submission that obstruct the program to comply with federal and local applicable laws and regulation, and the ability to meet the dead line for the reporting requirement.

The continue failure to file accurate financial reports may result in actions by the federal grantor against the program, such as, grant payment withholding resulting from the misstatement of the financial performance of the program and possible lost of funds.

Recommendation

The Section 8 program should implement a reporting calendar to keep all personnel aware of the reporting deadlines of each federal financial report. This will provide an additional tool to help the program to the complying of the required reporting deadlines.

Questioned Costs

\$ -0-

**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, 2007**

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

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP - CFDA No. 14.228	Condition 05-1 The Municipality maintains high balance in cash.	Condition still continues.
SBGP - CFDA No. 14.228	Condition 05-2 The Municipality does not have effective internal controls over compliance with the requirements of Davis Bacon Act.	Condition still continues.
SBGP - CFDA No. 14.228	Condition 06-1 The Municipality maintains high balance in cash.	Condition still continues.
SBGP - CFDA No. 14.228	Condition 06-2 The Municipality makes contracts that do not include the required clauses of Davis Bacon Act.	Condition still continues.
SBGP - CFDA No. 14.228	Condition 06-3 The Federal Program Office did not request the extension for the program contract on time.	Condition was corrected.
SBGP - CFDA No. 14.228	Condition 06-4 The quarterly reports were sent late.	Condition still continues.

EXHIBIT I

CORRECTIVE ACTION PLAN

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Tierra del Río Encantado

OFICINA PROGRAMAS FEDERALES

CORRECTIVE ACTION PLAN

November 28, 2007

Cognizant or Oversight Agency for Audit:

Municipality of Florida respectfully submits the following corrective action plan for the year ended June 30, 2007.

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

Audit period: Fiscal year ended June 30, 2007.

The findings from the June 30, 2007 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 07-1: SBGP - CFDA 14.228

Reportable Condition: See Condition 07-1

Recommendation

The disbursements of funds should be made for not more than five days after received the federal funds, 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 07-2: SBGP - CFDA 14.228

Reportable Condition: See Condition 07-2

Recommendation

The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially when new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government.

Action Taken

The Federal Program Office will establish control procedures to analyze the accountability as soon as possible after close the period in order to have the reasonable time to send the report as required.

Finding 07-3: SBGP - CFDA 14.228

Reportable Condition: See Condition 07-3

Recommendation

The Municipality must include the required clauses in all construction contracts financed by federally assistance funds.

Action Taken

The Municipality will establish control procedures into the Secretary Department and the Federal Program Office in order to evaluate and review the contracts related to federal projects that includes all federal requirements clauses.

Finding 07-4: Section 8 - CFDA No. 14.871

Reportable Condition: See Condition 07-4

Recommendation

The Section 8 program should implement a reporting calendar to keep all personnel aware of the reporting deadlines of each federal financial report. This will provide an additional tool to help the program to the complying of the required reporting deadlines.

Action Taken

The Section 8 Program will establish control procedures to analyze the accountability as soon as possible after close the period in order to have the reasonable time to send the report as required. In addition, the office has new personnel that maintain a due date schedule to avoid this situation.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Ivelisse Pérez Pérez and/or Glenda Serrano Negrón at (787) 822-2228.

Cordially,


Ivelisse Pérez Pérez
Federal Program Director


Glenda Serrano Negrón
Section 8 Program Director