

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012**

Oficina del Comisionado  
de Asuntos Municipales  
13/1/2012  
13 JUN -9 PM 2:47

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**TABLE OF CONTENTS**

	<u>Pages</u>
<b>PART I - FINANCIAL SECTION</b>	
Independent Auditors' Report.....	1-3
Management's Discussion and Analysis.....	4-19
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	20
Statement of Activities.....	21
Fund Financial Statements-Governmental Funds	
Balance Sheet .....	22-23
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets.....	24
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) .....	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	26
Statement of Revenues and Expenditures - Budget and Actual - General and Debt Service Funds.....	27
Notes to Basic Financial Statements.....	28-58

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**TABLE OF CONTENTS (CONTINUED)**

	<u>Pages</u>
<b>PART II - SINGLE AUDIT SECTION</b>	
Schedule of Expenditures of Federal Awards.....	59
Notes to Schedule of Expenditures of Federal Awards .....	60
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.....	61-62
Independent Auditors' 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 .....	63-65
Schedule of Findings and Questioned Costs.....	66-70
Schedule of Status of Prior Year Audit Findings and Questioned Costs .....	71-73
<b>CORRECTIVE ACTION PLAN</b>	

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Florida, as of and for the year ended June 30, 2012, 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 of America. 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 24 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 effect of not determining and recording the liability of the estimate of solid waste landfill post closure care costs as described in the third paragraph,

the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities of the Municipality, as of June 30, 2012 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 addition, in our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely component unit, each major fund and the aggregate remaining fund information of the Municipality of Florida as of June 30, 2012, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012, on our consideration of the Municipality's internal control over financial reporting and on 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* be presented to supplement 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 obtained 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 an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Florida's financial statements. The *schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* is presented for purposes of additional analysis and is not a required part of the 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 schedule of expenditures of federal awards* is fairly stated in all material respects in relation to the financial statements as a whole.

San Juan, Puerto Rico  
December 26, 2012

*Ortiz, Rivera, Rivera & Co.*

The stamp E41552 was affixed to the original of this report.



**MUNICIPALITY OF FLORIDA**  
**COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

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, 2012. 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, 2012. 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, 2012.

## **FINANCIAL HIGHLIGHTS**

### ***Government-Wide Highlights:***

- The Municipality's total assets amounted to \$18,198,604 at June 30, 2012, of which \$15,479,631 consist of capital assets (net of accumulated depreciation and amortization of \$16,708,589), \$533,648 consist of restricted cash and cash equivalents, \$232,172 consist of accounts receivable, net of the reserve for doubtful account, \$312,273 consist of restricted deposits, \$1,585,134 consist of intergovernmental grant receivable, and \$36,944 consist of other assets and accrued interest on deposits.
- The Municipality's total liabilities amounted to \$11,611,872 at June 30, 2012, of which \$8,411,644 consist of noncurrent liabilities, \$1,288,319 consist of due to other agencies, \$387,587 consist of accounts payable and accrued liabilities, \$849,486 deferred revenues, \$618,223 consist of bank overdraft and \$56,613 consist of interest payable.
- The Municipality's assets exceeded its liabilities (net assets/surplus) by \$6,586,732 at June 30, 2012.
- The Municipality's total revenues amounted to \$9,471,878 for the fiscal year ended June 30, 2012, of which \$5,417,731 arose from taxes, \$3,722,055 arose from intergovernmental grants and contributions, and \$332,092 arose from charges for services, interest, fines and penalties, and miscellaneous revenues.
- The Municipality's expenses amounted to \$13,078,369 for the fiscal year ended June 30, 2012, of which \$10,070,276 were incurred in providing direct services and benefits citizens in relation to economic development, health and welfare, public safety, public housing and welfare, and culture, recreation and education. In addition, the Municipality incurred \$236,484 of its total expenses, in interests related to its long-term debt, and \$2,771,609 (in general government activities to support the Municipality's functions and programs. The Municipality's expenses include depreciation in the amount of \$877,516, for the fiscal year ended June 30, 2012.

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

- The Municipality's net assets decreased by \$3,606,491 during the fiscal year ended June 30, 2012.

***Governmental Funds' Highlights:***

- The total fund deficit of governmental funds amounted to \$1,029,573 at June 30, 2012, of which \$712,764 is reserved for capital projects, debt service, encumbrances and advances, while \$1,742,337 represents an unrestricted deficit.
- The total fund balances of governmental funds decreased by \$211,544 during the fiscal year ended June 30, 2012.

***Proprietary Fund Highlights:***

- The total unrestricted fund net assets of the proprietary fund amounted to \$305,336 consists of unrestricted fund balance.
- The total unrestricted fund net assets of the proprietary fund decreased by \$54,551 during the fiscal year ended June 30, 2012.

**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, 2012. 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.

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**a) Government-wide Financial Statements**

The GWFS are composed of: (1) the statements of net assets (SNA) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2012. 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, 2012, 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

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

enterprise represents its net income, the Municipality reports an amount described as *net change in net assets*, which is essentially the same concept.

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

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

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

**MUNICIPALITY OF FLORIDA**  
**COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

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 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

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012**

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 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.

***This Space Has Been Intentionally Left Blank***

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**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, 2012 and 2011**

	2012	2011
<b>Assets:</b>		
Current assets	\$ 2,682,036	\$ 2,426,197
Noncurrent assets:		
Capital assets, net of accumulated depreciation	15,479,631	15,415,329
Other assets	36,937	20,949
Total assets	18,198,604	17,862,475
<b>Liabilities:</b>		
Current liabilities	3,200,228	2,633,757
Long-term obligations due within one year	483,980	419,555
Long-term obligations due after one year	7,927,664	4,615,940
Total liabilities	11,611,872	7,669,252
<b>Net assets (deficit):</b>		
Invested in capital assets, net of debt	14,459,757	14,131,038
Restricted	581,977	136,084
Unrestricted, as restated	(8,455,002)	(4,073,899)
Total net assets	\$ 6,586,732	\$ 10,193,223

At June 30, 2011, the Municipality's current assets, amounting to \$2,682,036, are mainly composed of cash and cash equivalents (\$533,648), accounts receivable (\$231,779), net of reserve for doubtful accounts, intergovernmental grant receivable (\$1,585,134), other current assets (\$19,202) and restricted deposits (\$312,273).

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.

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

The Municipality's non-current assets, amounting to \$15,479,631 at June 30, 2012, are composed of capital assets, with a cost basis of \$32,188,220, which are reported net of accumulated depreciation and amortization of \$16,708,586 and other non current assets, amounting to 36,937.

At June 30, 2012, the Municipality's current liabilities amounting to \$3,684,208 are mainly composed of due to other agencies (\$1,288,319), accounts payable and accrued liabilities (\$387,587), unearned revenues (\$849,486), matured interest due and payable (\$56,613), bank overdraft (\$618,223), and the portions due within one year of bonds and notes payable (\$483,980). 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 \$7,927,664 at June 30, 2012, 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 \$6,586,732 at June 30, 2012. The most significant portion of net assets (\$14,459,757) 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 (\$581,977) at June 30, 2012, 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 \$8,455,002 at June 30, 2012. 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 \$3,606,491 during the fiscal year ended June 30, 2012.

***This Space Has Been Intentionally Left Blank***

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

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, 2012 and 2011

	2012	2011
Program revenues:		
Program-specific operating grants and contributions	\$ 1,369,804	\$ 2,245,025
Program-specific capital grants and contributions	1,201,746	635,348
Charges for services	295,071	556,601
Total program revenues	<u>2,866,621</u>	<u>3,436,974</u>
General revenues:		
Property taxes	5,218,981	4,959,693
Municipal license taxes	63,144	306,992
Sales and use tax	135,606	141,225
Unrestricted grants and contributions	1,150,505	1,947,385
Interest, fines and penalties	4,290	1,749
Miscellaneous revenues	32,731	78,266
Total general revenues	<u>6,605,257</u>	<u>7,435,310</u>
Total revenues	<u>9,471,878</u>	<u>10,872,284</u>
Program expenses:		
General government	2,771,609	1,840,715
Economic development	2,936,037	1,874,818
Health and welfare	1,770,677	1,085,788
Public safety	1,598,443	1,051,134
Public housing and welfare	2,095,428	1,937,325
Culture, recreation and education	1,669,691	1,467,037
Interest on long-term debt	236,484	203,584
Total expenses	<u>13,078,369</u>	<u>9,460,401</u>
Net increase in net assets	(3,606,491)	1,411,883
Net assets, at beginning of fiscal year	10,193,223	8,781,340
Net assets, at end of fiscal year	<u>\$ 6,586,732</u>	<u>\$ 10,193,223</u>

As previously mentioned, the Municipality's net assets decreased by \$3,606,491 during the current fiscal year. Approximately 57% of the Municipality's total revenues for the current fiscal year came from property, municipal license, and sales and use taxes (\$5,417,731). Grants, contributions and charges for services (program revenues), amounting to \$4,017,126, provided 42% of the total revenues for the current fiscal year. Miscellaneous revenues and interest, fines and penalties 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, 2012 were related to: (1) economic development (\$2,936,037), (2) general administrating and operating costs (\$2,771,609) which were classified

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012**

as "general government", (3) public housing and welfare (\$2,095,428), (4) health and welfare (\$1,770,677), (5) culture, recreation and education (\$1,669,691), (6) public safety (\$1,598,443), (7) and interest on long-term obligations (\$236,484). These expenses include depreciation and amortization of capital assets in the amounts of \$1,014,563 for the fiscal year ended June 30, 2012.

**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, 2012, the total assets of governmental funds amounted to \$3,294,463, which consisted principally of: (1) cash and cash equivalents of \$523,824 (2) accounts receivable of \$232,172, net of reserve for doubtful accounts, (3) inter-fund receivables of \$953,326, (4) intergovernmental grant receivable of \$1,585,134 and (5) accrued interest on deposits of \$7. Such assets are restricted for debt service, capital projects, encumbrances and other specific purposes.

At June 30, 2012, the total liabilities of governmental funds amounted to \$4,324,036, which consisted principally of: (1) accounts payable and accrued liabilities of \$341,302, (2) deferred revenues of \$428,918, (3) inter-fund payables (\$953,326), (4) bank over draft of \$618,223 (5) due to other agencies (\$1,288,319) and (6) matured bonds and interest due and payable of \$202,356.

***This Space Has Been Intentionally Left Blank***

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

The fund balances of governmental funds decreased by \$211,544 during the fiscal year ended June 30, 2012.

**Condensed Balance Sheet - Governmental Funds  
June 30, 2012 and 2011**

	2012	2011
<b>Assets:</b>		
Total assets - major governmental funds	\$ 2,702,191	\$ 2,465,893
Total assets - other governmental funds	592,272	575,233
Combined total assets	\$ 3,294,463	\$ 3,041,126
<b>Liabilities:</b>		
Total liabilities - major governmental funds	\$ 3,772,788	\$ 3,335,595
Total liabilities - other governmental funds	551,248	523,560
Combined total liabilities	4,324,036	3,859,155
<b>Fund balances:</b>		
Reserved - major governmental funds	671,740	1,526,070
Reserved - other governmental funds	41,024	51,673
Unreserved - all governmental funds	(1,742,337)	(2,395,772)
Combined total fund balances	(1,029,573)	(818,029)
<b>Total liabilities and fund balances</b>	\$ 3,294,463	\$ 3,041,126

**Major Governmental Funds**

**General fund (GF)** – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$1,950,522 at June 30, 2012. Such assets consist principally of: (1) municipal license tax, sales and use tax, licenses, permits and other taxes, (\$219,087), (2) intergovernmental grant receivable (\$1,239,843), (3) short-term and long-term amounts due from other funds (\$491,192), and (4) other receivables (\$400).

The GF's total liabilities amounted to \$3,570,262 at June 30, 2012. Such liabilities are composed mainly of: (1) accounts payable and accrued liabilities (\$332,795), (2) deferred revenues (\$377,199), (3) bank overdraft (\$618,223), (4) due to other agencies (\$1,288,319), (5) short-term and long term amounts due to other funds (\$462,134), and (6) claims and judgment (\$491,592).

At the end of the current fiscal year, unreserved fund deficit of the GF amounted to \$1,742,337, while total fund deficit amounted to \$1,619,740.

**Debt service fund (DSF)**- The DSF's total assets amounted to \$274,873 at June 30, 2012, which consist mainly of restricted cash in fiscal agent (\$259,986), restricted property taxes receivable, net of reserve for doubtful accounts (\$12,685), due from other agencies (\$2,195) and accrued interest on deposits (\$7). The DSF's total liabilities amounted to \$202,363 at June 30, 2012,

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012**

which are mainly composed of: (1) matured bonds and interests due and payable (\$202,356), (2) and due to other funds (\$7).

**Joint resolutions fund (JRF)** - The JRF's total restricted assets amounted to \$431,490 at June 30, 2012, which consist of cash in a commercial bank (\$45,306) and due from other funds (\$431,490). The JRF's total liabilities amounted to \$163 at June 30, 2012, which are mainly composed of accounts payable and accrued liabilities (\$163). At the end of the current fiscal year, JRF's total fund balance is \$476,633.

**Other governmental funds (OGF)** - The OGF's total assets amounted to \$592,272 at June 30, 2012, which consist mainly of restricted cash and cash equivalents (\$218,532), intergovernmental grant receivable (\$343,096), and due from other funds (\$30,644). The OGF's total liabilities amounted to \$551,248 at June 30, 2012, which are mainly composed of accounts payable and accrued liabilities (\$8,344), deferred revenues (\$51,719) and short-term and long-term amounts due to other funds (\$491,185).

***This Space Has Been Intentionally Left Blank***

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

***Analysis of Operating Results of Governmental Funds***

Condensed Statement of Revenues, Expenditures and Changes  
in Fund Balances - Governmental Funds  
Fiscal Years Ended June 30, 2012 and 2011

	2012	2011
<i>Revenues:</i>		
Total revenues - major governmental funds	\$ 7,649,018	\$ 7,911,960
Total revenues - other governmental funds	1,516,500	2,384,203
Combined total revenues	9,165,518	10,296,163
<i>Expenditures:</i>		
Total expenditures - major governmental funds	10,745,557	7,807,132
Total expenditures - other governmental funds	1,706,505	2,532,707
Combined total expenditures	12,452,062	10,339,839
<i>Deficiency of revenues under expenditures</i>	(3,286,544)	(43,676)
<i>Other financing sources, net:</i>		
Proceeds from issuances of note payable	3,075,000	132,000
Other financing sources (uses), net - major governmental funds	(179,356)	6,316
Other financing sources (uses), net - other governmental funds	179,356	(6,316)
Combined other financing sources (uses), net	3,075,000	132,000
<i>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</i>	(211,544)	88,324
<i>Fund balance, at beginning of fiscal year</i>	(818,029)	(906,353)
<i>Fund balance, at end of fiscal year</i>	\$ (1,029,573)	\$ (818,029)

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012**

**Major Governmental Funds**

**General fund** – The total fund balance of the GF increased by \$244,661 during current fiscal year.

Approximately 76% (\$5,584,972) of the GF's total revenues for the current fiscal year came from property taxes, municipal license, sales and use taxes, licenses, permits and other local taxes, and charges for services while 23%(\$1,713,217) resulted from intergovernmental grants and contributions. The remaining 1% of total revenues came from miscellaneous and interest, fines and penalties revenues (\$35,344).

The largest expenses of the GF for the fiscal year ended June 30, 2012 were related to: (1) general administrating and operating costs (\$2,541,570), (2) economic development (\$2,048,363), (3) public safety (\$1,368,399), (4) health and welfare (\$1,295,929), (5) culture, recreation and education (\$1,101,417), and (6) public housing and welfare (\$1,045,487).

**Debt service fund (DSF)** – The total fund balance of the DSF decreased by \$62,006 during current fiscal year. Approximately \$127,672 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 (\$595,797).

**Joint resolutions fund (JRF)** – The total fund balance of the JRF's decreased by \$383,550 during current fiscal year. JRF's total expenditures for the current fiscal year came from capital outlay (\$532,343), economic development (\$16,591) and culture, recreation and education (\$163).

**Other governmental funds (OGF)** – Substantially all of OGF's revenues for the current fiscal year came from intergovernmental grants and contributions of \$1,512,102, charges for service of \$2,905, and miscellaneous revenues and interest of \$1,493. Total expenditures were mainly related to economic development (\$641,044), public housing and welfare (\$361,229), culture, recreation and education (\$338,072), health and welfare (\$36,724), public safety (\$5) and capital outlays (\$329,431).

**FINANCIAL ANALYSIS OF BUSINESS-TYPE ACTIVITIES**

*Analysis of Financial Position of Proprietary Fund*

At June 30, 2012, the total assets of proprietary fund amounted to \$934,306, which consisted principally of: (1) restricted cash in commercial banks (\$9,824), (2) intergovernmental grant receivable (\$7,534), (3) restricted deposit (\$326,828), (4) capital assets net of accumulated depreciation (\$556,470), (5) other assets (\$22,382), and (6) others receivable (11,268).

At June 30, 2012, the total liabilities of the proprietary fund amounted to \$628,970, which consisted principally of: (1) noncurrent liabilities of \$578,428, and (2) accounts payable and accrued liabilities of \$50,542.

**MUNICIPALITY OF FLORIDA  
COMMONWEALTH OF PUERTO RICO  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012**

The total unrestricted net assets of proprietary fund amounted to \$305,336 at June 30, 2012. The following table presents a summary of the financial position of the proprietary fund (PF) at June 30, 2012:

<i><b>Assets:</b></i>	
Total current assets	\$ 377,836
Total non-current assets	556,470
Total assets	934,306
 <i><b>Liabilities:</b></i>	
Total current liabilities	115,784
Total non-current liabilities	513,186
Total liabilities	628,970
 <i><b>Net assets:</b></i>	
Unrestricted net assets	305,336
<i><b>Total liabilities and net assets</b></i>	\$ 934,306

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**a) Capital Assets**

The Municipality has invested \$32,188,220 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$16,708,589 at June 30, 2012. The net capital assets increased during the current fiscal year due to the current fiscal year's capital additions (\$784,166), 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, 2012, the Municipality's total bonded debt amounted to \$3,225,000 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, 2012

**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, 2012**

**ASSETS**

	<b>Governmental Activities</b>	<b>Villas de Florida I</b>
Cash in bank (Notes 2 and 5)	\$ 235,841	\$ 9,824
Cash with fiscal agent (Notes 2 and 5)	287,983	
Accounts receivable:		
Property taxes	184,049	
Municipal licenses	34,757	
Sales and use tax	12,212	
Licenses, permits, and other taxes	754	
Other	400	18,802
Interest	7	
Due from other agencies (Note 9)	1,585,134	
Restricted deposits		312,273
Other assets		36,937
Capital assets, net (Note 11)	14,923,161	556,470
<b>Total assets</b>	<b>\$ 17,264,298</b>	<b>\$ 934,306</b>

**LIABILITIES AND NET ASSETS**

<b>Liabilities</b>		
Bank overdraft	\$ 618,223	\$ -
Accounts payable and accrued liabilities	341,302	46,285
Due to other agencies (Note 12)	1,288,319	
Interest payable	52,356	4,257
Deferred revenues (Note 13):		
Municipal license tax	357,894	
Claims and judgments	491,592	
Noncurrent liabilities (Note 15):		
Due within one year	418,738	65,242
Due in more than one year	7,414,478	513,186
Total liabilities	10,982,902	628,970
<b>Net Assets</b>		
Investment in capital assets, net of related debt	14,459,757	
Restricted for:		
Debt service	72,510	
Capital project	509,467	
Unrestricted	(8,760,338)	305,336
Total net assets	6,281,396	305,336
<b>Total liabilities and net assets</b>	<b>\$ 17,264,298</b>	<b>\$ 934,306</b>

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, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Villas de Florida I Project
<b>Primary Government:</b>						
General government	\$ 2,771,609	\$ 264,614	\$ -	\$ -	\$ (2,506,995)	\$ -
Public safety	1,598,443				(1,598,443)	
Public housing and welfare	1,636,755				(1,636,755)	
Recreation	1,669,691				(1,669,691)	
Health and welfare	1,770,677		1,369,804	1,201,746	(1,770,677)	
Economic development	2,936,037				(364,487)	
Interest on long-term debt	236,484				(236,484)	
Total primary government	\$ 12,619,696	\$ 264,614	\$ 1,369,804	\$ 1,201,746	\$ (9,783,532)	\$ -
<b>Component Unit:</b>						
Villas de Florida I Project	\$ 458,673	\$ 30,457	\$ -	\$ -		(428,216)
General revenues:						
Property taxes (Note 6)					5,218,981	
Municipal license tax (Note 7)					63,144	
Sales and use taxes (Note 8)					135,606	
Grants and contributions not restricted to specific programs					776,840	373,665
Interest, fines, and penalties					4,290	
Miscellaneous					32,731	
Total general revenues					6,231,592	373,665
Change in net assets					(3,551,940)	(54,551)
Net assets at beginning of year					9,833,336	359,887
Net assets at end of year					\$ 6,281,396	\$ 305,336

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, 2012

Assets	General	Joint Resolution	Debt Service	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (Notes 2 and 5)	\$ -	\$ 45,306	\$ -	\$ 190,535	\$ 235,841
Cash with fiscal agent (Notes 2 and 5)			259,986	27,997	287,983
Accounts receivable:					
Municipal licenses	34,757				34,757
Sales taxes	12,212				12,212
Licenses, permits, and other taxes	754				754
Other	400				400
Property taxes	171,364		12,685		184,049
Accrued interest			7		7
Due from other agencies (Note 9)	1,239,843		2,195	343,096	1,585,134
Due from other funds (Note 10)	491,192	431,490		30,644	953,326
Total assets	<u>\$ 1,950,522</u>	<u>\$ 476,796</u>	<u>\$ 274,873</u>	<u>\$ 592,272</u>	<u>\$ 3,294,463</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2012

<u>Liabilities and Fund Balances (Deficit)</u>	<u>General</u>	<u>Joint Resolution</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>					
Bank overdraft	\$ 618,223	\$ -	\$ -	-	\$ 618,223
Accounts payable and accrued liabilities	332,795	163		8,344	341,302
Due to other funds (Note 10)	462,134		7	491,185	953,326
Due to other agencies (Note 12)	1,288,319				1,288,319
General obligations:					
Bonds			150,000		150,000
Interest			52,356		52,356
Deferred revenues: (Note 13)					
Municipal license tax	377,199				377,199
Federal programs				51,719	51,719
Claims and judgments	491,592				491,592
Total liabilities	<u>3,570,262</u>	<u>163</u>	<u>202,363</u>	<u>551,248</u>	<u>4,324,036</u>
<b>Fund Balances (Deficit)</b>					
Restricted	7,350	476,633	72,510	28,291	584,784
Committed				12,733	12,733
Assigned	115,247				115,247
Unassigned	(1,742,337)				(1,742,337)
Total fund balances (deficit)	<u>(1,619,740)</u>	<u>476,633</u>	<u>72,510</u>	<u>41,024</u>	<u>(1,029,573)</u>
Total liabilities and fund balances (deficit)	<u>\$ 1,950,522</u>	<u>\$ 476,796</u>	<u>\$ 274,873</u>	<u>\$ 592,272</u>	<u>\$ 3,294,463</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, 2012**

Total fund balances - governmental funds \$ (1,029,573)

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. 14,923,161
  
- Net change in deferred revenues of earned but unavailable revenues at June 30, 2012. 221,024
  
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (7,833,216)

Net assets of governmental activities \$ 6,281,396

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Joint Resolution	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes (Note 6)	\$ 5,091,309	-	\$ 127,672	-	\$ 5,218,981
Municipal license taxes (Note 7)	63,144				63,144
Sales and use taxes (Note 8)	135,606		22,082		157,688
Licenses, permits, and other local taxes	33,204				33,204
Charges for services	261,709			2,905	264,614
<b>Intergovernmental revenues (Note 14):</b>					
Federal grants and contributions	1,713,217	165,547		1,369,804	1,369,804
State contributions	3,543			142,298	2,021,062
Interest, fines, and penalties	31,801		184	563	4,290
Other revenues	7,333,533	165,547	149,938	930	32,731
Total revenues	<u>9,600,663</u>	<u>549,097</u>	<u>595,797</u>	<u>1,706,505</u>	<u>12,452,062</u>
<b>EXPENDITURES</b>					
Current:					
General government	2,541,570				2,541,570
Public safety	1,368,399				1,368,404
Public housing and welfare	1,045,487			5	1,406,716
Economic development	2,048,363	16,591		361,229	2,705,998
Culture and education	1,101,417	163		641,044	2,705,998
Health and sanitation	1,295,929			338,072	1,439,652
Capital outlays	199,498	532,343		36,724	1,332,653
Debt service:				329,431	1,061,272
Principal			359,313		359,313
Interest and other			236,484		236,484
Total expenditures	<u>9,600,663</u>	<u>549,097</u>	<u>595,797</u>	<u>1,706,505</u>	<u>12,452,062</u>
Deficiency of revenues under expenditures	(2,267,130)	(383,550)	(445,859)	(190,005)	(3,286,544)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond issuance	3,075,000				3,075,000
Transfers in	4,911			184,150	573,031
Transfers out	(568,120)		(117)	(4,794)	(573,031)
Total other financing sources	<u>2,511,791</u>	<u>-</u>	<u>383,853</u>	<u>179,356</u>	<u>3,075,000</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	244,661	(383,550)	(62,006)	(10,649)	(211,544)
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	(1,864,401)	860,183	134,516	51,673	(818,029)
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<u>\$ (1,619,740)</u>	<u>\$ 476,633</u>	<u>\$ 72,510</u>	<u>\$ 41,024</u>	<u>\$ (1,029,573)</u>

*Handwritten notes:*  
 244,661  
 0 1/2  
 1/2  
 1/2

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, 2012**

Net change in fund balances - total governmental funds \$ (211,544)

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. 1,061,272
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (877,516)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (3,075,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 359,313
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (808,465)

Changes in net assets of governmental activities \$ (3,551,940)

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
<b>REVENUES</b>								
Property taxes	\$ 4,919,442	\$ 4,919,442	\$ 4,919,945	\$ 503	\$ 99,920	\$ 99,920	\$ 127,856	\$ 27,936
Municipal license taxes	163,979	163,979	101,751	(62,228)				
Sales and use taxes	776,000	776,000	945,786	169,786			22,082	22,082
Licenses and permits	150,000	150,000	48,403	(101,597)				
Charges for services	274,796	274,796	211,877	(62,919)				
Intergovernmental revenues:								
State contributions	696,627	696,627	776,904	80,277				
Interest, fines, and penalties	17,000	17,000	552	(16,448)				
Other revenues	6,000	6,000	35,209	29,209				
Total revenues	7,003,844	7,003,844	7,040,427	36,583	99,920	99,920	149,938	50,018
<b>EXPENDITURES</b>								
Current:								
General government	625,250	629,344	531,449	97,895				
Public safety	1,291,331	1,294,824	1,368,399	(73,575)				
Public housing and welfare	686,564	690,656	1,045,487	(354,831)				
Economic development	2,550,636	2,535,514	2,048,363	487,151				
Recreation	689,097	693,191	1,101,417	(408,226)				
Health and welfare	1,160,966	1,160,315	1,295,929	(135,614)				
Debt service:								
Principal and interest					99,920	99,920	220,752	(120,832)
Total expenditures	7,003,844	7,003,844	7,391,044	(387,200)	99,920	99,920	220,752	(120,832)
Excess of expenditures over revenues	\$ -	\$ -	\$ (350,617)	\$ (350,617)	\$ -	\$ -	\$ (70,814)	\$ (70,814)

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, 2012**

**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)
- 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- 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**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

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 Municipality's management has concluded that, based on the aforementioned criteria, the Villas de Florida I Project is a legally separate entity that should be reported as component unit of the Municipality for the fiscal year ended June 30, 2012.

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.

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

The Municipality implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*". GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

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

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

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

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, then 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  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

**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, 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

**g. Fund Balances**

During fiscal year ended June 30, 2011, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2012.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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, 2012 amounted to \$36,322. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$132,460 for workers' compensation insurance covering all municipal employees.

**i. Compensated Absences**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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>
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34	2012-13
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and AICPA Pronouncements	2012-13
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2012-13
65	Items Previously Reported as Assets and Liabilities	2013-14
66	Technical Corrections - 2012- an amendment of GASB Statements No. 10 and 62	2013-14
67	Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25	2013-14
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012 representing the original budget.

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing use for the year ended June 30, 2012 is presented below for the general and debt service funds:

	<u><b>Debt Service</b></u>
Excess of expenditures over revenues - budgetary basis	\$ (70,814)
Entity differences:	
Non-budgeted transfers	383,853
Non-budgeted expenditures	<u>(251,033)</u>
Excess of expenditures over revenues - GAAP basis	<u>\$ 62,006</u>
	<u><b>General Fund</b></u>
<b>Sources/inflows of resources</b>	
Actual amounts (budgetary basis) available appropriation from the budgetary comparison schedule	\$ 7,040,427
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	257,897
Net change in receivable	<u>35,209</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 7,333,533</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Uses/outflows of resources**

Actual amounts (budgetary basis) -Total charges to appropriation from the budgetary comparison schedule	\$ 7,391,044
Differences-budget to GAAP:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(524,016)
Current year encumbrances recorded as expenditures for budgetary purposes	115,247
Transfers to other funds are outflow of budgetary uses but are not expenditures for financial reporting purpose	<u>2,618,388</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>\$ 9,600,663</u></u>

**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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

period and therefore are not reported in the funds. The details of the approximately \$7.8 million differences are as follows:

Bonds payable	\$3,225,000
Compensated absences	1,252,621
Notes payable	477,000
Other long-term liabilities	<u>2,878,595</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$7,833,216</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 \$76,949 that is restricted principally for capital projects and the \$253,610 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its investments in 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.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 2011-12, 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 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.

**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, 2012. 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:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 \$111,249, 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 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power Authority (General Fund)	\$ 743,636
Puerto Rico Treasury Department (General Fund)	93,752
Government Development Bank for Puerto Rico (General Fund)	84,888
Puerto Rico Department of Health	160,735
State Insurance Fund (General Fund)	72,629
Municipality of Manatí (General Fund)	84,203
Municipal Revenues Collection Center (CRIM) (Debt Services Fund)	2,195
OCAM - SBGP Program (Other Governmental Funds)	254,304
Family Department - Food Program (Other Governmental Funds)	18,916
Family Department - Child Care Program (Other Governmental Funds)	6,163
Labor Department - (Other Governmental Funds)	52,572
Family Department - (Other Governmental Funds)	<u>11,141</u>
 Total	 <u><u>\$ 1,585,134</u></u>

**10. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2012, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Joint Resolution Fund	General Fund	\$ 431,490
General Fund	Other Governmental Funds	491,185
Other Governmental Funds	General Fund	30,644
General Fund	Debt Service Fund	<u>7</u>
		<u><u>\$ 953,326</u></u>

The balance of \$431,490 due from the general fund to the joint resolution fund represents an amount due from prior years related to the state contributions grant.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$ 383,970
General Fund	Debt Service	4,794
General Fund	Other Governmental Funds	117
Other Governmental Funds	General	<u>184,150</u>
		<u>\$ 573,031</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**11. CAPITAL ASSETS**

Capital asset activity for the Municipality for the year ended June 30, 2012 was as follows:

Description	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
<b>CAPITAL ASSETS, NOT BEING DEPRECIATED</b>				
Land	\$ 1,366,699	\$ -	\$ -	\$ 1,366,699
Construction in progress	968,382	50,804	719,864	299,322
Total capital assets, not being depreciated	<u>2,335,081</u>	<u>50,804</u>	<u>719,864</u>	<u>1,666,021</u>
<b>CAPITAL ASSETS, BEING DEPRECIATED</b>				
Buildings, structures, and improvements	17,191,739	363,729		17,555,468
Infrastructure	3,278,519	1,306,847		4,585,366
Furniture and fixtures	1,710,538			1,710,538
Vehicles, machinery and equipment	3,022,715	59,756		3,082,471
Total capital assets, being depreciated	<u>25,203,511</u>	<u>1,730,332</u>	<u>-</u>	<u>26,933,843</u>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Buildings, structures, and improvements	8,161,735	469,060		8,630,795
Infrastructure	500,573	218,786		719,359
Furniture and fixtures	1,653,339	29,620		1,682,959
Vehicles, machinery and equipment	2,483,540	160,050		2,643,590
Total accumulated depreciation	<u>12,799,187</u>	<u>877,516</u>	<u>-</u>	<u>13,676,703</u>
Total capital assets, being depreciated, net	<u>12,404,324</u>	<u>852,816</u>	<u>-</u>	<u>13,257,140</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</b>	<u>\$ 14,739,405</u>	<u>\$ 903,620</u>	<u>\$ 719,864</u>	<u>\$ 14,923,161</u>

Depreciation expense was charged to functions/programs as follows:

General government	\$175,504
Public safety	175,503
Public housing and welfare	175,503
Culture and education	175,503
Public works	175,503
Total depreciation expense - governmental activities	<u>\$877,516</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Capital asset activity for Villas de Florida I Project, a discretely presented component unit, for the year ended June 30, 2012 was as follows:

<u>Component Unit - Villas de Florida I Project</u>	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</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	3,268,161	17,593		3,285,754
Total capital assets, being depreciated	<u>3,240,630</u>	<u>17,593</u>	<u>-</u>	<u>3,285,754</u>
Less accumulated depreciation for:				
Buildings, equipment, and furniture	2,894,839	137,047		3,031,886
Total accumulated depreciation	<u>2,757,792</u>	<u>137,047</u>	<u>-</u>	<u>3,031,886</u>
Total capital assets, being depreciated, net	<u>482,838</u>	<u>(119,454)</u>	<u>-</u>	<u>253,868</u>
Villas de Florida I Project capital assets, net	<u>\$ 785,440</u>	<u>\$ (119,454)</u>	<u>\$ -</u>	<u>\$ 556,470</u>

**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2012 are as follows:

Puerto Rico Electric Power Authority	\$ 743,636
Puerto Rico Water and Sewer Authority	15,441
Puerto Rico General Services Administration	43,214
Puerto Rico Retirement System Administration	169,561
Puerto Rico Treasury Department	237,793
U.S. Internal Revenue Service	44,530
Commonwealth Employment Association	32,243
Municipal Revenues Collection Center	1,901
Total	<u>\$ 1,288,319</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**13. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of approximately \$111,249 in the general fund related to municipal license tax collected in fiscal year 2011-12 that will be earned in fiscal year 2012-13.

**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, 2012 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%.	\$ 150,000
\$3,075,000 series of 2011, payable in annual installments of \$55,000 to \$245,000 until July 1, 2036, interests from 6.00% to 7.00%.	<u>3,075,000</u>
	<u><u>\$3,225,000</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Notes Payable**

\$65,000 series of 2006, payable in annual installments of \$5,000 to \$10,000 until July 1, 2012, interest from 1.53% to 7.00%.	\$ 10,000
\$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%.	100,000
\$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%.	95,000
\$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%.	150,000
\$132,000 series of 2011, payable in annual installments of \$5,000 to \$11,000 until July 1, 2035, interest from 6.00% to 7.50%.	<u>122,000</u>
	<u>\$ 477,000</u>

**Other Long-Term Liabilities**

Due to Puerto Rico Health Insurance Administration	<u>\$ 207,986</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:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Interest at 8.0%, payable in monthly installments of \$8,401, including interest, through the due date, June 2019.	\$ 578,428
Less current maturities	<u>65,242</u>
	<u>\$ 513,186</u>

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, 2012 and thereafter, are as follows:

Year ended June 30,	Amount
2013	\$ 65,242
2014	70,657
2015	76,521
2016	82,873
2017	89,751
Thereafter	<u>193,384</u>
	<u>\$ 578,428</u>

The annual debt service requirements for the bonds payable and notes payable at June 30, 2012, are as follows:

	<i>Bonds</i>		<i>Notes Payable</i>	
	Principal	Interest	Principal	Interest
2013	\$ 80,000	\$ 193,762	\$ 125,000	25,905.00
2014	85,000	188,675	115,000	21,990.00
2015	95,000	197,925	75,000	15,627.50
2016	95,000	191,750	45,000	11,690.00
2017	110,000	185,250	20,000	8,715.00
2018-2022	430,000	857,150	25,000	31,927.50
2023-2027	600,000	737,450	25,000	24,187.50
2028-2032	840,000	495,250	25,000	14,812.50
2033-2037	890,000	161,000	22,000	4,837.50
	<u>\$3,225,000</u>	<u>\$3,208,212</u>	<u>\$ 477,000</u>	<u>\$159,692.50</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Long-term liability activity for the year ended June 30, 2012 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable	\$ 175,000	\$ 3,075,000	\$ 25,000	\$ 3,225,000	\$ 25,000
Notes payable	587,000		110,000	477,000	120,000
Total long-term debt	<u>762,000</u>	<u>3,075,000</u>	<u>135,000</u>	<u>3,702,000</u>	<u>145,000</u>
<b>Other long-term liabilities:</b>					
CRIM Law 42	2,736,361		65,752	2,670,609	65,752
ASES	148,561	59,425		207,986	207,986
Compensated absences	749,903	502,718		1,252,621	
Total other long-term liabilities	<u>3,634,825</u>	<u>562,143</u>	<u>65,752</u>	<u>4,131,216</u>	<u>273,738</u>
Total noncurrent liabilities, governmental activities	<u>\$ 4,396,825</u>	<u>\$ 3,637,143</u>	<u>\$ 200,752</u>	<u>\$ 7,833,216</u>	<u>\$ 418,738</u>
<b>Component Unit:</b>					
Villas de Florida I Project mortgage payable	<u>\$ 638,670</u>	<u>\$ -</u>	<u>\$ 60,242</u>	<u>\$ 578,428</u>	<u>\$ 65,242</u>

**16. FUND BALANCES**

Fund balances classifications for the year ended June 30, 2012 was as follows:

	<u>General</u>	<u>Joint Resolution</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Restricted:</b>					
General government	\$ 7,350	\$ -	\$ -	\$ -	\$ 7,350
Health and welfare				28,291	28,291
Capital outlays		476,633			476,633
Debt service			72,510		72,510
<b>Committed:</b>					
Public works				12,733	12,733
<b>Assigned:</b>					
General government	115,247				115,247
Unassigned	<u>(1,742,337)</u>				<u>(1,742,337)</u>
	<u>\$ (1,619,740)</u>	<u>\$ 476,633</u>	<u>\$ 72,510</u>	<u>\$ 41,024</u>	<u>\$ (1,029,573)</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**17. FUND BALANCE DEFICIT**

The following fund had a deficit in fund balance at June 30, 2012:

<u>Fund</u>	<u>Deficit</u>
General	\$ <u>1,619,740</u>

The deficit of the General Fund will be covered by future budgetary appropriations.

**18. NET ASSETS**

Net assets invested in capital assets, net of related debt is comprised of the following:

Capital assets, net of accumulated depreciation.	\$ 14,923,161
Outstanding balance on capital related debt	(512,000)
Unspent capital debt proceeds	<u>48,596</u>
Total invested in capital assets, net of related debt	\$ <u>14,459,757</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 (10.275% 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 10.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2012 was approximately \$291,068. The Municipality's payroll for employees covered by ERS was approximately \$2.8 million. The Municipality total payroll for all employees was approximately \$6.6 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2012, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**20. RISK MANAGEMENT**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**21. 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, 2012 was \$145,050.
- 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.

**22. 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.

**23. COMMITMENTS**

The Municipality of Florida had several outstanding or planned construction projects as of June 30, 2012. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Project Fund that amounted to \$12,733.

**24. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012, 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 Unites States of America and state and federal regulations.

**25. SUBSEQUENT EVENTS**

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through December 26, 2012, the date the financial statements were available to be issued.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Disbursements/ Expenditures</b>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Section 8 Housing Choice Vouchers	14.871	\$ 327,628
Pass-through Commissioner Office of Municipal Affairs		
State Block Grant Program - SBGP	14.228	621,631
Pass-through the Office of Administration for Children and Families		
Homelessness Prevention and Rapid Rehousing (HPRP)	14.257	37,930
Subtotal U.S. Department of HUD		<u>987,189</u>
<b>U.S. Department of Agriculture</b>		
Pass-through Governor's Office of Child Services and Community		
Development - Child and Adult Care Food Program	10.558	36,719
Subtotal U.S. Department of Agriculture		<u>36,719</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass-through the Office of Administration for Children and Families		
Child Care and Development Block Grant	93.575	279,209
ARRA - Child Care and Development Block Grant	93.715	164
Subtotal U.S. Department of HHS		<u>279,373</u>
<b>U.S. Department of Labor</b>		
Pass-through Commonwealth of Puerto Rico - Human Resources		
and Occupational Development Council		
Workforce Investment Act (WIA) - Youth Activities	17.259	59,294
Subtotal U.S. Department of Labor		<u>59,294</u>
<b>TOTAL</b>		<u>\$ 1,362,575</u>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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:

	<b><u>Expenditures</u></b>
Expenditures as per basic financial statements:	
Federal expenditures included within other governmental funds	<u>\$1,362,575</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$1,362,575</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, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 26, 2012. The report on the governmental activities was qualified because management has not recorded a liability for estimated landfill post-closing costs and, accordingly, has not recorded an expense for the current period. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Municipality is responsible for establishing and maintaining effective 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's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 that are required to be reported under *Government Auditing Standards*.

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  
December 26, 2012

*Ortiz, Rivera, Rivera & Co.*

The stamp E41553 was affixed to the original of this report.



**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 the compliance of Municipality of Florida with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Florida's major federal programs for the year ended June 30, 2012. Municipality of Florida's 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's management. Our responsibility is to express an opinion on Municipality of Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Florida's compliance with those requirements.

As described in items 12-2 and 12-4 in the accompanying schedule of findings and questioned cost, Municipality of Florida did not comply with requirements regarding reporting that are applicable to its SBGP and Child Care programs. Compliance with such requirements is necessary, in our opinion, for Municipality of Florida to comply with the requirements applicable to these programs.

In our opinion, 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-3.

#### Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weakness have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 12-2 to be material weaknesses.

*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 charges with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-4 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  
December 26, 2012

*Ortiz, Rivera, Rivera & Co.*

The stamp E41554 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**1. SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditor's report issued: Qualified opinion

Internal control over financial reporting:

Material weakness (es) identified?      Yes   X   No

Significant deficiency (ies) identified?      Yes   X   No

Noncompliance material to financial statements noted?      Yes   X   No

Federal Awards

Internal control over major programs:

Material weakness (es) identified?      Yes   X   No

Significant deficiency (ies) identified?   X   Yes      No

Type of auditor's report issued on compliance for major programs: Qualified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133?   X   Yes      No

Identification of major programs:

14.228	State Block Gran Program - SBGP
93.575	Child Care and Development Block Grant



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Recommendation

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

Questioned Cost

None

• **Condition 12-2 - SBGP- CFDA No. 14.228**

The financial reports required by the Agency quarterly were not prepared for the period of January 2012 to June 2012. The financial information corresponding to the period mentioned cannot be observed the accounting books.

Cause

The financial reports were not prepared and the accounting books were not updated.

Effect

The Municipality did not comply with reporting requirement and does not have the financial information recorded on the accounting books.

Criteria

The OCAM Circular 2002-15 establishes that 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 Municipality should update the accounting books as soon as possible. The financial reports should be prepared and submitted to the Agency.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Questioned Cost

None

• **Condition 12-3 - SBGP- CFDA No. 14.228**

The Program Income Report for 2011-2012 was prepared and submitted to the Agency after the time required.

Cause

The report was not prepared on time as required.

Effect

The Agency cannot obtain the information on time of whether the program do or do not generate income, and if it do generate income, how much income it generates during the year.

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 12-4 - Child Care and Development Block Grant - CFDA No. 93.575**

The Municipality cannot have evidence of the financial reports submitted, on following:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Report</u>	<u>Period</u>	<u>Date to be submitted</u>
Funds Request	October to December 2011	10/10/2011
Disbursement Report	April to June 2011	7/15/2011

Cause

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

Effect

The Municipality cannot evidence the submission reports.

Criteria

The Contract into the Municipality and ACUDEN (the Agency) establish on clause number seven, a funds request report for the quarter ended March 31, 2011 should be submitted during the first ten calendar days of the following first month of the same period. In addition, a balance sheet or final report should be submitted for the quarter ended September 30, 2011 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, 2012**

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 (CONTINUED)  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>SBGP - CFDA No. 14.228</b>	<b>Condition 11-1</b>  The Municipality maintains balance in excess of \$5,000 in the SBGP program bank account.	Condition still prevails.
<b>SBGP - CFDA No. 14.228</b>	<b>Condition 11-2</b>  The financial information included in the financial report corresponding to the quarter period ended on June 30, 2011 cannot be traced to the accounting books.	Condition still prevails.
<b>SBGP - CFDA No. 14.228</b>	<b>Condition 11-3</b>  The Municipality did not prepare and submitted the Program Income Report.	Condition was corrected.
<b>Child Care CFDA No. 93.575</b>	<b>Condition 11-4</b>  The Municipality cannot have evidence of the financial reports submitted.	Condition still prevails.
<b>ARRA – Child Care and Development Block Grant - CFDA No. 93.715</b>	<b>Condition 11-5</b>  The Municipality cannot have submission evidence of the Final Report for the period ended September 30, 2010 of the ARRA funds proposal.	Condition was corrected.
<b>ARRA – Child Care and Development Block Grant - CFDA No. 93.715</b>	<b>Condition 11-6</b>  A Contract for construction purpose, does not include the Davis Bacon Act Clause.	Condition was corrected.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF FLORIDA**  
**SCHEDULE OF STATUS OF PRIOR YEAR (CONTINUED)**  
**AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>SBGP - CFDA No. 14.228</b>	<b>Condition 10-1</b>  The Municipality maintains balance in excess of \$5,000 in the SBGP program bank account.	Condition still prevails.
<b>SBGP - CFDA No. 14.228</b>	<b>Condition 10-4</b>  The Municipality did not prepare and submitted the Program Income Report.	Condition was corrected.
<b>Child Care CFDA No. 93.575</b>	<b>Condition 10-8</b>  The Municipality did not submit some reports or did not have evidence of submission.	Condition still prevails.

**CORRECTIVE ACTION PLAN**



Estado Libre Asociado de Puerto Rico  
PO Box 1168  
Florida, Puerto Rico 00650  
Oficina de Finanzas

## **CORRECTIVE ACTION PLAN**

December 26, 2012

Cognizant or Oversight Agency for Audit:

Municipality of Florida respectfully submits the following corrective action plan for the year ended June 30, 2012.

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, 2012.

The findings from the June 30, 2012 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 12-1: SBGP - CFDA 14.228**

Reportable Condition: See Condition 12-1

#### Recommendation

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

#### Action Taken

The Federal Program Office will establish control procedures in conjunction with the Finance Department in order to maintain the minimal balance on bank account.

**Finding 12-2: SBGP - CFDA 14.228**

Reportable Condition: See Condition 12-2

Recommendation

The Municipality should update the accounting books as soon as possible. The financial reports should be prepared and submitted to the Agency.

Action Taken

The Municipality is in process to update the financial information in the accounting books. New personnel were assigned in order to prepare and submit the reports on time.

**Finding 12-3: SBGP - CFDA 14.228**

Reportable Condition: See Condition 12-3

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

The Federal Program Office establish internal control in order to make and submit the required program income report on time.

**FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**Finding 12-4: Child Care and Development Block Grant - CFDA 93.575**

Reportable Condition: See Condition 12-4

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 sent.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Glenda Serrano, at (787) 822-2228, for SBGP Program, or Liz Cancel, at (787) 822-1358, for Child Care and Development Block Grant Program.

Cordially,

  
Glenda Serrano  
Federal Programs Director

  
Liz Cancel  
Child Care Director