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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Municipality of Florida, as of and for the year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As more fully described in Note 21 to the financial statements, the Municipality has not determined and recorded in governmental activities an estimate of the total municipal solid waste landfill post closure care costs. Accounting principles generally accepted in the United States of America requires that the liability of post closure care costs be accounted, which would increase liabilities and decrease net assets of governmental activities. The amount by which this departure would affect the liabilities of the governmental activities is not reasonably determinable.

In our opinion, 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 respective financial position 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 June 30, 2010, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2010 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 is not a required part of the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's of Florida basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly

to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

San Juan, Puerto Rico
November 10, 2010

Ortiz, Rivera, Rivera & Co.

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to the original of this report.



- 3 -
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MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

As management of the Municipality of Florida (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

As more fully described in Note 1, On July 1, 2005, 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). Based on the criteria established by GASB No. 39, the Municipality's management concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2010. Therefore, Villas de Florida I (FmHA and HUD Project No. 663-31-6706600096) was reported as a business-type activity and not as a component unit of the Municipality as of and for the fiscal year ended June 30, 2010.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's total assets amounted to \$16,273,118 at June 30, 2010, of which \$14,469,734 (89%) consist of capital assets (net of accumulated depreciation and amortization of \$14,747,289), \$577,914 (3%) consist of restricted cash and cash equivalents, \$246,954 (1%) consist of accounts receivable, net of the reserve for doubtful account, \$325,959 (2%) consist of restricted deposits, \$630,411 (4%) consist of due from other agencies, and \$22,146 (1%) consist of other assets.
- The Municipality's total liabilities amounted to \$7,491,777 at June 30, 2010, of which \$5,359,120 consist of noncurrent liabilities, \$1,057,175 consist of due to other agencies, \$412,550 consist of accounts payable and accrued liabilities, \$386,042 deferred revenues, \$231,752 consist of bank overdraft, \$31,000 consist of claims and judgments, and \$14,138 consist of Interest payable.
- The Municipality's assets exceeded its liabilities (net assets/surplus) by \$8,781,341 at June 30, 2010.
- The Municipality's total revenues amounted to \$8,867,315 for the fiscal year ended June 30, 2010, of which \$5,338,344 arose from taxes, \$3,032,513 arose from intergovernmental grants and contributions, and \$496,458 arose from charges for services, interest, fines, penalties and miscellaneous revenues.
- The Municipality's expenses amounted to \$9,530,564 for the fiscal year ended June 30, 2010, of which \$8,041,170 were incurred in providing direct services and benefits to citizens in relation to economic development, health and welfare, public safety, public housing and welfare, and recreation. In addition, the Municipality incurred \$206,685 of its total expenses, in interests related to its long-term obligations, and \$1,282,709 (in general government activities to support the Municipality's functions and programs. The Municipality's expenses include depreciation in the amount of \$941,796, for the fiscal year ended June 30, 2010.
- The Municipality's net assets decreased by \$663,249 during the fiscal year ended June 30, 2010.

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Governmental Funds' Highlights:

- The total fund deficit of governmental funds amounted to \$906,353 at June 30, 2010, of which \$137,988 is reserved for capital projects, debt service, encumbrances and advances, while \$2,111,968 represents an unrestricted deficit.
- The total fund balances of governmental funds decreased by \$1,402,456 during the fiscal year ended June 30, 2010.

Proprietary Fund Highlights:

- The total unrestricted fund net assets of the proprietary fund amounted to \$423,225 consists of unrestricted fund balance.
- The total unrestricted fund net assets of the proprietary fund decreased by \$98,965 during the fiscal year ended June 30, 2010.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2010. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

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

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

a) Government-wide Financial Statements

The GWFS are composed of: (1) the statements of net assets (SNA) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed

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to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2010. The GWFS are prepared using methods that are similar to those used by most private businesses.

Both of the government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental activities (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

1. Statement of Net Assets

The purpose of SNA is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

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

2. Statement of Activities

The SA presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2010, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

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

The focus of SA is on the *net cost* of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another

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column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

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

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

b) Fund Financial Statements

The Municipality's FFS consist of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances – governmental funds, (3) the statement of net assets – proprietary fund, and (4) the statement of revenues, expenses and changes in fund net assets -proprietary fund. These financial statements report the financial position and the results of operations of the Municipality's governmental and proprietary funds, with an emphasis on the Municipality's major governmental and proprietary funds.

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

1. Governmental funds

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

Governmental funds in FFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the

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following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

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

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

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

2. Proprietary fund

The proprietary fund is a fund used to report the financial position, results of operation and cash flows of Villas de Florida I (FmHA and Hud Project No. 663-31-6706600096). The project is owned by the Municipality, but its operations are carried out by a private management agent unrelated to the Municipality. The housing development project of Villas de Florida I has been designed to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The project operates under financing through the Section 8 New Construction and Substantial Rehabilitation Program of the U.S. Department of Housing and Urban Development and the Section 515 Rural Rental Housing Loans Program of the U.S. Department of Agriculture. The purpose of Villas de Florida I is to provide adequate housing to low-income residents of the Municipality.

The activities of Villas de Florida I have been reported as a proprietary fund in the accompanying basic financial statements since GAAP permits the use of enterprise funds to report any activity for which a fee is charged to external users of goods or services, regardless of whether the government intends to fully recover the cost of the goods or services provided. Thus, it is common to use

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proprietary fund reporting to account for services where the government intends to recover only a portion of its costs through fees or user charges.

Proprietary funds provide the same type of information as the GWFS, but in more detail.

c) Notes to Basic Financial Statements

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

d) Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of: (1) budgetary comparison schedule – general fund and the Schedule of Expenditures of Federal Awards.

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FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

**Condensed Statement of Net Assets
Governmental Activities
June 30, 2010 and 2009**

	2010	2009
Assets:		
Current assets	\$ 1,781,238	\$ 3,484,523
Noncurrent assets:		
Capital assets, net of accumulated depreciation	14,469,734	14,066,672
Other assets	22,146	-
Total assets	16,273,118	17,551,195
Liabilities:		
Current liabilities	2,132,657	1,936,176
Long-term obligations due within one year	406,051	579,690
Long-term obligations due after one year	4,953,069	5,324,536
Total liabilities	7,491,777	7,840,402
Net assets (deficit):		
Invested in capital assets, net of debt	12,893,919	12,775,850
Restricted	98,871	2,041,025
Unrestricted, as restated	(4,211,449)	(5,106,082)
Total net assets	\$ 8,781,341	\$ 9,710,793

At June 30, 2010, the Municipality's current assets, amounting to \$1,781,238, are mainly composed of cash and cash equivalents (\$577,914), accounts receivable (\$246,954), net of reserve for doubtful accounts, due from other agencies (\$630,411) and restricted deposits (\$325,959).

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

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The Municipality's non-current assets, amounting to \$14,469,734 at June 30, 2010, are composed of capital assets, with a cost basis of \$23,816,645, which are reported net of accumulated depreciation and amortization of \$11,827,147 and other non current assets, amounting to \$22,146.

At June 30, 2010, the Municipality's current liabilities amounting to \$2,132,657 are mainly composed of due to other agencies (\$1,057,175), accounts payable and accrued liabilities (\$412,550), unearned revenues (\$386,042), and the portions due within one year (\$406,051) of bonds and notes payable. Unearned revenues principally consist of unearned revenues associated with municipal license taxes and intergovernmental grants and contributions related to state and federally funded grant programs.

The Municipality's non-current liabilities, amounting to \$4,953,069 at June 30, 2010, are mainly composed of portions due after one year of bonds and noted payable.

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. The assets of the Municipality exceeded liabilities by \$8,781,341 at June 30, 2010. The most significant portion of net assets (\$12,893,919) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, furniture, fixtures, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Another significant portion of net assets (\$98,871) at June 30, 2010, represents resources that are restricted for debt service payments and capital projects.

The remaining component of total net assets consists of unrestricted net liabilities amounting to \$4,211,449 at June 30, 2010. These unrestricted net liabilities are the consequence of previous budgets that did not provide sufficient funding for incurred long-term obligations, such as bonds and notes payable, claims and judgments, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net assets of the Municipality decreased by \$480,287 during the fiscal year ended June 30, 2010.

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

Condensed Statement of Activities		
Governmental Activities		
Fiscal Years Ended June 30, 2010 and 2009		
	2010	2009
Program revenues:		
Program-specific operating grants and contributions	\$ 838,059	\$ 850,036
Program-specific capital grants and contributions	578,333	2,731,334
Charges for services	429,772	565,219
Total program revenues	1,846,164	4,146,589
General revenues:		
Property taxes	4,853,132	4,757,804
Municipal license taxes	45,630	71,311
Construction excise taxes	-	89,581
Sales and use tax	439,582	26,071
Unrestricted grants and contributions	1,616,121	1,500,402
Interest on deposits	11,557	-
Miscellaneous	55,129	56,025
Total general revenues	7,021,151	6,501,194
Total revenues	8,867,315	10,647,783
Program expenses:		
General government	1,282,709	2,203,397
Economic development	2,129,738	2,158,962
Health and sanitation	1,249,795	1,457,065
Public safety	1,159,982	1,195,437
Public housing and welfare	1,951,135	1,494,971
Recreation	1,550,520	1,507,685
Interest on long-term obligations	206,685	264,287
Operating and maintenance	-	320,765
Depreciation	-	137,047
Total expenses	9,530,564	10,739,616
Net increase in net assets	(663,249)	(91,833)
Net assets, at beginning of fiscal year	9,444,590	9,536,423
Prior-period adjustments	-	-
Net assets, at beginning of fiscal year, as restated	9,444,590	9,536,423
Net assets, at end of fiscal year	\$ 8,781,341	\$ 9,444,590

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As previously mentioned, the Municipality's net assets decreased by \$663,249 during the current fiscal year. Approximately 60% of the Municipality's total revenues for the current fiscal year came from property, municipal license, and sales and use taxes (\$5,338,344). Grants, contributions and charges for services (program revenues), amounting to \$3,462,285, provided 39% of the total revenues for the current fiscal year. Miscellaneous revenues and interest on deposits provided the remaining 1% of total revenues.

The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2010 were related to: (1) economic development (\$2,129,738), (2) public housing and welfare (\$1,951,135), (3) recreation (\$1,550,520), (4) general administrating and operating costs (\$1,282,709) which were classified as "general government", (5) health and welfare (\$1,249,795), (6) public safety (\$1,159,982), (7) and interest on long-term obligations (\$206,685). These expenses include depreciation and amortization of capital assets in the amounts of \$941,796 for the fiscal year ended June 30, 2010.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Analysis of Financial Position of Governmental Funds

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

At June 30, 2010, the total assets of governmental funds amounted to \$2,607,947, which consisted principally of: (1) cash and cash equivalents of \$576,338 (2) accounts receivable, \$244,124, net of reserve for doubtful accounts, and (3) inter-fund receivables of \$1,787,485. Such assets are restricted for debt service, capital projects, encumbrances and other specific purposes.

At June 30, 2010, the total liabilities of governmental funds amounted to \$3,514,300, which consisted principally of: (1) accounts payable and accrued liabilities of \$382,981, (2) deferred revenues of \$491,042, (3) inter-fund payables (\$2,223,387) and (4) matured bonds due and payable of \$140,000.

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Fiscal Year Ended June 30, 2010

The fund balances of governmental funds decreased by \$1,402,456 during the fiscal year ended June 30, 2010.

Condensed Balance Sheet - Governmental Funds
June 30, 2010 and 2009

	2010	2009
Assets:		
Total assets - major governmental funds	\$ 1,941,773	\$ 3,074,846
Total assets - other governmental funds	666,174	544,626
Combined total assets	\$ 2,607,947	\$ 3,619,472
Liabilities:		
Total liabilities - major governmental funds	\$ 2,922,619	\$ 2,642,861
Total liabilities - other governmental funds	591,681	480,508
Combined total liabilities	3,514,300	3,123,369
Fund balances:		
Reserved - major governmental funds	1,131,122	1,792,430
Reserved - other governmental funds	74,493	64,118
Unreserved - all governmental funds	(2,111,968)	(1,360,445)
Combined total fund balances	(906,353)	496,103
Total liabilities and fund balances	\$ 2,607,947	\$ 3,619,472

Major Governmental Funds

General fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$791,214 at June 30, 2010. Such assets consist principally of: (1) municipal license tax, sales and use tax, licenses, permits, other taxes and other (\$211,008), and (2) short-term and long-term amounts due from other funds (\$580,206).

The GF's total liabilities amounted to \$2,765,194 at June 30, 2010. Such liabilities are composed mainly of: (1) bank overdraft (\$227,424), (2) deferred revenues (\$255,064), (3) accounts payable and accrued liabilities (\$255,997), and short-term and long term amounts due to other funds (\$1,995,709).

At the end of the current fiscal year, unreserved fund deficit of the GF amounted to \$2,111,968, while total fund deficit amounted to \$1,973,980.

Debt service fund (DSF)- The DSF's total assets amounted to \$248,844 at June 30, 2010, which consist mainly of restricted cash in fiscal agent (\$215,771), restricted property taxes receivable, net of reserve for doubtful accounts (\$33,060). The DSF's total liabilities amounted to \$154,151 at June 30, 2010, which are mainly composed of: (1) matured bonds and interests due and payable (\$154,138), (2) and due to other funds (\$13).

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

Joint resolutions fund (JRF) - The JRF's total restricted assets amounted to \$901,716 at June 30, 2010, which consist of cash in a commercial bank (\$43,938) and due from other funds (\$857,777). The JRF's total liabilities amounted to \$3,274 at June 30, 2010, which are mainly composed of bank overdraft (\$3,274). At the end of the current fiscal year, JRF's total fund balance is \$898,441.

Other governmental funds (OGF) - The OGF's total assets amounted to \$666,174 at June 30, 2010, which consist mainly of restricted cash and cash equivalents (\$316,629), due from other funds (\$349,502), and accrued interest receivable (\$43). The OGF's total liabilities amounted to \$591,681 at June 30, 2010, which are mainly composed of deferred revenues (\$235,978) and short-term and long-term amounts due to other funds (\$354,649).

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**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

Analysis of Operating Results of Governmental Funds

Condensed Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
<i>Revenues:</i>		
Total revenues - major governmental funds	\$ 6,688,173	\$ 8,480,209
Total revenues - other governmental funds	1,672,031	1,802,690
Combined total revenues	8,360,204	10,282,899
<i>Expenditures:</i>		
Total expenditures - major governmental funds	7,890,653	9,136,345
Total expenditures - other governmental funds	1,885,562	1,903,796
Combined total expenditures	9,776,215	11,040,141
<i>Deficiency of revenues under expenditures</i>	(1,416,011)	(757,242)
<i>Other financing sources, net:</i>		
Proceeds from issuances of note payable		225,000
Other financing sources, net - major governmental funds	324,668	312,724
Other financing sources (uses), net - other governmental funds	(324,668)	(312,724)
Combined other financing sources (uses), net	-	-
Combined other financing sources (uses), net	-	225,000
<i>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</i>	(1,416,011)	(532,242)
<i>Fund balance, at beginning of fiscal year</i>	509,658	1,028,345
<i>Prior-period adjustments</i>	-	-
<i>Fund balance, at beginning of fiscal year (restated)</i>	509,658	1,028,345
<i>Fund balance, at end of fiscal year</i>	\$ (906,353)	\$ 496,103

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

Major Governmental Funds

General fund – The total fund deficit of the GF increased by \$645,639 during current fiscal year.

Approximately 81% (\$5,272,723) of the GF's total revenues for the current fiscal year came from property taxes, municipal license, sales and use taxes, licenses, permits, other local taxes and charges for services while (\$1,204,551) resulted from intergovernmental grants and contributions.

The largest expenses of the GF for the fiscal year ended June 30, 2010 were related to: (1) general administrating and operating costs (\$1,165,565), (2) public safety (\$1,056,053), (3) public housing and welfare (\$1,040,859), (4) recreation (\$1,067,195), (5) economic development (\$1,443,745), (5) and health and sanitation (\$1,096,624).

Debt service fund (DSF) – The total fund balance of the DSF decreased by \$11,258 during current fiscal year. Approximately \$126,131 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 (\$424,421).

Joint resolutions fund (JRF) – The total fund balance of the JRF's decreased by \$542,466 during current fiscal year. JRF's total expenditures for the current fiscal year came from health and sanitation (\$520,283), and public housing and welfares (\$22,183).

Other governmental funds (OGF) – Substantially all of OGF's revenues for the current fiscal year came from intergovernmental grants and contributions of \$1,664,952, charges for service of \$3,962 and interest, fines and penalties of \$3,117. Total expenditures were mainly related to economic development (\$522,680), recreation (\$379,396), public housing and welfare (\$317,525), health and sanitation (\$49,242) and capital outlays (\$616,719).

FINANCIAL ANALYSIS OF BUSINESS-TYPE ACTIVITIES

Analysis of Financial Position of Proprietary Fund

At June 30, 2010, the total assets of proprietary fund amounted to \$1,147,089, which consisted principally of: (1) restricted cash in commercial banks (\$1,576), (2) due from other agencies (\$9,138), (3) restricted deposit (\$325,959), (4) capital assets net of accumulated depreciation (\$785,440), (5) other assets (\$22,146), and (6) others receivable (2,830).

At June 30, 2010, the total liabilities of the proprietary fund amounted to \$723,864, which consisted principally of: (1) noncurrent liabilities of \$694,295, and (2) accounts payable and accrued liabilities of \$29,569.

The total unresstricted net assets of proprietary fund amounted to \$423,225 at June 30, 2010. The following table presents a summary of the financial position of the proprietary fund (PF) at June 30, 2010:

**MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

Assets:	
Total current assets	\$ 339,503
Total non-current assets	807,546
Total assets	<u>1,147,049</u>
 Liabilities:	
Total current liabilities	29,569
Total non-current liabilities	694,295
Total liabilities	<u>723,864</u>
 Net assets:	
Invested in capital assets, net of related debt	-
Restricted for federal funded program	-
Total restricted net assets	<u>-</u>
Unrestricted net assets	<u>423,225</u>
Total net assets	<u>\$ 1,147,089</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$27,057,275 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$12,472,335 at June 30, 2010. The net capital assets increased during the current fiscal year due to the current fiscal year's capital additions (\$403,062), which were partially offset by the depreciation and amortization expense.

b) Debt Administration

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

At June 30, 2010, the Municipality's total bonded debt amounted to \$200,000 consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The Municipality has also certain outstanding notes payable. Such notes payable also decreased during the current fiscal year mainly due to the principal payments made during the same period.

MUNICIPALITY OF FLORIDA
COMMONWEALTH OF PUERTO RICO
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

REQUEST FOR INFORMATION

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
STATEMENT OF NET ASSETS
JUNE 30, 2010**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Villas de Florida I</u>
Cash in bank (Notes 2 and 5)	\$ 271,603	\$ 1,576
Cash with fiscal agent (Notes 2 and 5)	304,735	
Accounts receivable:		
Municipal licenses	11,099	
Sales and use tax	6,436	
Licenses, permits and other taxes	4,700	
Others	188,773	2,830
Property taxes	33,060	
Interest	56	
Due from other agencies (Note 9)	621,273	9,138
Restricted deposits		325,959
Other assets		22,146
Capital assets, net (Note 11)	<u>13,684,293</u>	<u>785,440</u>
 Total assets	 <u>\$ 15,126,028</u>	 <u>\$ 1,147,089</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Bank overdraft	\$ 231,752	\$ -
Accounts payable and accrued liabilities	382,981	29,569
Due to other agencies (Note 12)	1,057,175	
Interest payable	14,138	
Deferred revenues (Note 13)	386,042	
Claims and judgements	31,000	
Noncurrent liabilities (Note 15):		
Due within one year	350,426	55,625
Due in more than one year	4,314,399	638,670
Total liabilities	<u>6,767,913</u>	<u>723,864</u>
Net Assets		
Investment in capital assets, net of related debt	12,893,919	
Restricted for:		
Debt service	94,693	
Capital project	4,178	
Unrestricted	(4,634,674)	423,225
Total net assets	<u>8,358,116</u>	<u>423,225</u>
 Total liabilities and net assets	 <u>\$ 15,126,029</u>	 <u>\$ 1,147,089</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Villas de Florida I Project
			\$	\$	\$	\$
Primary Government:						
General government	\$ 1,282,709	\$ 402,308	\$ -	\$ -	\$ (880,401)	\$ -
Public safety	1,159,982				(1,159,982)	
Public housing and welfare	1,483,227				(1,483,227)	
Recreation	1,550,520				(1,550,520)	
Health and welfare	1,249,795				(1,249,795)	
Economic development	2,129,738		838,059	578,333	(713,346)	
Interest on long-term debt	206,685				(206,685)	
Total primary government	\$ 9,062,656	\$ 402,308	\$ 838,059	\$ 578,333	\$ (7,243,956)	\$ -
Component Unit:						
Villas de Florida I Project	\$ 467,908	\$ 27,464	\$ -	\$ -	\$ -	\$ (440,444)
General revenues:						
Property taxes (Note 6)					4,853,132	
Municipal license tax (Note 7)					45,630	
Sales and use taxes (Note 8)					439,582	
Grants and contributions not restricted to specific programs					1,274,642	341,479
Interest, fines and penalties					11,557	
Miscellaneous					55,129	
Total general revenues					6,679,672	341,479
Change in net assets					(564,284)	(98,965)
Net assets at beginning of year, as restated (Note 22)					8,922,400	522,190
Net assets at end of year					\$ 8,358,116	\$ 423,225

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2010

<u>Assets</u>	<u>General</u>	<u>Joint Resolutions</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ -	\$ 43,938	\$ -	\$ 227,665	\$ 271,603
Cash with fiscal agent (Notes 2 and 5)			215,771	88,964	304,735
Accounts receivable:					
Municipal licenses	11,099				11,099
Sales taxes	6,436				6,436
Licenses, permits, and other taxes	4,700				4,700
Other	188,773				188,773
Property taxes			33,060		33,060
Interest			13	43	56
Due from other agencies (Note 9)	352,528			268,745	621,273
Due from other funds (Note 10)	227,678	857,777		80,757	1,166,212
Total assets	<u>\$ 791,214</u>	<u>\$ 901,715</u>	<u>\$ 248,844</u>	<u>\$ 666,174</u>	<u>\$ 2,607,947</u>

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

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2010**

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>Joint Resolutions</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities					
Bank overdraft	\$ 227,424	\$ 3,274	\$ -	\$ 1,054	\$ 231,752
Accounts payable and accrued liabilities	255,997			126,984	382,981
Due to other funds (Note 10)	938,534		13	227,665	1,166,212
Due to other agencies (Note 12)	1,057,175				1,057,175
General obligations:					
Bonds			140,000		140,000
Interest			14,138		14,138
Deferred revenues: (Note 13)					
Municipal license tax	255,064				255,064
Federal programs				235,978	235,978
Claims and judgements	31,000				31,000
Total liabilities	<u>2,765,194</u>	<u>3,274</u>	<u>154,151</u>	<u>591,681</u>	<u>3,514,300</u>
Fund Balance (Deficit)					
Reserved for:					
Encumbrances	130,633				130,633
Debt service			94,693		94,693
Capital projects		898,441		74,493	972,934
Advances	7,355				7,355
Unreserved fund balance (deficit)	(2,111,968)				(2,111,968)
Total fund balance (deficit)	<u>(1,973,980)</u>	<u>898,441</u>	<u>94,693</u>	<u>74,493</u>	<u>(906,353)</u>
Total liabilities and fund balance	<u>\$ 791,214</u>	<u>\$ 901,715</u>	<u>\$ 248,844</u>	<u>\$ 666,174</u>	<u>\$ 2,607,947</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total fund balances - governmental funds	\$ (906,353)
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	13,684,293
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	(4,489,825)
• Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>70,000</u>
Net assets of governmental activities	<u><u>\$ 8,358,115</u></u>

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

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) -GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General	Joint Resolutions	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$ 4,727,001	\$ -	\$ 126,131	\$ -	\$ 4,853,132
Municipal license taxes (Note 7)	45,630				45,630
Sales and use taxes (Note 8)	134,911		21,202		156,113
Licenses, permits, and other local taxes	16,911				16,911
Charges for services	348,270			3,962	352,232
Intergovernmental revenues (Note 14)					
Federal grants and contributions	1,204,551			1,416,392	1,416,392
Slate contributions	8,289			248,560	1,453,111
Interest, fines, and penalties	55,126		151	3,117	11,557
Other revenues	6,540,689		147,484	1,672,031	55,126
Total revenues					8,360,204
EXPENDITURES					
Current:					
General government	1,165,565				1,165,565
Public safety	1,056,053				1,056,053
Public housing and welfare	1,040,859	22,183			1,380,567
Recreation	1,067,195				1,446,591
Economic development	1,443,745				1,966,425
Health and sanitation	1,096,624				1,145,866
Capital outlays	53,725	520,283			1,190,727
Debt service:					
Principal			217,736		217,736
Interest and other			206,685		206,685
Total expenditures	6,923,766	542,466	424,421	1,885,562	9,776,215
Deficiency of revenues under expenditures	(383,077)	(542,466)	(276,937)	(213,531)	(1,416,011)
OTHER FINANCING SOURCES (USES)					
Transfers in	31,053				324,668
Transfers out	(293,615)		(27,936)	(3,117)	(324,668)
Total other financing sources	(262,562)		265,679	(3,117)	
Deficiency of revenues over expenditures and other financing sources (uses)	(645,639)	(542,466)	(11,258)	(216,648)	(1,416,011)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 22)	\$ (1,328,341)	\$ 1,440,907	\$ 105,951	\$ 291,141	\$ 509,658
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (1,973,980)	\$ 898,441	\$ 94,693	\$ 74,493	\$ (906,353)

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds \$ (1,416,011)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 1,165,778
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental (804,749)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 217,736
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in 272,962

Changes in net assets of governmental activities \$ (564,284)

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 4,766,035	\$ 4,766,035	\$ 4,770,536	\$ 4,501	\$ 110,660	\$ 126,249	\$ 15,589	
Municipal license taxes	178,599	178,599	71,001	(107,598)				
Sales and use taxes	1,098,561	1,098,561	888,102	(210,459)				
Licenses and permits	62,471	62,471	14,100	(48,371)				
Charges for services	284,000	284,000	361,579	77,579				
Intergovernmental revenues:								
State contributions	707,130	707,130	818,560	111,430				
Interest, fines, and penalties	20,000	20,000	8,289	(11,711)				
Other revenues	31,500	31,500	58,883	27,383				
Total revenues	7,148,296	7,148,296	6,991,050	(157,246)	110,660	126,249	15,589	
EXPENDITURES								
Current:								
General government	610,378	627,510	1,197,031	(569,521)				
Public safety	1,251,043	1,267,875	1,056,053	211,823				
Public housing and welfare	683,954	701,086	1,040,859	(339,773)				
Recreation	656,279	673,411	1,067,195	(393,783)				
Economic development	2,691,548	2,604,210	1,443,745	1,160,465				
Health and sanitation	1,255,092	1,274,202	1,096,624	177,578	110,660	126,914	(16,254)	
Total expenditures	7,148,296	7,148,296	6,901,507	246,789	110,660	126,914	(16,254)	
Excess (deficiencies) of revenues over (under) expenditures	\$ -	\$ -	\$ 89,543	\$ 89,543	\$ -	\$ (665)	\$ (665)	

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. ORGANIZATION

The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 12 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- Statement of Program Activities - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14".

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist 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

**COMMONWEALTH OF PUERTO RICO
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are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of

the following criteria are met: (a) 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; (b) 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, and; (c) 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 the primary government. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

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

Villas de Florida I Project is an 89-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

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b. Government-Wide and Fund Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available.

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Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Joint Resolution Fund

This fund is used to account the resources for all the transactions of the State Contribution by Legislature Resolutions. The primary objective of these funds is the development of projects on communities, non-for-profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

3) Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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

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

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

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

d. Cash and Cash with Fiscal Agent

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

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

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e. Interfund Receivables and Payables

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

f. Capital Assets

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

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

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

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g. Reservation of Fund Balance

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

Encumbrances

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

Debt Service Fund

Represents net assets available to finance future debt service payments.

Capital Projects Fund

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

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2010 amounted to approximately \$151,942. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$184,007 for workers' compensation insurance covering all municipal employees.

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i. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

k. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
54	Fund Balance Reporting Governmental Fund Type Definitions	2010-11

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<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
57	OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans	2011-12
59	Financial Instrument Omnibus	2010-11
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial reporting entity: Omnibus – on amendment of GASB Statements No. 14 and 34	2012-13

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

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

a. Budgetary Control

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

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

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, include only the operations of the general and the debt service funds.

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The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

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

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

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2010 representing the original budget.

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over

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expenditures and other financing use for the year ended June 30, 2010 is presented below for the general and debt service funds:

	<u>Debt Service</u>
Excess of expenditures over revenues - budgetary basis	\$ (665)
Entity differences:	
Non-budgeted transfers	<u>(276,272)</u>
Excess of expenditures over revenues - GAAP basis	<u>\$ (276,937)</u>

Explanation of differences:

	<u>General Fund</u>
Sources/inflows of resources	
Actual amounts (budgetary basis) available appropriation from the budgetary comparison schedule	\$ 6,991,050
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	31,053
Non-budgeted revenues	<u>(481,414)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 6,540,689</u>

Uses/outflows of resources

Actual amounts (budgetary basis) -Total charges to appropriation from the budgetary comparison schedule	\$ 6,901,507
Differences-budget to GAAP:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(28,322)
Current year encumbrances recorded as expenditures for budgetary purposes	130,633
Transfers to other funds are out flow of budgetary uses but are not expenditures for financial reporting purpose	293,615
Non-budgeted expenditures	<u>(373,667)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 6,923,766</u>

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c. Legal Compliance

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

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$4.5 million differences are as follows:

Bonds payable	\$ 175,000
Compensated absences	923,373
Notes payable	455,000
Other long-term liabilities	<u>2,936,452</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$4,489,825</u>

5. DEPOSITS

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

The deposits at GDB of approximately \$88,964 that is restricted principally for capital projects and the \$215,771 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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The Municipality maintains its investments in one (1) bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC). The standard insurance amount limit is \$250,000 that is temporary through December 31, 2013.

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

6. PROPERTY TAXES

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

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

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

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

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

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

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

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year.

Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$2.8 million. This amount will be repaid through advances from property taxes (refer to Note 15).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2009-10, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management

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believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2010, the amount received by CRIM, less than the amount collected from taxpayers and charges by CRIM received by the Municipality for the same period by approximately \$47,858. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements (refer to Note 9).

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2010. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Florida, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Florida are as follows:

Savings and loans associations	=	1.00%
Financial institutions	=	1.50%
Other organizations:	=	.50%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$141,934, corresponding to the next fiscal year municipal license.

8. SALES AND USE TAXES

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and

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use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

CRIM (General Fund)	\$ 352,528
OCAM - SBGP Program (Other Governmental Funds)	219,712
HUD - HPRP Program (Other Governmental Funds)	4,418
Family Department - Food Program (Other Governmental Funds)	9,845
Family Department - Child Care Program (Other Governmental Funds)	<u>34,770</u>
Total	<u>\$ 621,273</u>

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10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2010, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Joint Resolution Fund	General Fund	\$ 857,777
General Fund	Other Governmental Funds	227,665
Other Governmental Funds	General Fund	80,157
General Fund	Debt Service Fund	<u>13</u>
		<u>\$1,166,212</u>

Remaining transfers are used to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2010 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$293,615
General Fund	Debt Service	27,936
General Fund	Other Governmental	<u>3,117</u>
		<u>\$324,668</u>

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

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programs accounted for in other funds in accordance with budgetary authorizations.

11. CAPITAL ASSETS

Capital asset activity for the Municipality for the year ended June 30, 2010 was as follows:

Description	Balance			Balance June 30, 2010
	July 1, 2009	Increases	Decreases	
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	\$ 1,274,079	\$ 92,620	\$ -	\$ 1,366,699
Construction in progress		490,447		490,447
Total capital assets, not being depreciated	<u>1,274,079</u>	<u>583,067</u>	<u>-</u>	<u>1,857,146</u>
CAPITAL ASSETS, BEING DEPRECIATED				
Buildings, structures, and improvements	16,319,153	56,113		16,375,266
Infrastructure	2,582,400	246,843		2,829,243
Furniture and fixtures	1,621,679	6,120		1,627,799
Vehicles, machinery and equipment	2,710,703	273,632		2,984,335
Total capital assets, being depreciated	<u>23,233,935</u>	<u>582,708</u>	<u>-</u>	<u>23,816,643</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings, structures, and improvements	7,217,214	484,743		7,701,957
Infrastructure	216,148	130,980		347,128
Furniture and fixtures	1,618,840	3,459		1,622,299
Vehicles, machinery and equipment	2,132,546	185,566		2,318,112
TOTAL ACCUMULATED DEPRECIATION	<u>11,184,748</u>	<u>804,748</u>	<u>-</u>	<u>11,989,496</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>12,049,187</u>	<u>(222,040)</u>	<u>-</u>	<u>11,827,147</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 13,323,266</u>	<u>\$ 361,027</u>	<u>\$ -</u>	<u>\$ 13,684,293</u>

Depreciation expense was charged to functions/programs as follows:

General government	\$160,950
Public safety	160,950
Public housing and welfare	160,950
Culture and education	160,950
Public works	160,949
Total depreciation expense - governmental activities	<u>\$804,749</u>

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Capital asset activity for Villas de Florida I Project, a discretely presented component unit, for the year ended June 30, 2010 was as follows:

<u>Component Unit - Villas de Florida I Project</u>	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 302,602	\$ -	\$ -	\$ 302,602
Total capital assets, not being depreciated	<u>302,602</u>	<u>-</u>	<u>-</u>	<u>302,602</u>
Capital assets, being depreciated:				
Buildings, equipment, and furniture	3,061,549	179,081		3,240,630
Total capital assets, being depreciated	<u>3,061,549</u>	<u>179,081</u>	<u>-</u>	<u>3,240,630</u>
Less accumulated depreciation for:				
Buildings, equipment, and furniture	2,620,745	137,047		2,757,792
Total accumulated depreciation	<u>2,620,745</u>	<u>137,047</u>	<u>-</u>	<u>2,757,792</u>
Total capital assets, being depreciated, net	<u>440,804</u>	<u>42,034</u>	<u>-</u>	<u>482,838</u>
Villas de Florida I Project capital assets, net	<u>\$ 743,406</u>	<u>\$ 42,034</u>	<u>\$ -</u>	<u>\$ 785,440</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2010 are as follows:

Puerto Rico Electric Power Authority	\$ 304,671
Puerto Rico Retirement System Administration	274,911
Puerto Rico Water and Sewer Authority	127,841
U.S. Internal Revenue Service	21,401
P.R. Treasury Department	13,789
Puerto Rico General Services Administration	72,210
P.R. Labor Department	<u>242,352</u>
Total	<u>\$ 1,057,175</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$255,064 in the general fund related to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

b. Federal Government

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

14. INTERGOVERNMENTAL REVENUES

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

15. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2010 are as follows:

Bonds

\$400,000 series of 1996, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016, interests from 3.27% to 6.75%.	<u>\$ 200,000</u>
---	-------------------

Notes Payable

\$60,000 series of 2004, payable in annual installments of \$5,000 to \$10,000 until July 1, 2010, interest from 4.17% to 5.00%.	\$ 10,000
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\$295,000 series of 2007, payable in annual installments of \$35,000 to \$50,000 until July 1, 2013, interest from 1.53% to 7.50%.	185,000
--	---------

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

\$65,000 series of 2005, payable in annual installments of \$5,000 to \$10,000 until July 1, 2013, interest from 1.53% to 7.0%	\$ 30,000
\$195,000 series of 2008, payable in annual installments of \$20,000 to \$35,000 until July 1, 2014, interest from 1.53% to 7.50%.	150,000
\$225,000 series of 2009, payable in annual installments of \$25,000 to \$40,000 until July 1, 2015, interest from 4.75% to 7.50%.	195,000
	\$ 570,000

Other Long-Term Liabilities

Due to Puerto Rico Health Insurance Administration	\$ <u>148,561</u>
--	-------------------

Component Unit

The original mortgage, in the amount of \$ 1,117,099 were payable to Rural Housing Service (RHS) and were collateralized by the apartment complex. The required monthly principal and interest payments totaled \$8,401. Rural Housing Service, the mortgagee, recalculated and adjusted the amortization of the mortgages at the time, resulting in a smaller monthly payment.

Under agreements with RHS, the project is required to make monthly escrow deposits for insurance and replacement of Project assets, and is subject to restrictions as to operating policies, rental charges and operating expenditures.

The liability of the Project under the mortgages is limited to the underlying value of the real estate, plus other amounts deposited with the lender. The mortgages are insured by RHS, collateralized by the Project, and consist of the following:

Interest at 8.0%, payable in monthly installments of \$8401, including interest, through the due date, June 2019.	\$694,295
Less current maturities	55,625
	\$638,670

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The interest rates shown above are net of 2% interest rental credit.

Aggregate maturities of the mortgage payable for each of the next five years following June 30, 2010 and thereafter, are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2011	\$ 55,625
2012	62,242
2013	60,242
2014	70,657
2015	76,521
Thereafter	369,008
	<u>\$694,295</u>

The annual debt service requirements for the bonds payable and notes payable at June 30, 2010, are as follows:

	<u>Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 25,000	\$ 6,384	\$ 325,426	\$ 189,991
2012	25,000	10,887	180,752	197,170
2013	25,000	9,263	189,883	184,275
2014	30,000	7,475	189,274	171,096
2015	30,000	5,525	148,941	159,493
2016-2020	65,000	4,875	510,200	689,904
2021-2025			645,060	518,980
2026-2030			874,829	272,761
2031-2035			442,086	50,346
	<u>\$ 200,000</u>	<u>\$ 44,409</u>	<u>\$ 3,506,451</u>	<u>\$ 2,434,016</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Long-term liability activity for the year ended June 30, 2010 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:						
Bonds payable	\$ 225,000	\$ -	\$ -	\$ 25,000	\$ 200,000	\$ 25,000
Notes payable	685,000			115,000	570,000	115,000
Total long-term debt	<u>910,000</u>	<u>-</u>	<u>-</u>	<u>140,000</u>	<u>770,000</u>	<u>140,000</u>
Other long-term liabilities:						
CRIM Law 42	2,839,419			51,529	2,787,890	61,865
CRIM Law 46	7,242			7,242	-	
LIMS System	5,750			5,750	-	
Treasury Department	-		13,215	13,215	-	
ASES	270,168	(121,607)			148,561	148,561
Compensated absences	<u>1,104,552</u>			<u>181,178</u>	<u>923,374</u>	
Total other long-term liabilities	<u>4,227,131</u>	<u>(121,607)</u>	<u>13,215</u>	<u>258,914</u>	<u>3,859,825</u>	<u>210,426</u>
Total noncurrent liabilities, governmental activities	<u>\$ 5,137,131</u>	<u>\$ (121,607)</u>	<u>\$ 13,215</u>	<u>\$ 398,914</u>	<u>\$ 4,629,825</u>	<u>\$ 350,426</u>
Component Unit:						
Villas de Florida I Project mortgage payable	<u>\$ 745,656</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,361</u>	<u>\$ 694,295</u>	<u>\$ 55,625</u>

16. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

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

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life. The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service. No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000 will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2010 was approximately \$315,987. The Municipality's payroll for employees covered by ERS was approximately \$3.4 million. The Municipality total payroll for all employees was approximately \$4.7 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

17. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

18. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2010 was approximately \$199,700.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under no cancellable operational leases, with periods not longer than one year.

19. CONTINGENCIES

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

20. COMMITMENTS

The Municipality of Florida had several outstanding or planned construction projects as of June 30, 2010. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Project Fund that amounted to approximately \$98,073.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

21. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE COSTS

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

In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost", the Municipality should perform a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal regulations and to determine an estimate of postclosure costs. As of June 30, 2010, no amount has been estimated as post closure cost of the landfill to be accounted for as required by accounting principles generally accepted in the United States of America and state and federal regulations.

22. FUND BALANCE AND NET ASSETS RESTATEMENTS

a. Fund Balance

The beginning fund balances of debt services and other governmental funds, has been restated to recognize corrections of accounting errors.

	Debt Service Fund	Other Governmental Funds
Beginning balance of the year as previously reported	\$ 86,835	\$ 296,702
Restatements:		
Understatement of accounts receivable	19,116	
Overstatement of accounts payables		(5,561)
	<u>\$ 105,951</u>	<u>\$ 291,141</u>
Beginning balance of the year as restated	<u>\$ 105,951</u>	<u>\$ 291,141</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

b. Net Assets

Net assets at beginning of year have been adjusted to reflect the following restatements.

Net assets at beginning of year as previously reported	\$ 8,739,438
Restatement: Overstatement of long term debts	<u>182,962</u>
Net assets at beginning of year as restated	<u>\$ 8,922,400</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Section 8 Housing Choice Vouchers	14.871	\$ 294,336
Pass-through Commissioner Office of Municipal Affairs - Community Development		
State Block Grant Program - SBGP	14.228	578,333
Pass-through the Office of Administration for Children and Families		
Homelessness Prevention and Rapid Rehousing (HPRP)	14.257	21,920
Subtotal U.S. Department of HUD		<u>894,589</u>
U.S. Department of Agriculture		
Pass-through Governor's Office of Child Services and Community Development		
Child and Adult Care Food Program	10.558	49,242
Subtotal U.S. Department of Agriculture		<u>49,242</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through the Office of Administration for Children and Families		
Child Care and Development Block Grant	93.575	382,040
Subtotal U.S. Department of HHS		<u>382,040</u>
TOTAL		<u>\$ 1,325,871</u>

See notes to Schedule of Expenditures of Federal Awards.

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ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Florida and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. BASIS OF PRESENTATION

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

	<u>Expenditures</u>
Expenditures as per basic financial statements:	
Federal expenditures included within other governmental funds	<u>\$1,325,871</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$1,325,871</u>

**INDEPENDENT AUDITORS' 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
Municipal Legislature
Municipality of Florida
Florida, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Florida, as of and for the year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 10, 2010. The report on the governmental activities was qualified because management has not recorded a liability for estimated landfill post closing cost and, accordingly, has not recorded an expense for the current period. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control 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 material weakness is a control deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Florida' 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Municipality of Florida in a separate letter dated November 10, 2010.

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

San Juan, Puerto Rico
November 10, 2010

Ortiz, Rivera, Rivera & Co.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Municipality of Florida's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Florida' major federal programs for the year ended June 30, 2010. 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 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. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Florida' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Florida compliance with those requirements.

As described in items 10-1 to 10-8 in the accompanying Schedule of findings and questioned cost, Municipality of Florida did not comply with requirements regarding cash management, reporting, allowable costs, period of availability of federal funds, equipment and real property management, special test and provisions that are applicable to its SBGP program and Child Care and Development Block Grant. Compliance with such requirements is necessary, in our opinion, for Municipality of Florida to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Florida complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

The management of Municipality of Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Florida internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-4 to be material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items: 10-1 to 10-3 and 10-5

to 10-8, to be significant deficiencies.

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

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

San Juan, Puerto Rico
November 10, 2010

Ortiz, Rivera, Rivera & Co.

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to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a qualified opinion on the basic financial statements of the Municipality of Florida.
- b. There were no significant deficiencies on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Florida were disclosed during the audit.
- d. There were significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Municipality of Florida express an qualified opinion.
- f. Audit findings relative to the major federal award programs for the Municipality of Florida are reported in number 3 of this schedule.
- g. The programs tested as major programs are:
 - SBGP - CFDA No. 14.228
 - Child Care – CFDA No. 93.575
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Florida was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

• **Condition 10-1 - SBGP- CFDA No. 14.228**

We observed the Municipality maintain balance in excess of \$5,000 for more than five days in the program bank account. We observed too, one check made and paid on April 29, 2010, before federal funds available in bank.

Cause

The program does not maintain the accountability updated to know the available funds.

Effect

The program is not in compliance with the cash management regulation.

Criteria

The 24 CFR 570 establish the general procedures for the cash management regulations and based on OCAM Circular, the balance should not exceed the limit of \$5,000. The Finance Director is responsible for all overdraft observed in the bank accounts of the Municipality, as per the "Reglamento para Municipios".

Recommendation

The Accountant of the program should maintain the deposits and disbursements books updated in order to avoid the mentioned situation.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

- **Condition 10-2 - SBGP- CFDA No. 14.228**

The Federal Program Office did not request the extension for the contract with the Agency (OCAM) on time. The extensions should be requested at least 45 days before ends the contract. During our audit we observed the following:

Year Program	Contract ended	Date should be request extension	Date signed extension	Days without contract
2006 AB	12/15/2009	10/31/2009	3/25/2010	100
2006 FC	11/10/2009	9/26/2009	3/25/2010	135
2007 AB	1/24/2010	12/10/2009	3/25/2010	60
2007 FC	12/24/2009	11/9/2009	3/25/2010	91
2005 FC	5/10/2009	3/26/2009	6/15/2009	36

Cause

The federal program did not maintain a due date schedule for the contracts with the Agency in order to request the extension on time.

Effect

The program is not in compliance with the OCAM contract clauses. The program operates without a valid contract for various program years.

Criteria

The federal funds of SBGP can be available through a signed contract into the Municipality and OCAM for each program year. Based on the clauses of the contract, the funds are available for 18 months after the contract is signed. Then, the Municipality can request an extension that should be realized at least 45 days before the contract ends.

Recommendation

The Federal Program Office should establish a due date schedule for monitoring the due date of each program year contract in order to request the extensions into the time required.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Questioned Cost

None

• **Condition 10-3 - SBGP- CFDA No. 14.228**

The Federal Program Office did not prepare and submit the financial report corresponding to the quarter period ended on June 30, 2010. In addition, the information included in the financial report corresponding to the quarter period ended on March 31, 2010 cannot be verified with accounting books, because the general ledgers are not updated.

Cause

The accountant of the program was under maternity license during the period. The accountability of the program was maintained by the Director and the Office Assistance.

Effect

The program is not in compliance with the reporting regulations.

Criteria

The OCAM Circular 2002-15 establish the Municipality should prepare and submit a Financial Report ("Informe de Ingresos y Gastos") into the 40 days after quarter ended. The financial information should be documented in the accounting books.

Recommendation

The Federal Program Director should coordinates and assigns better the required duties in order to comply with all requisites of program management.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

- **Condition 10-4 - SBGP- CFDA No. 14.228**

The Program Income Report for 2009-2010 was not prepared and submitted to the Agency.

Cause

The report was not prepared.

Effect

The program is not in compliance with the program income regulations.

Criteria

Based on OCAM Circular 2007-17, a program income report should be submitted on or before July 31 of each fiscal year.

Recommendation

The Federal Program Offices should establish a schedule of the due date of the required reports by the Agency in order to comply with all of them.

Questioned Cost

None

- **Condition 10-5 - SBGP- CFDA No. 14.228**

The following disbursement voucher was not available for examination:

<u>Date</u>	<u>Payee</u>	<u>Check Number</u>	<u>Amount</u>
12/17/2009	Alail Construction	2764	<u>\$21,240</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Cause

The disbursements voucher is maintained in the federal program office in order to record on accounting books the information, and then are sent to the Finance Office.

Effect

The program is not in compliance with the filling of documents regulations.

Criteria

Based on the Regulation for Municipalities, Chapter Section 14, the vouchers, cancelled checks and documents related to disbursements should be filling by the Finance Director.

Recommendation

The Federal Program Offices should coordinate with the Finance Department in order to filling the documents correctly in order to the documents are available for reviews.

Questioned Cost

\$21,240

- **Condition 10-6 - Child Care and Development Block Grant - CFDA No. 93.575**

We observed the obligations reported on the Final Report for the program year ended September 30, 2009, were paid after the time required. We observed too, materials and equipment purchased (check number 1562) during the program year ended September 30, 2008, were paid on October 27, 2009.

Cause

The Municipality did not make the disbursements into the 90 days required by the Agency.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Effect

The program is not in compliance with the period of availability of the federal funds.

Criteria

The contract of delegated funds signed into the Municipality and the Agency ("Administración para el Cuidado y Desarrollo Integral de la Niñez") establish the regulation related to the availability of funds, that the obligations should be liquidated into the 90 days after the quarter period end.

Recommendation

The Accountant of the program should coordinate procedures with the Finance Department of the Municipality in order to make the disbursements as soon as possible after period end.

Questioned Cost

None

- **Condition 10-7 - Child Care and Development Block Grant - CFDA No. 93.575**

We observed the inventory prepared on September 2009, and there are some items without number, acquisition date, or amount.

Cause

The program does not maintain a complete detail of equipment acquired.

Effect

The program is not in compliance with the equipment regulation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Criteria

Based on federal regulations, equipment records shall be maintained and included the following information about the equipment: description, acquisition date and cost, at least.

Recommendation

The Inventory should be updated in order to comply with the federal regulations.

Questioned Cost

None

- **Condition 10-8 - Child Care and Development Block Grant - CFDA No. 93.575**

During the audit, we observed some reports were submitted after the time required and others cannot be observed when were submitted. Those are:

<u>Report</u>	<u>Period</u>	<u>Date to be submitted</u>	<u>Date Submitted</u>	<u>Submitted Late</u>	<u>No evidence of submission</u>
Funds Request	October to December 2009	10/10/2009	10/26/2009	X	
Final Report	July to September 2010	10/15/2010			X

Cause

The Child Care Office does not file the corresponding letter of submission with the corresponding reports.

Effect

The program is not in compliance with the reporting regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Criteria

The Contract Number 241-2010-000045, into the Municipality and ACUDEN (the Agency) establish on clause number seven, a funds request report for the quarter ended December 31, 2009 should be submitted during the first ten calendar days of the following first month of the same quarter. In addition, a balance sheet or final report should be submitted for the quarter ended September 30, 2010 during the first fifteen calendar days of the following month.

Recommendation

The transmittal letter of each report submitted should be file joint in order to have the evidence of submission.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FLORIDA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP - CFDA No. 14.228	Condition 09-1 The Municipality did not prepare the Federal Financial Reports on timely basis.	Condition still prevails.
SBGP - CFDA No. 14.228	Condition 09-2 The Federal Program maintains cash on bank in excess.	Condition still prevails.
SBGP - CFDA No. 14.228	Condition 09-3 Vouchers without signatures and without bidding procedures.	Condition was corrected.

EXHIBIT I

CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Florida
Oficina de Finanzas

CORRECTIVE ACTION PLAN

November 10, 2010

Cognizant or Oversight Agency for Audit:

Municipality of Florida respectfully submits the following corrective action plan for the year ended June 30, 2010.

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

Audit period: Fiscal year ended June 30, 2010.

The findings from the June 30, 2010 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

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

Finding 10-1: SBGP - CFDA 14.228

Reportable Condition: See Condition 10-1

Recommendation

The Accountant of the program should maintain the deposits and disbursements books updated in order to avoid the mentioned situation.

Action Taken

The excess balance of \$5,000.00, in cash for a period of five days corresponds that the office of Federal Programs has been in continue reviewing of our payroll funds corresponding of administrative funds with three weeks ahead. This way our office tries to avoid debt with the municipality of Florida related with our payroll.

The check paid with date of April 29, 2010 related with our payroll funds to the Finance Director was emit with that date because it was received by post mail April 29,2010 in spite of what reflects in our account that is the date of April 30, 2010. The cash was prepared or ready to be paid.

Finding 10-2: SBGP - CFDA 14.228

Reportable Condition: See Condition 10-2

Recommendation

The Federal Program Office should establish a due date schedule for monitoring the due date of each program year contract in order to request the extensions into the time required

Action Taken

The extensions of our contracts were not requested because we had 9 program years still to close. This situation made us hold the request of extension before de 45 days. Now we are working to close 7 program year corresponding of program years since 1999 thru 2005 AB and FC Funds. This way we will obtain a better rhythm of expenditure of our funds and we could then request the extensions of our contract before the 45 days required.

Finding 10-3: SBGP - CFDA 14.228

Reportable Condition: See Condition 10-3

Recommendation

The Federal Program Director should coordinates and assigns better the required duties in order to comply with all requisites of program management.

Action Taken

Our office did not submit the financial report corresponding to the quarter period ended on June 30, 2010 to OCAM because our accountant of the program was under maternity license during this period. The Director of this program could not submit this report because of the closing of our program years 1999-2005, which had date due of June 18, 2010 the first phase and the second phase had date due of December 15, 2010. Our accounting books were not properly documented but the accountant received instruction to give priority to this situation.

Finding 10-4: SBGP - CFDA 14.228

Reportable Condition: See Condition 10-4

Recommendation

The Federal Program Offices should establish a schedule of the due date of the required reports by the Agency in order to comply with all of them.

Action Taken

Our reports of Program Income corresponding the period of 2009-2010 are being worked on and they will be submitted to OCAM with date of December 29, 2010. The accountant of the program received instruction to give priority to this manner to in accomplishment with SBGD Funds.

Finding 10-5: SBGP - CFDA 14.228

Reportable Condition: See Condition 10-5

Recommendation

The Federal Program Offices should coordinate with the Finance Department in order to filling the documents correctly in order to the documents are available for reviews.

Action Taken

The Federal Program Offices will be working joint with Finance Department in order to filling all documents correctly.

Finding 10-6: Child Care and Development Block Grant - CFDA No. 93.575

Reportable Condition: See Condition 10-6

Recommendation

The Accountant of the program should coordinate procedures with the Finance Department of the Municipality in order to make the disbursements as soon as possible after period end.

Action Taken

The Child Care Program Office will coordinate with Finance Department in order to liquidate all obligations into the time required.

Finding 10-7: Child Care and Development Block Grant - CFDA No. 93.575

Reportable Condition: See Condition 10-7

Recommendation

The Inventory should be updated in order to comply with the federal regulations.

Action Taken

The inventory will be updated in order to comply with the requirements.

Finding 10-8: Child Care and Development Block Grant - CFDA No. 93.575

Reportable Condition: See Condition 10-8

Recommendation

The transmittal letter of each report submitted should be file joint in order to have the evidence of submission.

Action Taken

The Child Care Program Office will establish control procedures to fill the transmittal letters with each document and to send it's on time.

