

Florida



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**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**

Independent Auditors' Report

**Basic Financial Statements and
Supplemental Schedules**

Year Ended June 30, 2009

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**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2009**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and changes in Fund Balances to the Statement of Activities	16
Component Unit (Las Flores Apartments):	
Component unit (Villas de Florida I)	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Notes to Financial Statements	20
Required Supplemental Information:	
Budgetary Comparison Schedule - General Fund	62
Budgetary Basis and GASB Basis	63
Notes to Budgetary Comparison Schedule	64
Other Supplemental Information:	
Schedule of Expenditure of Federal Awards	65
Notes to Schedule of Expenditure of Federal Awards	66

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2009**

TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>
INTERNAL ACCOUNTING CONTROLS AND COMPLIANCE SECTION	
Independent Auditor's Report on Compliance and on Internal Control in accordance with Government Auditing Standards	67
Independent Auditor's Report on Compliance and Internal Control in accordance with OMB Circular A-133	69
Schedule of Findings and Questioned Cost	71
Schedule of Prior Year Findings and Questioned Cost	75

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Florida of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the Financial Statements of the Las Villas de Florida I Apartments (component unit). Those statements were audited by other auditors whose report have been furnished to us, and our opinion, insofar as it relates to the amounts included for Las Villas de Florida in base solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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 and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 10 to the Financial Statements, management has not recorded a provision for liability of the closure and postclosure care cost of the landfill. Accounting principles generally accepted in the United States of America require that a provision for liability of closure and postclosure coscare costs be recorded to comply with the 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, based on our audits and the report of the other auditors, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Municipality of Florida of the Commonwealth of Puerto Rico, as of June 30, 2009, and the

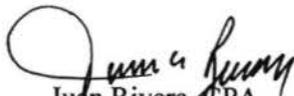
respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Audit Standards, we have also issued a report dated December 11, 2009 on our consideration of the Government internal control over financial reporting and my tests of its compliance with certain provisions of law, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this reporting in considering the results of our audit.

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

Also, in our opinion the financial statements of the Governmental Activities referred to in the first paragraph present fairly, in all material respects, the individual financial positions of The Municipality of Florida and the component unit Las Villas de Florida I Apartments (as to which we express no opinion because those statements were audited by other auditors as indicated in the first paragraph), as of June 30, 2009 and the results of their individual operations and their individual cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries 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.


Juan Rivera, CPA
License # 2214

December 11, 2009
Toa Baja, Puerto Rico



Stamp No. 2470252 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Our discussion and analysis of the Municipality of Florida (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Municipality's financial statements.

Management of the Municipality of Florida (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the followings goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and;
- e) Identify individual fund issues or concerns.

FINANCIAL HIGHLIGHTS

The Municipality Governmental Activities net assets increased by \$55,649 during the year.

In the governmental fund financial statements, the net assets decreased by \$532,242.

The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$879,499.

The Joint resolutions Fund, which accounts for PR Government restricted grants for special purposes, increased by \$749,593.

Other Governmental Funds, which accounts for all other special purposes funds, reported a decrease of \$101,106.

The Debt Service Fund, which is reserved for the long term debt amortization and related interest payment, decreased by \$37,534.

The Capital Improvements Bonds Fund Balance, which is reserved for major capital expenditures, increased by \$36,956.

The Municipality's Component Unit (Villas de Florida I) reported a net asset decrease of \$147,482.

On a budgetary basis, actual expenditures exceeded actual revenues by \$183,228 in the general fund.

Capital expenditures for acquisition of land, vehicles, construction and improvements of recreational facilities, infrastructure, and construction in progress (for Governmental Activities), amounted to \$28,429 in the General Fund, \$190,315 in the Capital Improvements Bonds Fund, \$702,142 in the Joint Resolutions Fund, and \$774,462 in Other Governmental Funds, for a total of \$1,695,348.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

USING THIS ANNUAL REPORT

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

Reporting the Municipality as a Whole

One of the most important questions asked about the Municipality's finances is, "Is the Municipality as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's net assets and changes in them. You can think of the Municipality's net assets - the difference between assets and liabilities - as one way to measure the Municipality's financial health, or financial position. Over time, increases or decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the Municipality's roads, to assess the overall health of the Municipality.

In the Statement of Net Assets and the Statement of Activities, we divide the Municipality into two kinds of activities:

Governmental activities - Most of the Municipality's basic services are reported here, including the police, sanitation, public works, sports and recreation, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

Proprietary business type activities - The Municipality includes in its report a separate legal entity, as a component unit, - Villas de Florida I. Although legally separate, this entity is owned by the Municipality. This component unit is important because the Municipality is financially accountable for it.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not-the Municipality as a whole. The Municipality has two kinds of fund which are the governmental fund and proprietary fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds are used when the Municipality charges customers for the services it provides-whether to outside customers or to other units of the Municipality-these services are generally reported in proprietary funds, Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities, but provide more detail and additional information, such as cash flows, for proprietary funds. The Municipality Component Unit – Villas de Florida I - is reported as a proprietary fund.

Villas de Florida I is a housing development consisting of land, buildings and improvements providing dwelling units located at Florida, Puerto Rico, owned by the Municipality of Florida, Commonwealth of Puerto Rico. The housing project is designed to assist various segments of the general public in obtaining adequate and reasonably priced rental housing. The project operated with financing from Farmers Home Administration, issued under Section 515 (Rural Rental Housing) of the National Housing Act with HUD's Section 8 Housing Assistance Payment Program.

The operations of the project are carried-out by a management agent. The potential rent, including subsidies as approved by HUD is \$358,488 for the year, and is subject to annual revisions as prescribed in the Housing Assistance Payment contract with HUD.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure roads, bridges, traffic signals, etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation.

The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

In July 1, 2003, the Municipality commenced the prospective reporting of infrastructure assets, and retroactively reports the historical costs of infrastructure assets starting from the fiscal year beginning July 1, 2002. The Municipality elected to depreciate infrastructure assets instead of using the modified approach.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's net assets totaled \$8,683,789 as of June 30, 2009, while the Component Unit's net assets totaled \$669,672; for total combined net assets of \$16,930,601.

The largest portion of the Municipality's net assets is the investment in capital assets (\$11,610,602) such as land, buildings, improvements, vehicles, equipment, etc., less any outstanding related debt used to acquire 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 its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service (\$124,369) and amounts restricted for capital projects (\$193,628), represents another portion of the net assets. These are resources subject to external restrictions for the purposes explained above.

The Component Unit's net assets are the amounts restricted for improvements and replacements (\$669,672). Under the terms of the Regulatory Agreement, the Project is required to set amounts for the replacement of property and other project expenditures as approved by HUD and FmHA. The regulations require monthly transfers of \$3,279. Disbursements from the Restricted Deposits and Funded Reserve must be made with the written consent of FmHA and HUD. Restricted funds, are held in separate accounts and generally are not available for operating purposes. The amounts of investment in capital assets (\$773,923) such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, represents another significant portion of the Component Unit's net assets.

Changes in Net Assets

The Municipality's Governmental Activities net assets increased by \$10,435,206. Approximately 67 percent of the Municipality's total revenue came from taxes, while 27 percent resulted from grants and contributions, including federal aid. Charges for Services and other sources provided 6 percent of the total revenues. Revenues exceeded expenditures by \$1,043,526 or 11 percent. The Municipality's expenses cover a range of services. The largest expenses were for general government administration, health and welfare, public works, and depreciation.

The Component Unit's net assets decreased by \$59,241. Approximately 95 percent of the Component Unit's total revenue came from rent, while 5 percent resulted from interest and other miscellaneous sources. Expenses exceeded the total revenues by \$59,941 or 16 percent. The largest expenses were for depreciation, interest, administration and maintenance.

A summary of government-wide data is presented in next page.

MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

Condensed Statement of Net Assets
As of June 30, 2009

	<u>Governmental Activities</u>	<u>Component Unit</u>
<u>ASSETS</u>		
Current assets	\$ 2,927,485	\$ 557,038
Non current assets	13,323,266	743,406
Other assets	-	-
Total Assets	<u>16,250,751</u>	<u>1,300,444</u>
<u>LIABILITIES</u>		
Current liabilities	1,872,071	64,105
Long term obligations due within one year	528,329	51,361
Long term obligations due after one year	4,681,602	642,934
Total Liabilities	<u>7,082,002</u>	<u>758,400</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	12,775,850	-
Unrestricted	(5,628,272)	522,190
Restricted	1,591,860	-
Total Net Assets	<u>\$ 8,739,438</u>	<u>\$ 522,190</u>

Condensed Statement of Activities
For the year ended June 30, 2009

	<u>Governmental Activities</u>	<u>Component Unit</u>
Program revenues:		
Charges for services	\$ 539,718	\$ 25,501
Operating grants and contributions	850,036	-
Capital grants and contributions	2,398,347	332,987
General revenues:		
Property taxes	4,757,804	
Municipal license tax	71,311	
Construction excise taxes	89,581	
Municipal sales taxes	26,071	
Intergovernmental contributions	1,500,402	
Other	49,629	6,396
Total revenues	<u>10,282,899</u>	<u>364,884</u>
Expenses:		
General government	2,203,397	
Urban and economic development	2,158,962	
Health & sanitation	1,457,065	
Public safety	1,195,437	
Public housing and welfare	1,494,971	
Culture, recreation and education	1,507,685	
Operating and maintenance		320,765
Interest on long term obligations	209,733	54,554
Depreciation	-	137,047
Total expenses	<u>10,227,250</u>	<u>512,366</u>
Change in net assets	<u>\$ 55,649</u>	<u>\$ (147,482)</u>

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of, the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$496,103, a decrease of \$532,242 in comparison with the prior year. There are reservations of fund balance amounting to \$1,856,548. There are the fund balances that it is not available for new spending because it has already been committed (1) to pay debt service \$86,835, (2) to pay for capital projects \$1,677,669, and (3) for other purposes \$92,044. The unreserved fund balance reports a governmental deficit of \$1,360,445.

General fund (GF) – The total fund balance of the GF decreased by \$1,180,151 during current fiscal year.

Approximately 70% (\$6,915,512) 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 \$1,481,756 resulted from intergovernmental grants and contributions.

The largest expenses of the GF for the fiscal year ended June 30, 200 were related to: (1) general administrating and operating costs (\$1,942,209), which were classified as "general government", (2) public housing and welfare (\$1,049,360), (3) health and sanitation (\$1,243,615), (4) urban and economic development (\$1,440,194), (5) public safety (\$1,026,261) and (6) culture, recreation and education (\$1,064,943).

Debt service fund (DSF) – The total fund balance of the DSF decreased by \$37,534 during current fiscal year. Approximately \$69,629 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 (\$432,521).

Capital Improvements bond fund (CIBF) - The total fund balance of the CIBF increased by \$36,956 during current fiscal year. CIBF's total revenues for the current fiscal year came from interests on deposits and certain miscellaneous revenues amounting to \$9,098. CIBF's total expenditures for the current fiscal year came principally from capital outlays (\$190,315). Other financing sources amounted to \$225,000, principally for the proceeds on the issuance of bonds during fiscal year 2008-2009.

Joint Resolutions (JR)- The total fund balance of the Joint Resolutions increase by \$749,593 during current year. JR's main revenues for the current fiscal years came from intergovernmental grants and contributions (\$1,450,612). JR's expenditures for the current year were related to capital outlays (\$702,142) and urban and economic development (\$12,095).

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

AEE Legal Settlement (AEE LS)- The AEE LS has a total fund balance of \$2,000 and has not significant transactions for the fiscal year.

Other governmental funds (OGF) – The total fund balance of the OGF decreased by \$101,106 during current fiscal year. Substantially all of OGF's revenues for the current fiscal year came from intergovernmental grants and contributions of \$1,797,771. Total expenditures were mainly related to the operating costs of state and federal funded programs.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases (decreases) in budgeted expenditures were also made since the law mandates a balanced budget.

In summary the general fund actual revenues were under budget by \$323,413, while actual expenditures were under budgeted amounts by \$140,183, for a net unfavorable variance of \$183,229. The most significant variance between budget and actual results were as follows:

Volume of business tax revenues were \$36,285 under budgeted amount.
Government of PR Contributions were \$290,341 under budgeted amount.
Personel expenditures were \$1,139,983 more than budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's and its Component Unit investment in capital assets as of June 30, 2009, amounts to \$24,508,014 and \$3,364,151 respectively, with accumulated depreciation of \$11,184,748 and \$2,620,745 leaving a net book value of \$13,323,266 for the Municipality and \$743,406 for its component unit.

This investment in capital assets includes land, buildings, improvements, equipment, vehicles, infrastructure and construction in progress. Infrastructure assets are items that are normally irremovable and of value only to the state, such as roads, bridges, streets and sidewalks, and similar items.

Actual expenditures to purchase or construct capital assets for governmental activities were \$1,695,348 for the year.

Depreciation charges for the year totaled \$762,684 for governmental activities and for the component unit.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt - The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity." Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special- Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 1168, Florida, Puerto Rico 00650-1168.

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

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>COMPONENT UNIT</u>	<u>2009 TOTAL</u>
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 15,727	\$ 34,391	\$ 50,118
Accounts receivable:			
Property taxes	103,291		
Municipal license taxes	683		683
Construction excise taxes	1,889		1,889
Sales and use tax	16,495		16,495
Intergovernmental grants and contributions	1,084,276		1,084,276
Accrued interests on deposits	966		966
Other receivables	20,100	17,424	37,524
Total receivables	<u>1,227,700</u>	<u>17,424</u>	<u>1,141,833</u>
Restricted Assets:			
Cash in commercial Banks	1,136,971		1,136,971
Cash in fiscal agent	547,087		547,087
Other restricted deposits	-	483,422	483,422
Total restricted assets	<u>1,684,058</u>	<u>483,422</u>	<u>2,167,480</u>
Other current assets	-	21,801	21,801
Total Current Assets	<u>2,927,485</u>	<u>557,038</u>	<u>3,381,232</u>
Non current Assets:			
Capital assets:			
Depreciable capital assets	23,233,935	3,061,549	26,295,484
Non-depreciable capital assets	1,274,079	302,602	1,576,681
Total capital assets	24,508,014	3,364,151	27,872,165
Less: accumulated depreciation and amortization	<u>(11,184,748)</u>	<u>(2,620,745)</u>	<u>(13,805,493)</u>
Capital assets, net of accumulated depreciation	13,323,266	743,406	14,066,672
Total non current assets	<u>13,323,266</u>	<u>743,406</u>	<u>14,066,672</u>
Total Assets	<u>16,250,751</u>	<u>1,300,444</u>	<u>17,551,195</u>
LIABILITIES			
Current Liabilities:			
Accounts payable:			
Accounts payable and other accrued liabilities	563,793	64,105	627,898
Intergovernmental	1,294,105	-	1,294,105
Accrued interest on bonds and notes payable	14,173	4,275	18,448
Other	-	15,579	15,579
Total accounts payable	<u>1,872,071</u>	<u>83,959</u>	<u>1,956,030</u>
Unearned revenues	429,311	-	429,311
Current portion of long term obligations			
Bonds payable	130,000	-	130,000
Notes payable	66,963	-	66,963
Mortgage payable	-	51,361	51,361
Compensated absences	331,366	-	331,366
Total current portion of long term obligations	<u>528,329</u>	<u>51,361</u>	<u>579,690</u>
Total current liabilities	<u>2,829,711</u>	<u>135,320</u>	<u>2,965,031</u>
Non current Liabilities:			
Bonds payable	780,000	-	780,000
Notes payable	3,128,416	-	3,128,416
Mortgage payable	-	642,934	642,934
Compensated absences	773,186	-	773,186
Total noncurrent liabilities	<u>4,681,602</u>	<u>642,934</u>	<u>5,324,536</u>
Total Liabilities	<u>7,511,313</u>	<u>778,254</u>	<u>8,289,567</u>
NET ASSETS (DEFICIT)			
Invested in Capital Assets, net of related debt	12,775,850	-	12,775,850
Restricted for:			
Debt Service	86,835	-	86,835
Capital projects	1,445,085	-	1,445,085
Grant and contributions	59,940	-	59,940
Total restricted net assets	<u>1,591,860</u>	<u>-</u>	<u>1,591,860</u>
Unrestricted net assets	<u>(5,628,272)</u>	<u>522,190</u>	<u>(5,106,082)</u>
Total Net Assets	<u>8,739,438</u>	<u>\$ 522,190</u>	<u>\$ 9,261,628</u>
Total Liabilities and net assets	<u>16,250,751</u>	<u>\$ 1,300,444</u>	<u>\$ 17,551,195</u>

The accompanying notes to the basic financial statements are integral part of these financial statements. See auditor's report.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL COMPONENT ACTIVITIES</u>	<u>COMPONENT UNIT</u>	<u>2009 TOTAL</u>
GOVERNMENTAL ACTIVITIES:							
General government	\$ 2,203,397	\$ 539,718	\$ 87,196		\$ (1,576,483)		\$ (1,576,483)
Urban and economic development	2,158,962		164,648	2,398,347	404,033		404,033
Health & sanitation	1,457,065		44,274		(1,412,791)		(1,412,791)
Public safety	1,195,437				(1,195,437)		(1,195,437)
Public housing and welfare	1,494,971		287,916		(1,207,055)		(1,207,055)
Culture, recreation and education	1,507,685		266,002		(1,241,683)		(1,241,683)
Interest on long term obligations	209,733				(209,733)		(209,733)
Total governmental activities	<u>10,227,250</u>	<u>539,718</u>	<u>850,036</u>	<u>2,398,347</u>	<u>(6,439,149)</u>	<u>-</u>	<u>(6,439,149)</u>
COMPONENT UNIT:							
Villas de Florida I - general	320,765	25,501	332,987			37,723	37,723
Villas de Florida I - depreciation	137,047					(137,047)	(137,047)
Villas de Florida I - interest	54,554					(54,554)	(54,554)
Total component unit	<u>512,366</u>	<u>25,501</u>	<u>332,987</u>	<u>-</u>	<u>-</u>	<u>(153,878)</u>	<u>(153,878)</u>
TOTAL ACTIVITIES	<u>\$ 10,739,616</u>	<u>\$ 565,219</u>	<u>\$ 1,183,023</u>	<u>\$ 2,398,347</u>	<u>(6,439,149)</u>	<u>(153,878)</u>	<u>(6,593,027)</u>
GENERAL REVENUES:							
Taxes:							
Property Taxes					4,757,804		4,757,804
Municipal license taxes					71,311		71,311
Municipal sales tax					26,071		26,071
Construction excise taxes					89,581		89,581
Total Taxes					<u>4,944,767</u>		<u>4,944,767</u>
Intergovernmental contributions and reimbursements					1,500,402		1,500,402
Unrestricted interests, fines and penalties					33,247		33,247
Other revenues					16,382	6,396	22,778
Total General Revenues					<u>1,550,031</u>	<u>6,396</u>	<u>1,556,427</u>
Net Change in net assets					<u>55,649</u>	<u>(147,482)</u>	<u>(91,833)</u>
Net assets - beginning of fiscal year					8,683,789	669,672	9,353,461
Net assets - ending of fiscal year					<u>\$ 8,739,438</u>	<u>\$ 522,190</u>	<u>\$ 9,261,628</u>

The accompanying notes to the basic financial statements are integral part of these financial statements. See auditor's report.

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

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Joint Resolution	AEE Legal Settlement	Debt Service Fund	Capital Improvements Bond Fund		
ASSETS							
Unrestricted cash and cash equivalents	\$ 15,727						\$ 15,727
Accounts Receivables, net of allowance for doubtful accounts							
Taxes:							
Property taxes	91,392						
Municipal license tax	683						683
Construction excise taxes	1,889						1,889
Sales and use taxes	16,495						16,495
Accrued interest on deposits			\$ 49	\$ 15	\$ 902		966
Intergovernmental grants and contributions	847,551					\$ 236,725	1,084,276
Due from other governmental funds	171,762						171,762
Due from other general funds		\$ 501,995				14,448	516,443
Other receivables	20,100						20,100
Advances from other funds	3,782						3,782
Restricted assets:							
Cash in commercial banks		938,912				95,394	1,034,306
Cash in fiscal agent			2,000	219,109	230,584	198,059	649,752
Property taxes receivable, net of reserve for doubtful accounts				11,899			11,899
Total assets	1,169,381	1,440,907	2,049	231,023	231,486	544,626	3,619,472
LIABILITIES							
Account payable and accrued liabilities							
Trade Payables	467,897					95,896	563,793
Intergovernmental payables	1,294,105						1,294,105
Due to other governmental funds	516,443						516,443
Due to other general funds			49	15	902	170,796	171,762
Advance to General Funds						3,782	3,782
Deferred revenues	219,277					210,034	429,311
Mature bonds due and payable				130,000			130,000
Mature interest due and payable				14,173			14,173
Total liabilities	2,497,722		49	144,188	902	480,508	3,123,369
FUND BALANCES							
Reserved for:							
Encumbrances	28,322						28,322
Debt service				86,835			86,835
Capital projects		1,440,907	2,000		230,584	4,178	1,677,669
Long-term receivables						59,940	59,940
Other assets and purposes	3,782						3,782
Unreserved	(1,360,445)						(1,360,445)
Total fund balances	(1,328,341)	1,440,907	2,000	86,835	230,584	64,118	496,103
Total liabilities and fund balances	\$ 1,169,381	\$ 1,440,907	\$ 2,049	\$ 231,023	\$ 231,486	\$ 544,626	\$ 3,619,472

The accompanying notes to the basic financial statements are an integral part of this statement. See auditor's report.

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

The amounts of governmental activities reported in the statement of net assets and the balance sheet – governmental funds, are different for the following reasons:

Total fund balances reported in the balance sheet – governmental funds	\$ 496,103
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Add (Deduct):

Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation and amortization of \$11,184,748 at June 30, 2009.	13,323,266
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The following liabilities are not due (mature) in the current fiscal year, therefore, are not reported in the governmental funds at June 30, 2009:

Bonds payable	(780,000)
Notes payable	(3,195,379)
Compensated absences	<u>(1,104,552)</u>

Net assets – governmental activities, as reported in the Statement of Net Assets	<u><u>\$ 8,739,438</u></u>
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The accompanying notes to the basic financial statements are in integral part to this statement. See auditor's report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES(DEFICIT)- GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30,2009

	Major Funds						Total Governmental Funds
	General Fund	Joint Resolution	AEE Legal Settlement	Debt Service Fund	Capital Improvements Bond Fund	Other Governmental Funds	
REVENUES:							
Taxes:							
Property taxes	\$ 4,688,175			\$ 69,629			\$ 4,757,804
Municipal license taxes	71,311						71,311
Construction excise taxes	89,581						89,581
Sales and uses taxes	26,071						26,071
Total tax revenues	<u>4,875,138</u>	<u>-</u>	<u>-</u>	<u>69,629</u>	<u>-</u>	<u>-</u>	<u>4,944,767</u>
Intergovernmental grants and contributions	1,481,756	1,450,612		18,646		1,797,771	4,748,785
Interest on deposits	7,437	15,656	49	1,007	9,098		33,247
Charges for services	534,799					4,919	539,718
Miscellaneous	16,382						16,382
Total revenues	<u>6,915,512</u>	<u>1,466,268</u>	<u>49</u>	<u>89,282</u>	<u>9,098</u>	<u>1,802,690</u>	<u>10,282,899</u>
EXPENDITURES:							
Current:							
General government	1,942,209				1,823		1,944,032
Urban and economic development	1,440,194	12,095				537,497	1,989,786
Health & Sanitation	1,243,615					44,274	1,287,889
Culture, recreation and education	1,064,943					273,566	1,338,509
Public housing and welfare	1,049,360	2,438				273,997	1,325,795
Public safety	1,026,261						1,026,261
Debt service:							
Principal				222,788			222,788
Interest on bonds and notes				209,733			209,733
Capital outlays	28,429	702,142			190,315	774,462	1,695,348
Total expenditures	<u>7,795,011</u>	<u>716,675</u>	<u>-</u>	<u>432,521</u>	<u>192,138</u>	<u>1,903,796</u>	<u>11,040,141</u>
Excess(deficiency of revenues over (under) expenditures	<u>(879,499)</u>	<u>749,593</u>	<u>49</u>	<u>(343,239)</u>	<u>(183,040)</u>	<u>(101,106)</u>	<u>(757,242)</u>
OTHER FINANCING SOURCES (USES):							
Transfer-in from general funds				306,688			306,688
Transfer-in from other governmental funds	6,036						6,036
Transfer-out to general funds			(49)	(983)	(5,004)		(6,036)
Transfer-out to other governmental funds	(306,688)						(306,688)
Proceeds from issuance of note payable					225,000		225,000
Total other financing sources (uses), net	<u>(300,652)</u>	<u>-</u>	<u>(49)</u>	<u>305,705</u>	<u>219,996</u>	<u>-</u>	<u>225,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER)	<u>(1,180,151)</u>	<u>749,593</u>	<u>-</u>	<u>(37,534)</u>	<u>36,956</u>	<u>(101,106)</u>	<u>(532,242)</u>
FUND BALANCES AT BEGINNING OF YEAR	<u>(148,190)</u>	<u>691,314</u>	<u>2,000</u>	<u>124,369</u>	<u>193,628</u>	<u>165,224</u>	<u>1,028,345</u>
FUND BALANCES AT END OF YEAR	<u>\$ (1,328,341)</u>	<u>\$ 1,440,907</u>	<u>\$ 2,000</u>	<u>\$ 86,835</u>	<u>\$ 230,584</u>	<u>\$ 64,118</u>	<u>\$ 496,103</u>

The accompanying notes to the basic financial statements are an integral part of this statement. See auditor's report.

Handwritten signature and date:
[Signature]
05/27/2010

MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICITS) –
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
JUNE 30, 2009

The amounts of governmental activities reported in the statement of activities and the statement of revenues, expenditures and changes in fund balances (deficits) - governmental funds, are different for the following reasons:

Total net decrease in fund balances (deficits) reported in the statement of revenues, expenditures and changes in fund balances – governmental funds	\$ (532,242)
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 as depreciation and amortization expense. This is the amount by which capital outlay expenditures (\$1,195,348) exceeded depreciation expense (\$762,684) for the fiscal year ended June 30, 2009.	932,664
Repayment of principal of long-term obligations is reported as expenditure in the governmental funds; however, the repayment reduces long-term liabilities in the statement of net assets.	222,788
Certain interest expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds.	
Certain operating expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds. This is the net change in payables associated with those types of expenses.	(342,561)
Proceeds from issuance of notes payable provide current financial resources to governmental funds, but issuing such debt increases long-term liabilities in the statement of net assets.	<u>(225,000)</u>
Net increase in net assets, as reported in the Statement of Activities	<u>\$ 55,649</u>

The accompanying notes to the basic financial statements are in integral part to this statement. See auditor's report

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF NET ASSETS
COMPONENT UNIT**

JUNE 30, 2009 AND 2008

VILLAS DE FLORIDA I APARTMENTS
(PROPERTY OF MUNICIPALITY OF FLORIDA)
FmHA and HUD Project No. 663-31-6706600096

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash	\$ 34,391	\$ 40,106
Accounts receivable:		
Tenants'	9,897	4,519
HUD	7,527	5,461
Supplies inventory	5,750	5,750
Prepaid expenses	16,051	15,740
Total current assets	<u>73,616</u>	<u>71,576</u>
RESTRICTED DEPOSITS		
Escrow deposits	3,215	20,947
Tenants security deposits	12,109	14,225
Reserve for replacements	468,098	614,364
Total restricted deposits	<u>483,422</u>	<u>649,536</u>
PROPERTY AND EQUIPMENT		
Buildings improvements	2,808,047	2,706,371
Buildings equipment	212,634	207,718
Furniture	24,279	24,247
Furnishing	2,044	2,044
Maintenance	14,545	14,590
Total property and equipment	3,061,549	2,954,970
Accumulated depreciation	(2,620,745)	(2,483,649)
Total net property and equipment	440,804	471,321
Land	302,602	302,602
Total property and equipment	<u>743,406</u>	<u>773,923</u>
Total assets	<u>1,300,444</u>	<u>1,495,035</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable - operations	8,654	8,140
Accrued interest	4,275	4,591
Accrued payroll taxes payable	4,090	4,115
Mortgage payable (current portion)	51,361	47,421
Tenant security deposit	15,579	15,440
Total current liabilities	<u>83,959</u>	<u>79,707</u>
LONG - TERM LIABILITIES		
Mortgage payable,	<u>694,295</u>	<u>745,656</u>
Total long - term liabilities	<u>694,295</u>	<u>745,656</u>
Total liabilities	<u>778,254</u>	<u>825,363</u>
NET ASSETS		
Unrestricted net assets	<u>522,190</u>	<u>669,672</u>
Total net assets	<u>522,190</u>	<u>669,672</u>
Total liabilities and net assets	<u>\$ 1,300,444</u>	<u>\$ 1,495,035</u>

The accompanying notes to the basic financial statements are an integral part of this statement. See auditor's report.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF ACTIVITIES
COMPONENT UNIT**

JUNE 30, 2009 AND 2008

VILLAS DE FLORIDA I APARTMENTS
(PROPERTY OF MUNICIPALITY OF FLORIDA)
FmHA and HUD Project No. 663-31-6706600096

	<u>2009</u>	<u>2008</u>
REVENUES		
Rent	\$ 358,488	\$ 358,044
Financial	2,205	13,806
Other	<u>4,191</u>	<u>3,325</u>
Total revenues	<u>364,884</u>	<u>375,175</u>
EXPENSES		
Administrative	132,144	131,258
Utilities	5,993	6,378
Operating and maintenance	148,746	69,799
Taxes and insurance	33,882	32,156
Depreciation	137,047	136,902
Interest	<u>54,554</u>	<u>57,923</u>
Total expenses	<u>512,366</u>	<u>434,416</u>
CHANGE IN NET ASSETS	(147,482)	(59,241)
NET ASSETS AT BEGINNING OF YEAR	<u>669,672</u>	<u>728,913</u>
NET ASSETS AT END OF YEAR	<u>\$ 522,190</u>	<u>\$ 669,672</u>

The accompanying notes to the basic financial statements are an integral part of this statement. See auditor's report.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF CASH FLOWS
COMPONENT UNIT**

JUNE 30, 2009 AND 2008

VILLAS DE FLORIDA I APARTMENTS
(PROPERTY OF MUNICIPALITY OF FLORIDA)
FmHA and HUD Project No. 663-31-6706600096

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental receipts, net	\$ 351,044	\$ 355,657
Interest receipts	2,205	13,806
Other receipts	6,446	3,306
Total receipts	<u>359,695</u>	<u>372,769</u>
Disbursement		
Administrative	45,463	47,308
Management fees	42,720	42,720
Utilities	5,993	6,378
Salaries and wages	86,531	81,260
Operating and maintenance	101,166	30,989
Property insurance	21,298	20,987
Interest on mortgage	54,554	70,811
Total disbursement	<u>357,725</u>	<u>300,453</u>
Net cash provided by operating activities	<u>1,970</u>	<u>72,316</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net deposit		
Reserve for replacement	146,266	39,365
Purchases of fixed assets	<u>(106,530)</u>	<u>(97,895)</u>
Net cash used in financing activities	<u>39,736</u>	<u>(58,530)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Mortgage principal payments	<u>(47,421)</u>	<u>(43,789)</u>
Net cash used in financing activities	<u>(47,421)</u>	<u>(43,789)</u>
NET DECREASE IN CASH	(5,715)	(30,003)
CASH AT BEGINNING OF YEAR	<u>40,106</u>	<u>70,109</u>
CASH AT END OF YEAR	<u>\$ 34,391</u>	<u>\$ 40,106</u>

The accompanying notes to the basic financial statements are an integral part of this statement. See auditor's report.

MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1) Summary of Significant Accounting Policies

The Municipality of Florida (the Municipality) is a local municipal government constituted in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The Municipal Legislature, whose members are also elected every four years, exercises the legislative power of the Municipality. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, education, urban development, economic development, and many other fiscal, general and administrative services.

a) Financial Reporting Model

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2009, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. RSI is information presented along with, but separate from, the Municipality's basic financial statements.

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2009, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

a) *Financial Reporting Model (cont.)*

Other supplementary information presented in this report for purposes of additional analysis consists of a budgetary comparison schedule – debt service fund.

b) *Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

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 criteria for including a potential component unit within the reporting entity is if elected officials of a primary government, are, financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either 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 unit's financial data in columns separate from the Municipality's balances and transactions.

Villas de Florida I Apartments is included in the financial statements as a discrete component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Separate financial statements of the individual component unit can be obtained from the respective administrative office.

Administrative office: Villas de Florida I
c/o Excellent Management
B-17, Florida, PR 00650

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

b) *Financial Reporting Entity (Cont.)*

GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), as amended, has set forth criteria to be considered in determining financial accountability for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body and: (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

According to GASB No. 39, a legally separate, tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2009.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

c) Government-wide Financial Statements (GWFS)

The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity) and/or accumulated deficit. This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net assets are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net assets** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

c) ***Government-wide Financial Statements (GWFS) (Cont.)***

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designations of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

The Municipality has reported the following types of restricted net assets in the accompanying statement of net assets:

- (1) **Debt service** – Represent net resources available to cover future debt service payments of bonds and notes payable.
 - (2) **Capital projects** – Represent net resources available to finance the acquisition, construction or improvement of major capital assets under contracts and other commitments.
 - (3) **Grants and contributions** – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.
- **Unrestricted net liabilities** – This category consists of the excess of liabilities over related assets (accumulated deficit) that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted net liabilities often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net assets or liabilities changed during the fiscal year ended June 30, 2009, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

c) Government-wide Financial Statements (GWFS) (Cont.)

economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal legislature
- Mayor's office
- Department of finance and budget
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Department of public relations

Urban and economic development:

- Department of public works
- Department of territorial ordering
- Department of building conservation

Public safety:

- Department of emergency management – civil defense
- Department of municipal police

Health and sanitation:

- Department of health

Culture, recreation and education:

- Department of sports and recreation

Public housing and welfare:

- Department of public housing
- Department of federal programs
- Department of citizen affairs

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and (3) special items.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

c) *Government-wide Financial Statements (GWFS) (Cont.)*

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other non-tax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The *general government* function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net assets and activities.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the GFFS.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

c) *Government-wide Financial Statements (GWFS) (Cont.)*

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) *Governmental Fund Financial Statements*

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed 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 operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- ***General fund*** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

d) *Governmental Fund Financial Statements (Cont.)*

- **Debt service fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2008, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term debts for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, accrued legal claims and judgments and the federal cost disallowances) are only accounted for in the accompanying statement of net assets. The debt service payments of such debts are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund.

- **Special revenue funds** – The special revenue funds are non-major governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.
- **Capital projects funds** – Capital projects funds are non-major governmental funds, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capital assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

• ***Capital projects funds (Cont.)***

The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the debt service fund, and (3) the capital improvements bond fund.

The capital improvement bond fund is a major capital projects fund used to account for the receipts and disbursements of the proceeds arising from the issuance of general obligation and permanent improvement serial bonds used in the acquisition, construction or improvement of major capital facilities and assets.

The legislative joint resolutions fund is a major capital projects fund used to account for financial resources that are received from the state legislature for use in the acquisition, construction or improvement of major capital facilities and assets.

The accompanying GFFS are accompanied by other statements and schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net assets, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

e) ***Measurement Focus and Basis of Accounting***

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place.

MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Government-wide financial statements (Cont.)

In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include certain charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

Government-wide financial statements (Cont.)

In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred (unearned) revenues.

According to GASB No. 34, all general capital assets and the un-matured long-term liabilities are recorded only in the accompanying statement of net assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2008, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred (unavailable) revenues at June 30, 2009.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred (unavailable) revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed previously, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, certain charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

Governmental fund financial statements (Cont.)

Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred).

Interest on deposits is recorded when earned only if collected within 90 days after the fiscal year-end since these revenues would be considered both measurable and available.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and an expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds generally reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2009, which have been recorded as governmental fund liabilities at June 30, 2009, which is the date when resources are available in the debt service funds (generally, June 30).
- Notes payable, obligations under capital leases, and compensated absences are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

Governmental fund financial statements (Cont.)

- Executor purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities, but are not recorded in the accompanying GFFS.

f) Stewardship, Compliance and Accountability

Budgetary Control

According to Act No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 13.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

Budgetary Control (Cont.)

This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances, and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required settling claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects 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.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

Budgetary Accounting (Cont.)

The accompanying budgetary comparison schedule – general fund and the budgetary comparison schedule – debt service fund, provide information about the general and debt service funds' original budgets, its amendments, and the actual results of operations of such major governmental funds under the budgetary basis of accounting for the fiscal year ended June 30, 2009. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2009, which is prepared by the Municipality's Department of Finance. Copies of that report may be obtained by writing to the Municipality's Director of Finance.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general and debt service funds' budgetary bases and GAAP actual amounts are presented at the bottom of the respective budgetary comparison schedules.

g) Unrestricted and Restricted Deposits

The Municipality's deposits are composed of: (1) cash on hand, (2) demand deposits in commercial banks, (3) demand deposits in the Government Development Bank for Puerto Rico (fiscal agent) and (4) cash equivalents in commercial banks. Cash equivalents consist of certificates of deposit with original maturities of three months or less, which are recorded at cost, which approximates fair value.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). Agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name hold all securities pledged as collateral. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

Cash in fiscal agent in the debt service fund consists of cash related to property tax collections which is restricted for the payment of the Municipality's debt service, as required by law. Cash in fiscal agent in the capital improvements bond fund consists of unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of capital assets.

Restricted cash in commercial banks represents mainly the balance of interest and non-interest bearing accounts restricted to finance the operations of certain federal and state funded programs.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

g) Unrestricted and Restricted Deposits

The Municipality's bank balances in commercial banks of \$15,727 in the general fund were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of \$938,912 of Joint Resolutions Funds, and \$198,059 of other governmental funds, that were fully collateralized.

The deposits at GDB of \$547,087, restricted for capital projects, joint resolutions and for debt service, are unsecured and uncollateralized, as no collateral is required to be carried by governmental bank.

h) Unrestricted and Restricted Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2009. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental 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 inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds."

i) Inventories and Other Current Assets

Inventories consist of construction materials and inventories of office supplies, food and medicines, which are held for consumption. Other current assets consist of prepaid expenses. Generally, inventories are capitalized (consumption method) and stated at cost using the first-in, first-out method (FIFO) in the GWFS and GFFS.

j) Deferred Charges

Deferred charges in the accompanying statement of net assets consist of bond issuance costs, net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

k) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net assets. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

k) Capital Assets (Cont.)

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures), while all assets with individual costs under \$500 are recorded as expenditures in the corresponding function/program identified with the asset.

In the statement of net assets, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements.

The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Motor vehicles	5
Furniture, fixtures, machinery and equipment, excluding those held under capital leases	5 to 20
Equipment held under capital leases	3 to 5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

l) Deferred Revenues

In the GFFS, deferred revenue arises when one of the following situations occur:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as “*earned but unavailable revenue*” in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2009 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net assets). No “*earned but unavailable revenue*” is accounted for in the accompanying statement of net assets.

m) Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2009 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of social security taxes and Medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal year, if not consumed.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

m) Compensated Absences (Cont.)

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously.

After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, as a result of employee resignations or retirements.

n) Long-term Debt

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds payable; notes payable, obligations under capital leases, accrued compensated absences and accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due on July 1, 2009 have been recorded as governmental fund liabilities in the GFFS when resources were available in the debt service fund (June 30, 2009). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

In the GWFS debt issuance costs have been capitalized and reported as deferred charges, which are being amortized under the straight-line method over the life of the debt. In the GFFS, such costs are recorded as expenditures as incurred.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net assets, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

o) Leases

The Municipality classifies its lease agreements either as operating or capital leases obligations according to Statement No.13, *Accounting for Leases*, issued by Financial Accounting Standards Board (FASB No. 13). Capital lease agreements are generally non-cancelable and involve substance over form, the transfer of substantially all benefits and risks inherent in the ownership of the leased property, while operating leases do not involve such transfer. Accordingly, a capital lease involves the recording of an asset and a related lease obligation at the inception of the lease.

According to FASB No. 13, the Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

- By the end of the lease term, ownership of the leased property is transferred to the Municipality.
- The lease agreement contains a bargain purchase option.
- The lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property.
- At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria, and have a fiscal funding or a cancellation clause, have been accounted for as capital leases in the accompanying

GWFS, since the likelihood of invoking the provision is considered remote. The Municipality's lease agreements do not include contingent rental payments or escalation clauses.

In the GWFS, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executor costs and profit thereon to be paid by the lesser. A portion of each minimum lease payment is allocated to interest expense and the balance is applied to reduce the lease obligation using the effective interest method.

In the GFFS, the net present value of the minimum lease payments at the inception of the capital lease, if applicable, is recorded simultaneously as: (1) expenditures and (2) other financing sources. Minimum lease payments are recorded as expenditures in the GFFS.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

p) Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (formerly Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities) (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate.

The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

q) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2009 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

q) Risk Management (Cont.)

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL).

These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2009. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

r) Reservations of Fund Balances

Reservations of fund balances represent portions of fund balances in the GFFS that are legally segregated for specific future uses or are not appropriated for expenditure. The Municipality has recorded the following types of reservations of fund balances in the GFFS:

- **Encumbrances** – Represent reservations of fund balances for commitments related to unperformed (executor) contracts for goods or services (future expenditures under purchase orders, contracts and other commitments). These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future fiscal years as the goods or services are received.
- **Debt service** – Represent fund balances available and restricted to cover future debt service payments (principal and interest) on bonds payable, which are accounted for in the debt service fund.
- **Capital projects** – Represent the reservation of financial resources that are restricted for the acquisition, construction or improvement of major capital assets under contracts and other commitments. These amounts are accounted for in the capital projects funds.
- **Intergovernmental grants and contributions** – Represent financial resources set aside for use in federal and state grant programs.
- **Long-term receivables** – Represent financial resources set aside for long-term receivables that are not considered current available financial resources.
- **Other assets and purposes** – Represent financial resources set aside for use in federal and state grant programs.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

s) *Inter-fund Activities*

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

- ***Inter-fund loans*** – Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as “*due from*” in the lender governmental fund and “*due to*” in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as “*advances*”. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a “*transfer-in*” from the governmental fund that provided the loan.
- ***Inter-fund transfers (transfers-in/(out))*** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as “*other financing uses*” in the governmental fund making transfers and as “*other financing sources*” in the governmental fund receiving transfers.
- ***Inter-fund reimbursements*** – Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

t) *Use of Estimates*

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2) *Deposits*

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and the Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

On July 1, 2005, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

2) Deposits (Cont.)

The disclosure requirements cover four main areas: credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure.

The following is essential information about (1) credit risk, (2) interest rate risk, (3) custodial credit risk, and (4) foreign exchange exposure of deposits and investments of the Municipality at June 30, 2009:

Credit risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico*. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2009 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt or equity securities were made during the fiscal year ended June 30, 2009. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico* (the adopted policy of the Municipality). At June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

Custodial credit risk — In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

Custodial credit risk (cont.)

insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

Foreign exchange risk - This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

3) Municipal License Taxes

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Florida. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2009, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return filed every April 15, based on the actual volume of business (revenues) earned in the preceding calendar year. Taxpayers with a sales volume of \$1 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the GFFS. Total municipal license tax receivable amounted to \$683 at June 30, 2009. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$219,277 at June 30, 2009.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

4) Property Taxes

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 estimated market prices).

CRIM is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds to the Municipality based on the initial estimated collection amounts for the fiscal year.

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 the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a preliminary basis not later than December 31 following the fiscal year end.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2009 was 7.03 percent (of which taxpayers pay 6.83 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2009 was 8.08 percent (of which 7.88 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

According to Act No. 81, included within the total personal and real property tax rates of 6.08 percent and 8.05 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the Commonwealth's debt service fund, for the payment of the general long-term debt of the Commonwealth.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

4) Property Taxes(Cont)

In addition, included within the total personal and real property tax rates of 6.08 percent and 8.08 percent, respectively, there is a portion of the tax rate in the amount of 2.00 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

Furthermore, included within the total personal and real property tax rates of 6.83 percent and 8.83 percent, respectively, there is a portion of the tax rates that is recorded in the Municipality's general fund, of which a portion is restricted for the payment of: (1) the insurance premiums acquired through the Department of Treasury, (2) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM operating expenses, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Department of Treasury as a subsidy is recorded in the Municipality's general fund.

The Additional Lottery System of the Commonwealth (the Additional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

5) Inter-Fund Transactions

The composition of inter-fund balances at June 30, 2009 and for the fiscal year then ended is as follows:

Due to:	Due from:				
	General fund	Debt service Fund	Capital improvements Bond Fund	Other governmental Funds	Total governmental funds
Major governmental funds:					
General fund	-	\$ 15	\$ 902	\$ 174,627	\$ 175,544
Other governmental funds	\$ 516,443	-	-	-	516,443
Total	\$ 516,443	\$ 15	\$ 902	\$ 174,627	\$ 691,987

Transfers to:	Transfers from:				
	General fund	Debt service Fund	Capital improvements Bond Fund	AEE Legal Settlement Funds	Total Governmental Funds
Major governmental funds:					
General fund	-	983	5,004	49	6,036
Debt service fund	\$ 306,688	-	-	-	306,688
Total	\$ 306,688	\$ 983	\$ 5,004	\$ 49	\$ 312,724

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

6) Capital Assets

	Balance at beginning of fiscal year,	Additions/ depreciation and amortization expense	Reclassification of completed works and permanent improvement projects	Balance at end of fiscal year
Governmental activities:				
Cost basis:				
Capital assets, not being depreciated/amortized:				
Land	\$ 1,274,079			\$ 1,274,079
Construction in progress				
Total capital assets, not being depreciated/amortized	1,274,079			1,274,079
Capital assets, being depreciated/amortized:				
Buildings, structures, and improvements	15,587,194	731,959		16,319,153
Infrastructure	1,894,698	687,702		2,582,400
Furniture and fixtures	1,617,421	4,258		1,621,679
Vehicles and equipment	2,439,274	271,429		2,710,703
Total capital assets, being depreciated/amortized	21,538,587	1,695,348		23,233,935
Total cost basis of capital assets	22,812,666	1,695,348		24,508,014
	Accumulated depreciation/ amortization at beginning of fiscal year, as restated	Depreciation and amortization expense	Reclassification of completed works and permanent improvement projects	Accumulated depreciation/ amortization at end of fiscal year
Accumulated depreciation and amortization:				
Buildings, structures, and improvements	6,760,946	456,268		7,217,214
Infrastructure	94,735	121,413		216,148
Furniture and fixtures	1,639,854	98,662		1,738,516
Vehicles and equipment	1,926,529	86,341		2,012,870
Total accumulated depreciation and amortization	10,422,064	762,684		11,184,748
Net capital assets	\$ 12,390,602	932,664		\$ 13,323,266

Depreciation and amortization expense for the fiscal year ended June 30, 2009 was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 152,537
Public safety	152,537
Public works	152,537
Recreation	152,537
Health and welfare	152,536
Total depreciation and amortization expense	\$ 762,684

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

7) Intergovernmental Payables

Due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

PR Electric Power Authority	\$ 586,461
PR Retirement System	346,968
PR Sewer and Sanitary Authority	133,924
PR Department of Labor	64,671
PR General Services Administration	<u>162,081</u>
	<u>\$1,294,105</u>

8) Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2009 is as follows:

	Balance at beginning of fiscal year, as restated	Borrowings or additions	Payments or deductions	Balance at end of fiscal year	Balance due within one year
Bonds payable	\$ 780,000	\$ 225,000	\$ (95,000)	\$ 910,000	\$ 130,000
Public Act. 42	2,890,948	-	(26,966)	2,863,982	56,461
Public Act. 146	60,151		(2,506)	57,645	2,506
LIMS	28,446		(7,451)	20,905	7,996
Department of the Treasury for PR ASESS	218,431	34,416		252,847	
Compensated absences	<u>852,182</u>	<u>252,370</u>		<u>1,104,552</u>	<u>331,366</u>
Total Long – Term Obligations	4,830,158	477,370	(131,923)	5,209,931	528,329
<hr/>					
COMPONENT UNIT					
Mortgage Loan	<u>\$ 793,077</u>	<u>-</u>	<u>\$ (47,421)</u>	<u>\$ 745,656</u>	<u>\$ 51,131</u>

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, federal cost disallowances, obligations under capital leases and any other long-term liabilities other than bonds.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

8) Long-Term Obligations

a) Debt Limitation

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

b) Bonds Payable

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt is composed of bonds payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As described in Note 4, the Municipality levies an annual additional special tax of 2.00 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

b) Bonds Payable(cont)

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2009:

	<u>Outstanding Amount</u>
1996-1997 serial bonds (face amount of \$400,000) due in annual principal installments ranging from \$10,000 to \$40,000; plus interests due in semiannually installments at variable rates (6.48% at June 30, 2009) through July 1, 2016	\$ 225,000
2003-2004 serial bonds (face amount of \$60,000) due in annual principal installments ranging from \$5,000 to \$10,000; plus interests due in semiannually installments at variable rates (5.00% at June 30, 2009) through January, 1, 2011	20,000
2005-2006 serial bonds (face amount of \$65,000) due in annual principal installments ranging from \$5,000 to \$10,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2009) through January 1, 2012	40,000
2006-2007 serial bonds (face amount of \$295,000) due in annual principal installments ranging from \$35,000 to \$50,000; plus interests due in semiannually installments at variable rates (5.00% at June 30, 2009) through January 1, 2010	225,000
2007-2008 serial bonds (face amount of \$195,000) due in annual principal installments ranging from \$29,000 to \$35,000; plus interests due in semiannually installments at variable rates (3.93% at June 30, 2009) through January 1, 2014	175,000
2008-2009 serial bonds (face amount of \$225,000) due in annual principal installments ranging from \$25,000 to \$40,000; plus interests due in semiannually installments at variable rates (4.75% at June 30, 2009) through July 1, 2015	<u>225,000</u>
Total bonds payable	<u>\$ 910,000</u>

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

b) Bonds Payable(cont)

Annual debt service requirements of maturity for bonds payable are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2010	\$ 130,000	\$ 39,727	\$ 169,727
2011	140,000	51,052	191,052
2012	140,000	41,002	181,002
2013	145,000	30,614	175,614
2014	145,000	20,939	165,939
2015-2019	210,000	17,526	227,526
Totals	<u>\$ 910,000</u>	<u>200,860</u>	<u>\$1,110,860</u>

At June 30, 2009, accrued interest payable on bonds amounted to \$14,173.

c) Notes Payable to CRIM

The Municipality had the following notes payables to CRIM at June 30, 2009:

- **Public Act No. 146** – On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Public Act No. 146 of October 11, 2001, as amended (Act No. 146). The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse.

The original face amount of the note allocated by CRIM to the Municipality was for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

c) Notes Payable to CRIM(Cont)

The outstanding principal of the note payable to CRIM amounted to \$2,839,419, at June 30, 2009. The principal and interest maturities are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2010	\$ 56,461	\$ 176,349	\$ 232,810
2011	60,008	172,802	232,810
2012	63,780	169,030	232,810
2013	67,786	165,024	232,810
2014	72,015	160,795	232,810
2015-2019	434,092	729,957	1,164,049
2020-2024	588,715	575,334	1,164,049
2025-2029	798,365	365,684	1,164,049
2030-2033	722,760	92,074	814,834
Totals	<u>\$ 2,863,982</u>	<u>\$ 2,607,049</u>	<u>\$ 5,471,031</u>

- **Public Act No. 42** – The Commonwealth’s Pubic Act No. 42 of January 26, 2000 (Act No. 42) was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement authorized CRIM to finance a debt that the municipalities of Puerto Rico had with such entity, which arose from the difference between the yearly final settlements of property tax advances made by CRIM to the municipalities and the actual property tax collections received by CRIM from taxpayers through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth are assigned through Act No. 42 to repay such note. The increase in this subsidy was the result of Public Act No. 238 of August 15, 1999.

In addition, on December 16, 2002 the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining of excess of property tax advances from fiscal years 2000, 2001 and other previous fiscal years. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (6.30 percent at June 30, 2009) but not exceeding 8.00 percent. Principal and interest payments on this financing agreement are accounted for in the general fund.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

c) Notes Payable to CRIM(Cont)

The principal and interest maturities are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2010	2,506	3,586	6,092
2011	2,506	3,430	5,936
2012	2,506	3,274	5,780
2013	2,506	3,118	5,624
2014	2,506	2,962	5,468
2015-2019	12,531	12,471	25,002
2020-2024	12,531	8,574	21,105
2025-2029	12,531	4,677	17,208
2030-2032	10,025	935	10,960
Totals	<u>\$57,645</u>	<u>\$43,027</u>	<u>\$100,672</u>

Lims- Share of financing agreement for system of information of the real property in Puerto Rico. The outstanding debts are showed as follows:

<u>Summary</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	7,996	1,127	9,123
2011	8,479	644	9,123
2012	4,430	131	4,561
Total	<u>20,905</u>	<u>1,902</u>	<u>22,807</u>

d) Notes Payable to Puerto Rico Health Services Administration

Notes payable to the Puerto Rico Health Services Administration is related to the contribution due by the Municipality to the public health insurance of the Commonwealth of Puerto Rico. This note will be paid from future increases in the Municipality's share of contributions to be received from the Additional Lottery System of the Commonwealth of Puerto Rico (the Additional Lottery), an operational unit reported as an enterprise fund in the Commonwealth of Puerto Rico's basic financial statements. The Additional Lottery is required every fiscal year to distribute to the municipalities a portion of its excess of revenues over expenses as follows:

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

d) Notes Payable to Puerto Rico Health Services Administration(cont)

- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

f) Mortgage Loan – Villas de Florida I mortgage loan payable to the federal government bears interest at 7.0% through 2019 and is secured by the Federal Housing Administration and by a first mortgage on rental property. Principal and interest in monthly installments of \$8,401 are payable from the proceeds of the rent collected from the tenants. The Federal government provides housing assistance payments to qualified tenants to subsidize most of the monthly rent. This housing project is administered by a private entity.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter as of June 30, 2009, are as follows:

Year Ending	Amount
June 30,	
2010	\$ 51,361
2011	55,625
2012	60,242
2013	65,242
2014	70,657
Thereafter	<u>442,529</u>
Total	<u>\$745,656</u>

9) Employees' Retirement Systems

a) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

9) Employees' Retirement Systems(Cont)

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- ***Retirement Annuity***

ERS members are eligible for a retirement annuity upon reaching the following age:

Policemen and firemen:	Other employees:
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

- ***Merit Annuity***

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

- ***Deferred Retirement Annuity***

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

- ***Coordinated Plan***

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- (a) \$165 per month, if retired with 55 years of age and 30 years of credited service.
- (b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.
- (c) All other between \$82 and \$100 per month.
- (d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

9) Employees' Retirement Systems(cont)

- ***Non-Coordinated Plan***
On the non-coordinated plan the participating employee and does not have any change on the pension benefits upon receiving social security benefits.
- ***Reversionary Annuity***
An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.
- ***Occupational Disability Annuity***
A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50 percent of the compensation received at the time of the disability.
- ***Non-occupational Disability Annuity***
A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.
- ***Death Benefits***

Occupational:

- (a) **Surviving spouse** – annuity equal to 50 percent of the participating employee's salary at the date of the death.
- (b) **Children** – \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

Non-occupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Post-retirement:

Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2005) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$750.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

9) Employees' Retirement Systems(cont)

- ***Refunds***

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- ***Cost of Living Adjustment for Pension Benefits***

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2005 are being financed by the Municipality and the other participating employers.

To avoid any economic impact on ERS, the employers are responsible for contributing to ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the participants covered until the participants reach the normal retirement age.

- ***Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan***

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

9) Employees' Retirement Systems(cont)

not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the Commonwealth has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

• ***Recent Amendments to Act No. 447***

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2005.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2005.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2005.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from \$3,000 to \$5,000.

b) *Funding Policy*

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	
Coordination plan:	5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600.
Supplementation plan:	8.28 percent of gross salary. This is the only choice available to policemen, firemen and majors

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

10) Solid Waste Landfill Closure and Post-Closure Care Costs

State and federal laws and regulations require the Municipality to carry out a certain closure work on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site in the following years.

In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs" (GASB No. 18), the Municipality has not performed a study of the closing and post-closing costs in order to recognize a provision for those future estimated costs. Accounting Principles Generally Accepted in United States of America require that provision for liability of closure and post closure care costs be recorded to comply with applicable state and federal regulations.

11) Commitments and Contingencies

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

With respects to pending or threatened litigation, the Municipality has not reported liabilities for awarded or anticipated unfavorable judgments as of June 30, 2009. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant, if any.

The Municipality has reported, outstanding encumbrances amounting to \$28,322 in the general fund at June 30, 2009. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	FINAL BUDGET <u>Positive</u> <u>(Negative)</u>
RESOURCES (inflows):				
Property Taxes	\$ 4,813,170	\$ 4,813,170	\$ 4,813,170	\$ -
Volume of Business Taxes	128,716	128,716	92,431	(36,285)
Government of P.R. Contributions	1,696,746	1,696,746	1,406,405	(290,341)
Sales and use tax	116,105	116,105	10,692	(105,413)
Charges for services	506,000	506,000	638,807	132,807
Interest and Penalties	22,000	22,000	7,437	(14,563)
Other	<u>26,000</u>	<u>26,000</u>	<u>16,382</u>	<u>(9,618)</u>
Amounts available for appropriations	<u>7,308,737</u>	<u>7,308,737</u>	<u>6,985,324</u>	<u>(323,413)</u>
CHARGES TO APPROPRIATIONS (out flows):				
General Administration				
Mayor Office	675,101	765,255	749,231	16,024
Municipality Assembly	111,085	104,837	89,766	15,071
Finance	1,709,246	1,674,102	1,222,102	452,000
Personnel	551,765	569,099	1,709,082	(1,139,983)
Municipal Secretary	166,303	169,150	195,877	(26,727)
Citizen Assistance	250,251	250,851	288,251	(37,400)
Internal Auditor	55,948	53,240	36,606	16,634
Health	624,482	617,015	597,112	19,903
Public Safety and emergency management	604,774	604,908	545,895	59,014
Sport and recreation	335,492	345,663	340,145	5,518
Recycling and Public Works	<u>2,224,290</u>	<u>2,154,616</u>	<u>1,394,487</u>	<u>760,129</u>
Total charges to appropriations	<u>7,308,737</u>	<u>7,308,737</u>	<u>7,168,553</u>	<u>140,183</u>
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (183,228)</u>	<u>\$ (183,229)</u>

The accompanying notes to the basic financial statements are an integral part of this statement. See auditor's report.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
RECONCILIATION OF ACTUAL AMOUNTS- BUDGETARY BASIS AND GASB 34 BASIS
FOR THE YEAR ENDED JUNE 30, 2009

SOURCES/ INFLOW OF FINANCIAL RESOURCES:

Actual amounts budgetary basis from the budgetary comparison schedule	\$ 6,985,324
Timing differences in revenue recognition in budgetary basis vs. Actual in Statement of Revenues:	
Municipal License	(21,120)
Property Taxes	124,995
Adjustment from other resources	(173,687)
Total revenues as reported on the Statement of Revenues Expenditures and Changes in Fund Balances-Governmental Funds	<u>\$ 6,915,512</u>

USES/ OUTFLOWS OF FINANCIAL RESOURCES:

Actual amounts budgetary basis from the budgetary comparison schedule	\$ 7,168,553
Adjustment for non cash transaction PREPA expense	586,461
Other obligations considered expenditures for financial reporting purposes but are not expenditures for budgetary basis	68,319
Encumbrances recorded as current year expenditures for budgetary basis	<u>(28,322)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	<u>\$ 7,795,011</u>

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2009**

NOTE 1. 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 fund.

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.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2009

	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Section 8 Housing Choice Vouchers	14.871	*RQ-045-VO	\$ 273,997
State Block Grant Program	MP	14.228	*All program year
			<u>947,735</u>
Total U.S. Department of Housing and Urban Development			<u>1,221,732</u>
 U.S. Department of Agriculture			
Child and Adult Care Food Program	10.558		<u>44,274</u>
Total U.S. Department of Agriculture			<u>44,274</u>
 U.S. Department of Health and Human Services			
Child Care and Development Block Grant	93.575		<u>266,002</u>
Total U.S. Department of Health and Human Services			<u>266,002</u>
Total Federal Financial Assistance			<u>\$ 1,532,008</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
Notes Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2009

1. General

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Florida of the Commonwealth of Puerto Rico and is presented on the accrual basis of accounting. The Municipality of Florida reporting entity is defined in Note 1 to the Municipality's general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non Profit Organizations, therefore, some amounts presented in this schedule may differ from amounts presented in our used in the preparation of the basic financial statements.

2. Relationship to General Purpose Financial Statements

Expenditures of the federal awards as reported in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental funds, are included within the Non-major Governmental Funds. The reconciliation between the expenditures in the basic financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Expenditures in the Basis Financial Statements

Non-major governmental funds	\$ 1,903,796
Less: Non-federal expenditures	<u>(371,788)</u>
 Total expenditures in the Schedule of Federal Awards	 <u>\$ 1,532,008</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the 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, 2009, which collectively comprise the Municipality of Florida, basic financial statements and have issued our report thereon dated December 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality of Florida ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality of Florida financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Florida internal control. We consider the conditions 09-01, 09-02 and 09-03 deficiency described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

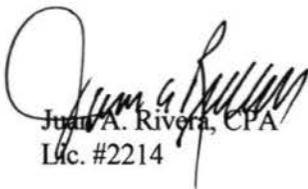
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Florida financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as conditions 09-01, 09-02 and 09-03.

We noted certain matters that we reported to management of the Municipality of Florida, in a separate letter dated December 11, 2009.

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

This report is intended solely for the information and use of management, audit committee, the Municipality Management, and 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.


Juan A. Rivera, CPA
Lic. #2214

December 11, 2009
Toa Baja, Puerto Rico



Stamp No. 2470253 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

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**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
the Municipal Assembly
Municipality of Florida
Florida, Puerto Rico

Compliance

We have audited the compliance of the 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, 2009. The Municipality of Florida major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality of Florida management. Our responsibility is to express an opinion on Municipality of Florida 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 the Municipality of Florida 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 of Municipality of Florida compliance with those requirements.

As described in item conditions 09-01 and 09-02 in the accompanying schedule of findings and questioned costs, Municipality of Municipality of Florida, did not comply with requirements regarding Reporting and Cash Management that are applicable to its SBGP Program. Compliance with such requirements is necessary, in our opinion, for Municipality of Municipality of Florida, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Municipality of 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, 2009.

Internal Control Over Compliance

The management of the Municipality 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 the Municipality of Municipality of Florida 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 of Municipality of Florida internal control over compliance.

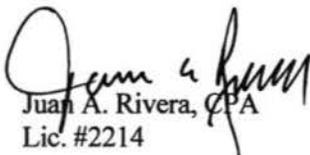
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others 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 conditions 09-01, 09-02 and 09-03 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 entity's internal control.

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

This report is intended solely for the information and use of management, audit committee, the Municipality Management, and 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.


Juan A. Rivera, CPA
Lic. #2214

December 11, 2009
Toa Baja, Puerto Rico

Stamp No. 24701254 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
Schedule of Findings and Questioned Costs
For the Fiscal Year ended June 30, 2009

CFDA 14.228 State Block Grant Program

Condition 09-1 Quarterly Report

The Municipality did not comply with the requirement of preparing and filling 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 reports for the following period ended.

<u>Quarter</u>	<u>Due/Date</u>	<u>Date Submitted</u>
July – September 08	10/30/08	11/21/2008
January – March	04/30/09	07/07/2009
April-June	07/30/09	08/14/2009

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.

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 federal government.

Auditee Response

The Mayor gave orders the Director of Federal Program Office to immediately establish the adequate procedures to furnish on time the quarterly reports.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
Schedule of Findings and Questioned Costs
For the Fiscal Year ended June 30, 2009

Condition 09-2 Cash Management

My examination of compliance with federal requirements of the Municipality of Florida, for the year ended June 30, 2009 disclosed that grants funds were administered in a satisfactory manner, except for the following situation:

The SBGP maintained a large bank account balance as of June 30, 2009.

Criteria

Code of Federal Regulation 24 §85.21 (5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient. To the extent that the provisions of the Cash Management Improvement Act (CMIA) (Pub. L. 101-453) govern, payment methods of State agencies, instrumentalities, and fiscal agents shall be consistent with CMIA Treasury State Agreements or the CMIA default procedures codified at 31 CFR part 205, "Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs."

Cause

The Municipality did not make payments as soon as they receive the funds.

Effect

The Municipality does not follow the procedures established by federal law.

Recommendation

Establish the procedures needed to disburse payments within a reasonable time after receive the funds HUD as the Federal Regulation established.

Auditee Response

Since the condition has been notified by you, the Federal Program Office together with Finance Department adopted a time monitoring between the requisition request and when disbursements are paid to ensure the compliance with Cash Management Requirement.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
Schedule of Findings and Questioned Costs
For the Fiscal Year ended June 30, 2009

Condition 09-3 Federal Disbursement

As part of our test of federal cash disbursements during the year, we selected 20 disbursement vouchers. The following deficiencies were noted during our examination:

- a. Vouchers not dated – two (2) cases where without the signature of the mayor and the pre-inspector
- b. Vouchers without evidence of bidding process – one (1) case was paid prior the signature of the Mayor and the Pre-inspector

Criteria

According to the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico, the pre-auditing unit or person in charge of pre-auditing the documents shall keep a record of the authorized signatures of the Municipality. He shall check against such record to ascertain that the officers certifying the documents are so authorized. He shall check the documents correctness in all of its parts and that the transaction in order to pursuant the correct legislation, ordinances, resolutions, contracts and regulations. Once everything is found to be in order, the document shall be certified as pre-audited and shall be sent for the approval of the Finance Director. In addition, of the aforementioned regulation, the vouchers, all canceled checks and any other document, that justifies a payment, shall be filed by the Finance Director to be audited by the Puerto Rico comptroller's Office or any other agency as required by law.

Cause

The Municipality fails to fallow the appropriate procedures during the process of acquisition of materials and supplies, equipment, and construction and service contracts.

Effect

The Municipality did not enforce a strict compliance of the procedures prescribed by the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.

Recommendation

The Municipality must enforce strict compliance with the procedures prescribed by the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico during the process of acquisition of materials and supplies, equipment, and construction and service contracts.

Auditee Response

The Internal Auditor and the Finance Director are working to establish internal controls procedures to ensure that this condition does not recur.

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
Schedule of Prior Year Findings and Questioned Costs
For the Fiscal Year ended June 30, 2009

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

<u>Program</u>	<u>Findings/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	Condition 07-2 Quarterly Report The Municipality did not prepare and filed its Federal Financial Reports on timely basis. 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.	Still Prevail
SBGP CFDA No. 14.228	Condition 07-3 Davis Bacon Act The Municipality does not have effective internal controls over compliance with the requirements of Davis Bacon Act.	Corrected