

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE DORADO
AUDITORIA 2001-02
30 DE JUNIO DE 2002

OFIC. DEL COMISIONADO
LA SORTE DE LOS BIENES

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RECIBIDO
UNIDAD DE CORREO

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2002

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

YEAR ENDED JUNE 30, 2002

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

YEAR ENDED JUNE 30, 2002

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

INDEPENDENT AUDITORS' REPORT

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Dorado**, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 the provisions of the Office of Management and Budget 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 the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in **Note 8**, the Municipality has not maintained complete and adequate records of its general fixed assets and, accordingly, we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group at June 30, 2002.

In our opinion, except for the effect of the third paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Dorado** as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type for the 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 5, 2002 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 and grants.

INDEPENDENT AUDITORS' REPORT (Continued)

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of Dorado**, taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 5, 2002

Stamp No 1854016 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise Fund	General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS								
Cash and cash equivalents	\$3,255,996	\$1,091,446		\$1,202,198	\$547,810			\$6,097,450
Cash with fiscal agent			\$4,152,803	6,227,500	455,079			10,835,382
Intergovernmental receivables	526,203	126,638						652,841
Municipal license taxes receivable	6,985							6,985
Federal grants receivable		126,797						126,797
Due from other funds	283,602	41,793		454,321	15,413			795,129
Other receivables	323,579				4,890			328,469
Land					388,790	\$8,939,225		9,328,015
Building, net of depreciation of \$523,927					3,013,531			3,013,531
Property and equipment						7,915,094		7,915,094
Amount available in Debt Service Fund							\$4,152,803	4,152,803
Amount to be provided for retirement of general long-term debt							17,109,772	17,109,772
Total assets and other debits	\$4,396,365	\$1,386,674	\$4,152,803	\$7,884,019	\$4,425,513	\$16,854,319	\$21,262,575	\$60,362,268
LIABILITIES, FUND EQUITY, AND OTHER CREDITS								
Liabilities:								
Accounts payable and accrued liabilities	\$330,296	\$231,162		\$669,097				\$1,230,555
Due to other funds	511,527	283,602						795,129
Due to other governmental entities	513,817						\$472,392	986,209
Deferred municipal license tax revenues	2,608,325							2,608,325
Deferred federal grant revenues		705,733						705,733
General obligation bonds					\$1,716,257		14,860,000	16,576,257
Notes payable							2,551,500	2,551,500
Interest payable					62,081			62,081
Lease obligation payable							93,191	93,191
Accrued landfill obligations							1,847,841	1,847,841
Accrued compensated absences							1,437,651	1,437,651
Total liabilities	3,963,965	1,220,497		669,097	1,778,338		21,262,575	28,894,472
Fund equity and other credits:								
Investment in general fixed assets						16,854,319		16,854,319
Fund balances:								
Reserved for encumbrances	664,483							664,483
Reserved for debt service			4,152,803					4,152,803
Unreserved:								
Designated for specific fund purposes		166,177		7,214,922				7,381,099
Undesignated	(232,083)							(232,083)
Retained earnings					2,647,175			2,647,175
Total fund equity and other credits	432,400	166,177	4,152,803	7,214,922	2,647,175	16,854,319		31,467,796
Total liabilities, fund equity and other credits	\$4,396,365	\$1,386,674	\$4,152,803	\$7,884,019	\$4,425,513	\$16,854,319	\$21,262,575	\$60,362,268

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
COMBINED STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND BALANCES/RETAINED EARNINGS
ALL GOVERNMENTAL AND PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES			PROPRIETARY	TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Fund Type Enterprise Fund	
REVENUES					
Property taxes	\$5,622,610		\$2,258,641		\$7,881,251
Municipal license taxes	3,115,355				3,115,355
Licenses and permits	1,724,304				1,724,304
Intergovernmental	2,456,624	\$426,840		\$814,868	3,698,332
Rent of property	208,255			\$242,048	450,303
Fines and penalties	5,766				5,766
Interest	329,538			7,451	336,989
Federal grants		5,095,485			5,095,485
Miscellaneous	30,858	144,235			175,093
Total revenues	13,493,310	5,666,560	2,258,641	249,499	22,482,878
EXPENDITURES/EXPENSES					
Current:					
Mayor and Municipal Assembly	1,875,199				1,875,199
General government	5,847,870	305,554		81,336	6,234,760
Public safety	977,888	209,811			1,187,699
Public works	6,125,920			16,786	6,142,706
Public health and sanitation	704,471				704,471
Welfare		4,427,045			4,427,045
Recreation	459,177				459,177
Depreciation				88,437	88,437
Debt service:					
Principal retirement	249,079	595,000	1,085,000	74,447	2,003,526
Interest	120,008	24,455	755,358	134,932	1,034,753
Capital outlays	282,536	45,705		1,927,893	2,256,134
Total expenditures/expenses	16,642,148	5,607,570	1,840,358	379,152	28,413,907
Excess (deficiency) of revenues over (under) expenditures/expenses	(3,148,838)	58,990	418,283	(129,653)	(3,931,029)
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes issuance				3,735,000	3,735,000
Total other financing sources (uses)				3,735,000	3,735,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing sources (uses)	(3,148,838)	58,990	418,283	2,605,189	(196,029)
Fund balances/retained earnings, beginning, as restated	3,581,238	107,187	3,734,520	2,776,828	14,809,506
Fund balances/retained earnings, ending	\$432,400	\$166,177	\$4,152,803	\$2,647,175	\$14,613,477

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2002**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$5,182,890	\$5,182,890	-	\$1,650,111	\$2,258,641	\$608,530
Municipal license taxes	3,005,000	3,115,355	\$110,355			
Licenses and permits	1,105,200	1,724,304	619,104			
Intergovernmental	2,401,891	2,456,624	54,733			
Rent of property	264,089	208,255	(55,834)			
Fines and penalties	3,100	5,766	2,666			
Interest	700,100	329,538	(370,562)			
Miscellaneous	409,500	30,858	(378,642)			
Total revenues before carryover	13,071,770	13,053,590	(18,180)	1,650,111	2,258,641	608,530
Budgeted carryover (1)	3,922,679	3,922,679				
Total revenues and budget carryover	16,994,449	16,976,269	(18,180)	1,650,111	2,258,641	608,530
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	2,087,545	1,911,804	175,741			
General government	6,180,644	6,004,707	175,937			
Public safety	1,060,838	992,120	68,718			
Public works	5,624,951	5,407,203	217,748			
Public health and sanitation	609,310	704,471	(95,161)			
Recreation	530,865	476,695	54,170			
Capital outlays	523,799	282,536	241,263			
Debt service:						
Principal retirement	249,079	249,079	-	887,324	1,085,000	(197,676)
Interest	127,418	120,008	7,410	762,787	755,358	7,429
Total expenditures and encumbrances	16,994,449	16,148,623	845,826	1,650,111	1,840,358	(190,247)
Excess (deficiency) of revenues over (under) expenditures and encumbrances		827,646	827,646		418,283	418,283
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
GAAP adjustments to revenues		439,720				
Current year encumbrances treated as current year expenditures for budgetary basis		511,647				
Prior year encumbrances paid during the current year		(1,005,172)				
Fund balances, beginning, as restated		3,581,238			3,734,520	
Less budgeted carryover (1)		(3,922,679)				
Fund balances, ending		\$432,400			\$4,152,803	

1) Budget include fund balances carried over from prior years. It is not revenue of the current period, but is presented as revenue only for budgetary reporting purposes.

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2002

Cash flows from operating activities:

Cash received from customers	\$ 244,650
Cash paid to suppliers and employees	(189,966)
Interest paid	<u>(137,763)</u>
Net cash provided (used) by operating activities	<u>(83,079)</u>

Cash flows from financing activities:

Repayment of revenue bonds	<u>(74,447)</u>
Net cash (used) by financing activities	<u>(74,447)</u>
Net (decrease) in Cash and Cash with Fiscal Agent, restricted	(157,526)
Cash and Cash with Fiscal Agent at beginning of period, restricted	<u>1,160,415</u>
Cash and Cash with Fiscal Agent at end of period, restricted	<u>\$ 1,002,889</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating Loss	<u>\$ (129,652)</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	88,437
Interest receivables	-
Other receivables	(4,890)
Due from other funds	41
Accrued expenses	(2,832)
Due to other funds	<u>(34,183)</u>
Total adjustments	<u>46,573</u>
Net cash provided (used) by operating activities	<u>\$ (83,079)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Dorado** (the Municipality) was established in 1848. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: public safety, public works, culture and recreation, health, urban development and welfare.

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (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. A summary of the Municipality's significant accounting policies follows:

A. Financial reporting entity:

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria there are no potential component units, which should be included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

B. Basis of presentation:

The Municipality records its transactions in the fund types and account groups described below:

Governmental fund types:

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

General - is the general operating fund of the Municipality. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to be expended for specific purposes.

Debt Service - is used to account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

Capital Projects - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary fund types:

The Enterprise Fund, which was established in June 1996, is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, are financed or recovered primarily through uses, charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The enterprise fund of the Municipality includes land and buildings known as "Commercial Pavilion Rafael Hernández Colón located in 349 Méndez Vigo Street at Dorado, Puerto Rico. The main source of income comes from rent received from spaces rented with formal contracts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

B. Basis of presentation (continued):

Account groups:

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

General Long-term Debt -is used to account for all long-term debt obligations of the Municipality.

C. Basis of accounting:

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

C. Basis of accounting (continued):

The proprietary fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned and their expenses are recognized when they are incurred. Most of the fund transactions are made through the Government Development Bank.

D. Reservations of fund balance:

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

Encumbrances – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

Debt Service – Represents net assets available to finance future debt service payments.

E. Budgetary data:

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law:

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

E. Budgetary data (continued):

- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same as the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

F. Inventories:

The General Fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as expenditure and, consequently, the inventory is not recorded in the general-purpose financial statements.

G. Property and equipment:

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

H. Cash and cash equivalents:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2002 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent:

Debt Service Fund: represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service and unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements.

Enterprise Fund: Additional cash with a fiscal agent is shown in the Enterprise Fund which is held by the Government Development Bank and its use is limited for the expenditures associated with "Commercial Pavilion of Dorado Rafael Hernández Colón."

Capital Projects Fund: Funds restricted and held by Governmental Development Bank for the future disbursements of capital projects. This account includes deposits from loans proceeds for capital projects.

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" by the disbursing fund.

Transfer of Expenditures (Reimbursements) - Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

J. Compensated absences:

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

The Municipality accrues a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2002.

K. Insurance:

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

L. Total columns (memorandum only):

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

M. Use of estimates in the preparation of general purpose financial statements:

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Claims and judgments:

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The General Long-term Debt Account Group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

Retirement System Administration	\$ 32,772
Department of Treasury	251,573
Puerto Rico Aqueduct and Sewer Authority	2,036
General Services Administration	1,634
Department of Labor	52
Internal Revenue Service	225,750
	<hr/>
	\$513,817
	<hr/>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the General Long-term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2002. The following is the balance of these accounts:

Department of Labor	\$ 171,549
Municipal Revenue Collection Center	300,843
	<hr/>
	\$ 472,392
	<hr/>

3. PROPERTY TAXES:

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957.

Tax rates are 8.33% for real property and 6.33% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.50% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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 CRIM 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 retailers with an annual volume of net sales under \$150,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

3. PROPERTY TAXES (CONTINUED):

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. At the date of the release of these financial statements, the CRIM issued the final liquidation noting that the collections were in excess of advances by \$439,720. Such amount was included as intergovernmental receivables in the General Fund at June 30, 2002.

4. MUNICIPAL LICENSE TAXES:

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.50%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

5. INTERGOVERNMENTAL:

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

6. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$1,582,361
Certificates of deposit (90 days or less)	36,066
Money Market Bank Account	<u>4,479,023</u>
 Total cash and cash equivalents,	 <u>\$6,097,450</u>

7. DEBT SERVICE FUND:

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

8. GENERAL FIXED ASSETS:

The Municipality has not maintained complete and adequate records of its general fixed assets. Also, there are no written procedures to ascertain that all capital expenditures are properly recorded in the property ledger. In addition, the Municipality has not taken a physical inventory of its property and equipment.

A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance July 1, 2001	Adjustments to Beginning Balance	Adjusted Beginning Balance	Additions	Retirements	Balance June 30, 2002
Vehicles & Equipment	\$ 6,126,057	\$ 961,590	\$ 7,087,647	\$ 827,637	\$ (190)	\$ 7,915,094
Real Estate Property	9,911,443	(972,218)	8,939,225			<u>8,939,225</u>
 Total	 \$16,037,500	 \$ (10,628)	 \$ 16,026,872	 \$ 827,637	 \$ (190)	 <u>\$ 16,854,319</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

9. GENERAL OBLIGATION BONDS:

The general obligation bonds transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 2001	\$ 12,730,000
Debt issued	2,850,000
Principal retirements	<u>(720,000)</u>
 Balance at June 30, 2002	 <u>\$ 14,860,000</u>

General obligation bonds at June 30, 2002 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2002
1992 Series	7-1-07	\$ 1,860,000	5.00% to 7.50%	\$ 1,050,000
1993 Series	7-1-08	150,000	5.87% to 7.60%	40,000
1995 Series	7-1-07	765,000	5.00% to 7.50%	425,000
1996 Series	7-1-14	2,750,000	6.87% to 8.00%	2,305,000
1997 Series	7-1-09	2,650,000	6.75% to 8.00%	1,920,000
1997 Series	7-1-16	290,000	6.63% to 8.00%	245,000
1997 Series	7-1-16	110,000	6.63% to 8.00%	85,000
1998 Series	7-1-13	3,675,000	6.00% to 7.50%	3,220,000
1998 Series	7-1-21	1,065,000	6.71% to 8.00%	890,000
2000 Series	7-1-13	65,000	5.88% to 8.00%	60,000
2000 Series	7-1-25	310,000	5.88% to 8.00%	305,000
2000 Series	7-1-20	1,500,000	5.88% to 8.00%	1,465,000
2002 Series	7-1-26	2,850,000	5.00% to 8.00%	<u>2,850,000</u>
Total general obligation bonds				<u>\$ 14,860,000</u>

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2002, are as follows:

Year ended June 30	Total
2003	\$ 810,000
2004	880,000
2005	935,000
2006	1,025,000
2007	1,115,000
Thereafter	<u>10,095,000</u>
Total	<u>\$ 14,860,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

9. GENERAL OBLIGATION BONDS (CONTINUED):

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond debt to 10 percent of the assessed valuation of the property located in the Municipality.

10. NOTES AND LEASE OBLIGATIONS PAYABLE:

The notes payable transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 2001	\$ 2,998,688
Debt issued	885,000
Payments during the current year	(1,170,750)
Adjustments	(161,438)
Balance at June 30, 2002	\$ 2,551,500

Notes payable at June 30, 2002 are as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2002
1976 Series	1-1-06	\$ 810,000	9.00%	\$ 290,000
1985 Series	1-1-04	15,000	10.00%	1,500
1987 Series	7-1-06	500,000	8.00%	100,000
1987 Series	7-1-06	1,545,000	9.00%	545,000
1998 Series	7-1-02	460,000	6.69% to 8.00%	105,000
1998 Series	7-1-02	125,000	6.71% to 8.00%	30,000
1998 Series	7-1-03	470,000	6.31% to 7.50%	210,000
2000 Series	7-1-05	230,000	5.88% to 8.00%	190,000
2001 Series	7-1-05	235,000	6.13% to 8.00%	195,000
2002 Series	7-1-06	885,000	5.00% to 8.00%	885,000
Total notes payable				\$ 2,551,500

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. NOTES AND LEASE OBLIGATIONS PAYABLE (CONTINUED):

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2002, are as follows:

<u>Year ended June 30</u>	<u>Total</u>
2003	\$ 680,750
2004	590,750
2005	515,000
2006	560,000
2007	<u>205,000</u>
Total	<u>\$ 2,551,500</u>

During the fiscal year June 30, 1999 the Municipality acquired computer equipment under a capital lease. The capital lease to IBM Credit Corp. is payable in monthly installments of \$4,546 which includes interests at 7.48% through June 30, 2004. Total principal payments during the current year amount to \$38,329. The outstanding debt balance as of June 30, 2002 amounts to \$93,191. The debt service requirements to maturity including \$6,821 of interest are as follows:

<u>Year ended June 30</u>	<u>Total</u>
2003	\$ 63,644
2004	<u>36,368</u>
Total	<u>\$ 100,012</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

11. REVENUE BONDS-ENTERPRISE FUNDS:

In 1994, the Municipality issued \$2,090,000 revenue bonds, in which the Municipality pledges rent income from the enterprise fund (completed construction by July 1996 of the Commercial Pavilion "Rafael Hernández Colón") to pay such debt. On January 18, 2000 the Municipality formalizes a revenue bond payable with Banco Santander Puerto Rico. This loan was used to refinance the outstanding loan with Governmental Development Bank at 9%. The note will be paid by semi-yearly installments of \$103,280, which includes interest at 7.25% for the first ten years. After the first ten years the Municipality can exercise the option to fully repay the outstanding balance of \$943,238 or refinance the debt at an interest rate determined by the lesser of 9.5% or 1% over the London Interbank Offered Rate (L.I.B.O.R. + 1%). Total principal payments during the current year amount to \$74,447. The outstanding debt balance as of June 30, 2002 amounts to \$1,716,257. The debt service requirements to maturity including \$776,181 of interest are as follows:

<u>Year ended June 30</u>	<u>Total</u>
2003	\$ 206,560
2004	206,560
2005	206,560
2006	206,560
2007	206,560
Thereafter	<u>1,459,638</u>
Total	<u>\$ 2,492,438</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. RETIREMENT PLAN:

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

For participants who retire with less than 30 years of service the pension benefits is computed at the rate of 1-1/2% of their average compensation for each year of credited service for the first 20 years and 2% for each of credited service for the remaining years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. RETIREMENT PLAN (CONTINUED)

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

Years of Service	Participant Age	Pension Benefits
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 14, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. RETIREMENT PLAN (CONTINUED):

The Municipality is required by the Act No. 305 to contribute 9.275% of the participant's gross salary. The System will use these contributions to increase its asset level and reduce the unfounded status of the defined benefits pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant spouse in case of the participant death. Participants with balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to his/her beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2002 recorded as pension expenditures were approximately \$ 374,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2002.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employees services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- * The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- * Future pension payments reflect an assumption of 5% salary increase.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. RETIREMENT PLAN (CONTINUED):

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the System.

13. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

14. LANDFILL OBLIGATIONS:

State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site until compliance is achieved. In accordance with statement No. 18 of the Governmental Accounting Standards Board, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, the Municipality has performed a study of the activities that need to be implemented at the landfill to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$ 4,247,145 as the Municipality's estimated total current cost for landfill closure and postclosure care costs. As of June 30, 2002, these estimated closure and postclosure care costs were adjusted to \$1,847,841 as per the Municipality's consultant updated estimate. Such amount represents the total closure and postclosure costs and, is reported in the General Long-term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2002.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

15. AGREEMENT WITH ANDRES REYES BURGOS (“A.R.B. INC”)

The Municipality of Dorado maintained a contract with A.R.B., Inc. for waste disposal. The contract established the terms and conditions, payment method, penalties, among other operating and service commitments. The contract was formalized on November 2, 1998 and effective December of 1998 for \$99,207 monthly. The monthly fee consists of collection and final waste disposition of 13,263 residential, commercial and rural units at \$7.48 per unit for the first two years of the contract and \$8.15 beginning on the third year through the fifth year of the contract. In the year ended June 30, 2002, the waste disposal cost for the Municipality was \$1,481,791 which \$1,428,814 was covered by this contract.

16. OPERATING LEASES:

The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality’s account groups.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2002:

<u>Year ending June 30,</u>	<u>Amounts</u>
2003	\$ 176,308
2004	176,308
2005	64,570
2006	<u>47,199</u>
Total minimum payments required	<u>\$ 464,385</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

17. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2002, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

B. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

18. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balances for General and Debt Service Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental Fund, as follows:

Description	General	Debt Service
Beginning Fund Balances at July 1, 2001	\$4,429,684	\$3,132,932
To correct Intergovernmental Receivables from CRIM as per Final Liquidation 2000-2001	(848,446)	
To recognize a due from CRIM related to Final Liquidation 1999-2000		836,169
To recognize a Due to CRIM related to Final Liquidation 2000-2001		(234,581)
Beginning Fund Balances at July 1, 2001, as restated	<u>\$3,581,238</u>	<u>\$3,734,520</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

19. SUBSEQUENT EVENTS

On August, 2002 the Municipal Legislature approved changes in Tax rates as follows: 8.83% for real property and 6.83% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 2.00% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2002

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico Department of Education: Child and Adult Care Food Program	10.558	Not Available	\$ 244,634
Pass through the Commonwealth of Puerto Rico Governor's Office for Elderly Food Distribution (OGAVE): Nutrition Program for the Elderly	10.570	Not Available	<u>29,473</u>
Total U.S. Department of Agriculture			<u>274,107</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Section 8 Housing Choice Voucher Program	14.871		1,380,311
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs: Community Development Block Grant - State Program	14.228	Not Available	791,367
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan: Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>28,828</u>
Total U.S. Department of Housing and Urban Development			<u>2,200,506</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety Partnerships and Community Policing Grants (COPS).	16.710	98-UM-WX-1569	209,811
Total U.S. Department of Justice			209,811
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Governor's Office (OGAVE) (Cluster of Programs)			
Special Programs for Aging - Title III, Part B - Grant for Supportive Services and Senior Centers	93.044	Not Available	89,188
Special Programs for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	32,189
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ADFAN):			
Child Care and Development Block Grant	93.575	Not Available	41,575
Head Start Program	93.600	02-CH-0483-35 02-CH-0483-36	2,248,109
Total U.S. Department of Health and Human Services			2,411,061
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,095,485

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2002

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Dorado** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the general-purpose financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund in the Municipality's general-purpose financial statements. The reconciliation between the expenditures in the general-purpose financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 5,095,485
Non federal programs Expenditures	<u>512,085</u>
Total expenditures in the general purpose financial statements	<u>\$ 5,607,570</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

We have audited the general purpose financial statements of the **Municipality of Dorado** as of and for the year ended June 30, 2002, and have issued our report thereon dated December 5, 2002, which was qualified because we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group. Except as disclosed in the preceding sentence, 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.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Dorado's** general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Dorado's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Dorado's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **02-01** through **02-05**.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS (CONTINUED)***

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe that item 02-05 of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Dorado** in a separate letter dated December 5, 2002.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 5, 2002

Stamp No. 1854017 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

Compliance

We have audited the compliance of the **Municipality of Dorado** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The **Municipality of Dorado's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Dorado's** management. Our responsibility is to express an opinion on the **Municipality of Dorado's** compliance based on our audit.

Except as discussed in the following paragraph, 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Dorado'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 the **Municipality of Dorado's** compliance with those requirements.

As described in item **02-09** in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the **Municipality of Dorado** with Head Start Program regarding Matching and Earmarking-Administrative Cost Limits, nor were we able to satisfy ourselves as to the **Municipality of Dorado** compliance with those requirements by other auditing procedures.

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB-CIRCULAR A-133 (Continued)

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the **Municipality of Dorado** compliance with the requirements of Head Start Program regarding Matching and Earmarking-Administrative Cost Limits, the **Municipality of Dorado** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30,2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **02-06** through **02-08** and **02-10**, through **02-20**.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Dorado's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **02-06** through **02-20**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **2-06**, **02-09**, **02-14**, **02-15**, and **02-17** through **02-20** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Dorado** in a separate letter dated February 27, 2003.



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

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Lopez-Vega, CPA, PSC
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 27, 2003

Stamp No. 1854018 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2002

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Qualified	
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified except for qualified for Head Start Program 93.600	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Program
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>
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Auditee qualified as low-risk auditee?	Yes	No X
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-01
Requirement	Financial Reporting - Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal Funds) and Account Groups.
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality is in the process of implementing procedures in order to actualize the accounting records in order to provide a formal general ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-02**

Requirement **Cash Receipts\Revenue, Receivable - Collections**

Statement of Condition We performed a cash receipt test and examined a sample of sixty (60) collections. The following summarize the exceptions found:

- a. Ten (10) receipts were not available for examination.
- b. Two (2) deposit slips were not available for examination.
- c. We could not traced the deposit of three (3) collections since to the bank statement was not available for examination.
- d. One (1) receipt was issued for the wrong amount.
- e. One (1) receipt was issued with a wrong date.
- f. One (1) receipt was posted in the Revenue Register with a wrong number.
- g. A collection amounting \$24,968.15 was registered to Child Care Account in the Daily Collection Report and in the Auxiliary Treasurer Receipt but it was deposited on U.M.T.A bank account.
- h. A collection amounting \$890.02 was registered to Voucher account in the Daily Collection Report and in the Official Treasurer Receipt but it was deposited on Re-Pago Préstamo HUD-Sec 108 bank account.

Criteria

The Section Four (4) of the Chapter Three (3) of the Revised Regulation on Basic Standards for Municipalities of Puerto Rico establishes that the Official Treasurer should realize a daily revision of amount collected and amounts credited in bank to assure that the revenues has been duly accounted and processed in the period of collection.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-02 (Continued)
Cause of Condition	No adequate internal control procedures exist to assure that daily collections are duly accounted for.
Effect of Condition	The Municipality is not complying with regulations stated in the Section Four (4) of the Chapter Three (3) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	<p>The Municipality should implement the following procedures in order to avoid these situations in a future:</p> <ul style="list-style-type: none">a. Establish adequate monitoring procedures to assure that federal funds checks received by the Municipality are deposited in the correct bank account and accounted in the correct fund and revenue account.b. Strength the filling procedures in order to assure that collections supporting documents as deposit slips, treasurer receipts and other required documents are duly organized and filled.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-03**

Requirement **Expenditures for Goods and Services and Accounts Payables-
Purchasing and receiving**

Statement of Condition We performed a cash disbursement test and examined forty four (44) disbursement vouchers related to Head Start Program. The following will summarize the internal control exceptions noted:

- a. Five (5) disbursement vouchers included the quotation copy instead the original.
- b. In fifteen (15) payroll vouchers the cancelled check was not available for examination.
- c. In one (1) disbursement voucher the invoice was not cancelled as paid.
- d. One (1) disbursement voucher was not available for examination.
- e. Four (4) disbursement vouchers were not signed by the pre-auditor.

Criteria The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in the Chapter Four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions.

Cause of Condition The Municipality did not establish effective internal control in order to assure that all transactions include all the required documentation.

Effect of Condition The Municipality is in not compliance with Chapter Four (4) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-03 (continued)**

Recommendation We recommend the Municipality to improve its internal control and procedures in order to assure that disbursement vouchers contain all the necessary supporting documents before making the payments.

Questioned Costs None

Management Response The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-04
Requirement	Payroll and Related Liabilities - Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of 60 personnel files. The following will summarize the exceptions noted:</p> <ul style="list-style-type: none">a. For one (1) employee there was no evidence of the Notifying of Nomination Form or the form included in the employee's file did not provide evidence of the employee's salary.b. For four (4) employees we noted differences between the sick and regular vacations as per the time assistance card and the sick and regular vacations discounted in the accumulative vacations card.c. The compensated absences report prepared by the Human Resources Department to support the compensated absences long-term debt as of June 30, 2002 did not include the accumulative vacation and sick leave balances of four (4) employees. In addition, for three (3) employees the amount detailed in the report did not match with the accumulative vacation card.
Criteria	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18-(1) establish that the Municipality will prepare the payroll based on the employee files.</p>
Cause of Condition	<p>There is no internal control procedure implemented to assure the proper preparation and payment of payroll and the correctness of accumulative vacation and sickness balances.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-04 (continued)**

Effect of Condition The Municipality did not maintain an adequate control over the personnel files and the compensated absences cards.

Recommendation We recommend that the Municipality should review all payrolls prepared and the Human Resources Department should verify the accuracy of the compensated absences and assistance records.

Questioned Costs None

Management Response The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-05
Requirement	Equipment and real property management
Statement of Condition	During our examination of the Municipality's property records we noted that the procedures followed to record and account for equipment and real estate property are inadequate in order to assure that all assets are properly recorded and accounted for. The property registers are not reliable since the information contained is not updated or completed.
Criteria	The federal regulations states that a financial management system shall provide for effective control and accountability for all funds, property and other assets. Also, Article 9.002 of State Act Number 81 of August 30, 1991 states that Municipality should maintain updated property accounting records.
Cause of Condition	There is no internal control procedure implemented in order to assure that property register includes all equipment and real estate inventory.
Effect of Condition	The Municipality did not maintain an adequate control of the accountability regarding property transactions.
Recommendation	The Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real property and equipment as well as Construction in progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information. The person in charge of the Municipal Property should realize an annual physical inventory of equipment and real property in order to actualize subsidiary ledger and assure that the property that exist is duly recorded in subsidiary ledger. The person in charge of Municipal Property should maintain daily communication with the Purchase Department of the Municipality and with the Federal Programs employee in charge of the property and equipment in order to assure that all property and equipment acquired during the year is properly recorded in the subsidiary ledger.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	02-06
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and after our procedures we found the following exceptions: a. The program did not maintain the proper documentation (Audit Trail) necessary to reconcile the funds received from the pass-through grantor with the disbursement of checks. b. The program maintained an average cash balance per month of \$140,519.
Criteria	OMB Common Rule, Subpart C, Section 92.20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursements made by the grantee.
Cause of Condition	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.
Effect of Condition	The Municipality is not in compliance with OMB Common Rule, Subpart C, Section 92.20 (b) (7).
Recommendation	We recommend management to follow cash management system procedures developed by it in order to assure that funds requested are disbursed as required by the regulation.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	02-07
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Equipment and Real Property Management
Statement of Condition	We realized the Equipment and Real Property Management test and we found the following exception: a. The program has not performed a periodic physical inventory.
Criteria	Subpart C, 45 CFR 92.32 (d) (2), states that a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
Cause of Condition	The internal controls procedures failed to maintain accurate property records.
Effect of Condition	The Municipality is not in compliance with Subpart C, 45 CFR, 92.32 (d) (2).
Recommendation	We recommend management to realize a physical inventory in order to actualize the property subsidiary.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	02-08
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Matching, Level of Effort, Earmarking 90%
Statement of Condition	<p>In our Participants Files Test whose sample is constituted by the 90 percent of low income participants and which is realized to support our Earmarking Test (90/10) we found the following exceptions:</p> <ul style="list-style-type: none">a. The program did not request to the applicants household copy of the Social Security Card and Birth Certificate of all family members to ascertain participant family composition. They only requested the applicant's Birth Certificate and copy of the Social Security Card of the applicant and his parent.b. Eleven (11) participant's files did not contain a copy of Social Security Card of the participant's parent.c. Two (2) of the participant's files only included a letter written by the participant's father indicating the weekly or monthly salary (self-employee). There is no Department of Labor Unemployment Certification.d. Seven (7) files did not have a copy of participant's Birth Certificate.e. Seven (7) files did not have a copy of the participant's Social Security card.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **02-08 (continued)**

Statement of Condition

- f. One (1) file has not the Department of Labor Certification for unemployment.
- g. Two (2) participants that exceed low-income limits were not included in the over income list submitted to us by the Program Personnel.

Criteria

45 CFR, Section 1305.4, establishes that at least 90 percent of the enrollees must come from families whose income is below the Official Federal Poverty Guidelines or who are receiving public assistance.

Cause of Condition

The program did not maintain adequate internal controls to assure that the program does not exceed 10 percent requirement of participant above poverty guides. The Municipality did not apply the necessary internal controls procedures to assure the compliance with this federal requirement.

Effect of Condition

The program is in not compliance with 45 CFR Section 1305.4.

Recommendation

We recommend that the Municipality should review their procedures for enrollment of the participants according to their income levels and develop policies and procedures to reduce the risk of noncompliance with this requirement.

Questioned Costs

None

Management Response

The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	02-09
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Matching, Level of Effort, Earmarking – Administrative Cost Limits
Statement of Condition	The Accounting System maintained for Head Start Program financial activities did not provide for the classification of financial transactions between administration and programmatic costs. Therefore we were unable to determine if the Municipality complies with this requirement.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures necessary to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
Cause of Condition	The Municipality did not maintain adequate internal controls to assure the accountability of all transactions in accordance with Federal regulations.
Effect of Condition	Such condition may cause Municipality's non-compliance with certain compliance requirements like allowable costs, activities allowed and unallowed and earmarking.
Recommendation	We recommend the Municipality to modify the Accounting System chart of accounts to create separate accounts for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.
Questioned Costs	None
Management Response	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-10
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Procurement, Suspension and Debarment
Statement of Condition	<p>In our contract provisions test we observed the following exceptions:</p> <ul style="list-style-type: none">a. Seven (7) contracts did not include provisions for granting access to GAO or other federal agencies, to books, documents, papers, records of the contractor which are directly pertinent to that specific contract for the purpose of making an audit and examination.b. Seven (7) contracts did not include provisions for retention of all required records for a three years period.c. Three (3) contracts did not include a provision for compliance with Energy Policy and Conservation Act and provision for compliance with the Copeland “Anti-kickback” Act.d. Four (4) contracts did not include a provision clause that contain contractual legal remedies when contractor violates a contract term, and provide for such sanctions and penalties as may be appropriate.e. One (1) contract did not include a provision for termination for default by the Grantee.
Criteria	45 CFR, Subpart C, Section 92.36 (I) (1-13), states that sub grantee’s contract must contain provisions described in paragraph (I) of this section.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	02-10(continued)
Cause of Condition	The Municipality procurement standard procedures failed to include the required contract provisions.
Effect of Condition	The Municipality is not in compliance with 45 CFR, Subpart C, Section 92.36 (I) (1-13).
Recommendation	We recommend management to include all contract provisions required by federal regulations before each contract execution.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-11**

Program **Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families**

Requirement **Reporting**

Statement of Condition **In our Reporting Test we observed the following exceptions:**

- a) The Fund Liquidation Report, the Trial Balance and the Financial Report for the program year ended February 28, 2002 were submitted to the Commonwealth of Puerto Rico Administration for Children and Families after the deadline.
- b) We found differences between the amounts for in-kind contribution in the monthly report submitted to ADFAN on October, 2001 and November, 2001 and the general ledger.
- c) We found a difference between the amount of total in-kind contribution in the 15% Administrative Cost report at 02/28/02 and the general ledger.

Criteria The grant agreement between the Administration for Children and Families states that final year reports should be submitted within the first twenty days after the ending of the program year. In addition, OMB Common Rules, Subpart C, Section 92.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.

Cause of Condition No adequate internal controls exist to assure the timely submission of closing reports to agencies as required by grant agreements. Also, the Municipality has not established adequate internal control procedures to assure the correctness of the reports.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-11 (continued)
Effect of Condition	The Municipality did not comply with the grant agreement which require the timely submission of reports to the Administration for Children and Families. The Municipality did not comply with 24 CFR Section 92.20 (b) (1).
Recommendation	We recommend that the required reports be prepared including all the required information and submitted in a timely manner. If the deadline is not achievable, a request for an extension should be obtained from the federal agency. Also, we recommend that the Municipality establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-12
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Procurement, Suspension and Debarment
Statement of Condition	In one (1) professional service contract and for the purchase of tickets to a Travel Agency the required quotations were not available for examination.
Criteria.	24 CFR, Subpart C, Section 85.36 (c) (1) states that all procurement transactions will be conducted in a manner providing full and open competition consistent with the Standards.
Cause of Condition	The Federal Programs Department did not maintain appropriate internal control procedures in order to assure that a full and open competition for the acquisition of goods or services with federal funds exists.
Effect of Condition	The Municipality is not in compliance with 24 CFR Subpart C, Section 85.36 (c) (1).
Recommendation	We recommend management to improve internal control procedures related to procurement requirements.
Questioned Costs	None
Management Response	The Municipality implemented procedures to avoid this situation in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-13
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of Individuals
Statement of Condition	<p>During our verification of forty (40) participant files we noted the following exceptions related to the Housing Assistance Payment calculation:</p> <ul style="list-style-type: none">a. In two (2) participant files the Municipality paid an incorrect Housing Assistance Payment.b. In one (1) participant file the Family Report (Form HUD-50058) as registered in the computer software was not available for examination. We examined a manual Family Report.
Criteria	<p>Code of Federal Regulations 24 CFR, Section 982.503 establish how the PHA must determine and used the payment standard. Code of Federal Regulations 24 CFR, Section 982.505 establishes the procedures to follow in order to calculate the Housing Assistance Payment. The Housing Choice Voucher Guidebook, Chapter six (6) establishes procedures for the HAPs calculation.</p>
Cause of Condition	<p>The Federal Program Department did not perform adequate monitoring procedures to assure that all HAPs are duly computed by the program staff.</p>
Effect of Condition	<p>The Municipality is not in compliance with Code of Federal Regulations 24, Sections 982.503 and 982.505.</p>
Recommendation	<p>We recommend the municipality to perform monitoring activities in order to assure that HAPs are duly computed.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-13 (Continued)**

Questioned Costs **None**

Management Response **Management assured us that:**

- a. The corrective actions were made and we have taken preventive procedures for future cases.
- b. We proceeded to file the manual Family Report Form (HUD 50058).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-14
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of Individuals
Statement of Condition	<p>We performed an eligibility test and examined a sample of forty (40) participant files. The following will summarize the situations noted:</p> <ul style="list-style-type: none">a. In twenty seven (27) participant files the release form to allow the PHA to obtain information from third parties such as employment agencies, banks, governmental agencies, etc. was not available for examination.b. The Municipality did not document in the tenant files why third party verification of the value of assets was not obtained during the eligibility determination.c. In one (1) case the member of the family with 18 years or more did not sign the Privacy Act Notice included in the participant file.d. In one (1) participant file there was no adequate evidence of family income.e. In two (2) cases the Social Security Card copy was not available for examination.f. In one (1) participant file the employer income certification was not available for examination. A check copy was obtained.g. In one (1) case the Good Behavior Certificate was not available for examination.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-14 (Continued)**

Criteria Code of Federal Regulations 24, Sections 5.230, and 982.516 states that as a condition of admission or continued occupancy, the PHA must require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility.

Code of Federal Regulations 24, Section 5.212 states that all assistance applicants shall be provided with a Privacy Act Notice at the time of application and at each annual income recertification.

Cause of Condition The Federal Program Department does not maintain adequate monitoring procedures to assure that the participant files include all required documentation and releases required by federal agencies.

Effect of Condition The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.212, 5.230 and 982.516.

Recommendation We recommend the Program to establish monitoring procedures to assure that the participant's files include all documentation required by federal agencies. In addition, third party verification should be obtained to verify the value of assets or the Municipality must include adequate documentation explaining the reason why third party verification was not obtained.

Questioned Costs None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 02-14 (Continued)

Management Response Management assured us that:

- a. We are going to establish procedures so that each file includes this information.
- b. We are going to establish procedures so that each file includes this information.
- c. We are going to establish procedures so that each file includes this information.
- d. The income evidence was requested to the participant and was submitted to us and certified correct during March, 2003.
- e. We are going to establish procedures so that each file includes this information.
- f. We are going to establish procedures so that each file includes this information.
- g. We proceed to cancel the contract with the family for this reason.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-15
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and after our procedures we found that the Municipality requested funds that were not disbursed on a reasonable lapse of time and the program maintained an excessive cash balance in books of \$ 223,681. HUD deducted \$124,593 overpayment which belongs to the current year. We noted that for eleven (11) months the program leasing rate was under 95% and a revised requisition (Form 52663) was not submitted to HUD to reduce monthly advances.
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds from federal agencies only for immediate needs.
Effect of Condition	The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20 (b) (7).
Recommendation	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality has establish procedures to assure that a revised requisition is submitted to HUD if the leasing rate is under 95% in order to avoid an excessive adjusted book cash balance.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-16
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Performance Reporting
Statement of Condition	The Municipality answered a (yes) in the items 1(b), 2(b), 3, 4, 6, 9 and 10 of the SEMAP Report and we found exceptions during our audit related to those requirements.
Criteria.	Code of Federal Regulations 24, CFR, Section 985.3 states that under SEMAP, PHAs submit an annual certification, Form HUD-52648 (OMB No. 2577-0215), to HUD concerning their compliance with program requirements under 14 indicators of performance. Finally, HUD will realize on site visits and verify the Independent Auditors' Annual Audit Report's to assure the compliance with this requirement.
Cause of Condition	The Municipality does not maintain adequate monitoring procedures to assure the compliance with the answers detailed in the SEMAP Report submitted to HUD.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Section 985.3.
Recommendation	We recommend to the Municipality to improve internal controls and monitoring procedures to assure that the program comply with federal regulations.
Questioned Costs	None
Management Response	We will improve internal controls to assure that the program complies with SEMAP requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-17
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test and Provisions – Selection from the Waiting List
Statement of Condition	During our waiting list test we examined how participants were selected from the waiting list for the period from February, 2002 to September, 2002 and noted the following exceptions: a) Clear documentation of the participants in the waiting list who did not answer the letter submitted to them providing the housing opportunity by the Municipality was not duly documented in the waiting list book. b) The Municipality did not maintain an organized file by date of the letters submitted to the participants documenting the housing opportunity offered to them as required by the waiting list procedures.
Criteria	Code of Federal Regulations 24, sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.
Cause of Condition	The program does not leave a clear audit trail when documenting the participants' selection from the waiting list.
Effect of Condition	The Municipality is not in compliance with 24 CFR sections 982.54 (d) and 982.201 through 982.207.
Recommendation	The Municipality must assure that the documentation of the selection of participants from the waiting list leave a clear audit trail that can be used to verify that each participant has been selected in accordance with the methods specified in the administrative plan.
Questioned Costs	None
Management Response	We will implement adequate internal control procedures to document that the participants are selected from the top of the waiting list.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-18
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Reasonable Rent
Statement of Condition	During our Reasonable Rent test we noted that no reasonable rent determination is documented in the participant files.
Criteria	Code of Federal Regulations 24, Sections 982.54 (d)(15), 982.158 (f)(7) and 982.507 states that the PHA must determine reasonable rent at the time of the initial leasing and must maintain records to document the basis for the determination that the rent paid to the owner is reasonable.
Cause of Condition	The Federal Program Department did not maintain adequate documentation to support the basis for the determination that the rent paid to the owner is reasonable.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 982.54 (d)(15), 982.158 (f)(7) and 982.507.
Recommendation	We recommend to the Federal Program Department to establish adequate controls to assure that appropriate documentation of the determination of reasonable rent is maintained in each participant's file.
Questioned Costs	None
Management Response	We will proceed to document and maintain the Reasonable Rent Study each year in the participants files.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-19
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Utility Allowance Schedule
Statement of Condition	The Municipality did not maintain an up-to-date utility schedule for the audit period ending June 30, 2002. The last time that the utility allowance was updated was during the year 1995.
Criteria	Code of Federal Regulations, 24 CFR Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time utility allowance was revised.
Cause of Condition	The Municipality did not follow the procedures established to review utility rate data each year.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR Section 982.517.
Recommendation	The Municipality should evaluate utility allowance rate each year as established in the federal regulations.
Questioned Costs	None
Management Response	We have made the Utility Study this year and we are waiting for HUD's approval. This study will be reviewed each year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-20
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections and HQS Enforcement
Statement of Condition	<p>During our verification of forty (40) participant files we noted the following exceptions:</p> <ol style="list-style-type: none">a. Certain items of the inspection checklist such as smoke detectors and the water heater were not evaluated by the inspectors in twenty three (23) inspections examined by us.b. In one (1) participant file the inspection report was not duly completed.c. In one (1) participant file the inspection was inconclusive and did not indicate if the corrections were completed subsequently.d. In two (2) participant files the inspection were inconclusive and did not indicate the date that the corrections were completed.e. In one (1) participant file the inspection of January, 2002 was inconclusive and the corrections were not realized within 30 calendar days. During June, 2002 a special inspection concluded that the unit failed the inspection and was not secure. The Municipality did not stopped (abate) the housing assistance payments.f. In one (1) quality control re-inspection the inspection was inconclusive and we did not find evidence in the participant file certifying that corrections were duly completed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-20 (Continued)**

Criteria Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. Also the PHA must prepare a unit inspection report.

24 CFR, Sections 982.158(d) and 982.404 establishes that for units under contract that fail to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours of the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract.

Cause of Condition Management does not maintain adequate monitoring procedures to assure that annual inspections and quality control re-inspections are properly documented in participant files and adequate follow up visits are done by the management to assure that the exceptions detailed in the inspection report are corrected in the required period as required in the Housing Quality Standards Enforcements.

Effect of Condition The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.404 and 982.158 (d).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-20 (Continued)**

Recommendation We recommend management to improve its monitoring procedures to assure that annual inspections and quality control re-inspections are properly documented in the participant files and to assure that the exceptions detailed in the inspection reports are duly corrected by the owner or the participant in the required period.

Questioned Costs None

Management Response We have taken preventive internal control procedures to assure that the inspections and quality control re-inspections are properly documented in files, and will make the follow up inspections to assure that the exceptions detailed are corrected in the required period.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-05	93.600	<u>Deficiencies in disbursement test.</u> No corrective action has been taken.
01-06	93.600	<u>No adequate cash management procedures.</u> No corrective action has been taken.
01-07	93.600	<u>No adequate monitoring procedures to assure contractors compliance with Davis Bacon Act.</u> Full corrective action has been taken.
01-08	93.600	<u>The Municipality did not maintain adequate property records.</u> No corrective action has been taken.
01-09	93.600	<u>No adequate documentation to support In Kind contribution files.</u> Full corrective action has been taken.
01-10	93.600	<u>Deficiencies in Participants files.</u> No corrective action has been taken.
01-11	93.600	<u>Deficiencies in procurement process</u> No corrective action has been taken.
01-12	93.600	<u>Deficiencies in procurement process</u> No corrective action has been taken.
01-13	93.600	<u>Reporting</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action has been taken.
01-14	93.600	<u>No adequate control to account Due To and Due From.</u>
		No corrective action has been taken.
01-15	93.600	<u>Failure in the Availability of Funds</u>
		Full corrective action has been taken.
01-16	14.855 14.857	<u>Deficiencies in Housing Assistance payments calculation</u>
		Partial corrective action has been taken. The Municipality has established preventive monitoring procedures to assure that all participant Housing Assistance Payments are duly computed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	<u>Current Status of Prior Year Audit Federal Award Findings - Part III Findings</u> <u>(As required by OMB Circular A-133)</u>
01-17	14.855	
	14.857	<u>No adequate cash management procedures.</u> No corrective action has been taken. The Municipality will establish monitoring procedures to assure that a revised requisition is submitted to HUD if the leasing rate is fewer than 95% in order to avoid an excessive adjusted cash balance in the future.
01-18	14.855	
	14.857	<u>Deficiencies in eligibility test</u> Partial corrective action has been taken. The Municipality will improve monitoring procedures in order to assure that all participant files include the required information.
01-19	14.855	
	14.857	<u>Housing quality inspections and Housing quality control re-inspection not available for examination</u> Full corrective action has been taken.
01-20	14.855	
	14.857	<u>No adequate documentation of the participant selection from the waiting list</u> Partial corrective action has been taken. The Municipality has establish adequate procedures in order to leave a clear audit trail of the selection of the participants from the waiting list.
01-21	14.855	
	14.857	<u>No adequate documentation of the SEMAP answers and fails in SEMAP requirements</u> Partial corrective action has been taken. The Municipality will improve internal control and monitoring procedures to assure the full compliance with the SEMAP requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	<u>Current Status of Prior Year Audit Federal Award Findings - Part III Findings</u> <u>(As required by OMB Circular A-133)</u>
00-2	93.600	<u>Lack of proper documentation on participants files</u>
No corrective action has been taken.		

OFICIO DEL COMISIONADO
DE ASUNTOS MUNICIPALES

02 FEB 18 ANIO: 15

RECIBIDO
UNIDAD DE CORREO

Carroll 2/18/03 181/12

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

YEAR ENDED JUNE 30, 2002

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

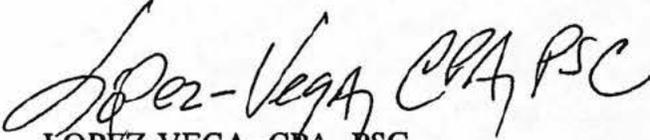
We have audited the accompanying general-purpose financial statements of the **Municipality of Dorado**, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 8, the Municipality has not maintained complete and adequate records of its general fixed assets and, accordingly, we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group at June 30, 2002.

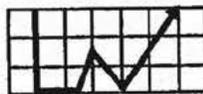
INDEPENDENT AUDITORS' REPORT

In our opinion, except for the effect of the third paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Dorado** as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 5, 2002

Stamp No 1853951 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES			PROPRIETARY	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise Fund	General Fixed Assets	
ASSETS AND OTHER DEBITS							
Cash and cash equivalents	\$3,255,996	\$1,091,446		\$1,202,198	\$547,810		\$6,097,450
Cash with fiscal agent			\$4,152,803	6,227,500	455,079		10,835,382
Intergovernmental receivables	526,203	126,638					652,841
Municipal license taxes receivable	6,985						6,985
Federal grants receivable		126,797					126,797
Due from other funds	283,602	41,793		454,321	15,413		795,129
Other receivables	323,579				4,890		328,469
Land					388,790	\$8,939,225	9,328,015
Building, net of depreciation of \$523,927					3,013,531		3,013,531
Property and equipment						7,915,094	7,915,094
Amount available in Debt Service Fund							\$4,152,803
Amount to be provided for retirement of general long-term debt							17,109,772
							17,109,772
Total assets and other debits	<u>\$4,396,365</u>	<u>\$1,386,674</u>	<u>\$4,152,803</u>	<u>\$7,884,019</u>	<u>\$4,425,513</u>	<u>\$16,854,319</u>	<u>\$21,262,575</u>
							<u>\$60,362,268</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS							
Liabilities:							
Accounts payable and accrued liabilities	\$330,296	\$231,162		\$669,097			\$1,230,555
Due to other funds	511,527	283,602					795,129
Due to other governmental entities	513,817					\$472,392	986,209
Deferred municipal license tax revenues	2,608,325						2,608,325
Deferred federal grant revenues		705,733					705,733
General obligation bonds					\$1,716,257	14,860,000	16,576,257
Notes payable						2,551,500	2,551,500
Interest payable					62,081		62,081
Lease obligation payable						93,191	93,191
Accrued landfill obligations						1,847,841	1,847,841
Accrued compensated absences						1,437,651	1,437,651
Total liabilities	<u>3,963,965</u>	<u>1,220,497</u>		<u>669,097</u>	<u>1,778,338</u>		<u>21,262,575</u>
							<u>28,894,472</u>
Fund equity and other credits:							
Investment in general fixed assets						16,854,319	16,854,319
Fund balances:							
Reserved for encumbrances	664,483						664,483
Reserved for debt service			4,152,803				4,152,803
Unreserved:							
Designated for specific fund purposes		166,177		7,214,922			7,381,099
Undesignated	(232,083)						(232,083)
Retained earnings					2,647,175		2,647,175
Total fund equity and other credits	<u>432,400</u>	<u>166,177</u>	<u>4,152,803</u>	<u>7,214,922</u>	<u>2,647,175</u>	<u>16,854,319</u>	<u>31,467,796</u>
Total liabilities, fund equity and other credits	<u>\$4,396,365</u>	<u>\$1,386,674</u>	<u>\$4,152,803</u>	<u>\$7,884,019</u>	<u>\$4,425,513</u>	<u>\$16,854,319</u>	<u>\$21,262,575</u>
							<u>\$60,362,268</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
COMBINED STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND BALANCES/RETAINED EARNINGS
ALL GOVERNMENTAL AND PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2002

	GOVERNMENTAL FUND TYPES				PROPRIETARY	TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise Fund	
REVENUES						
Property taxes	\$5,622,610		\$2,258,641			\$7,881,251
Municipal license taxes	3,115,355					3,115,355
Licenses and permits	1,724,304					1,724,304
Intergovernmental	2,456,624	\$426,840		\$814,868		3,698,332
Rent of property	208,255				\$242,048	450,303
Fines and penalties	5,766					5,766
Interest	329,538				7,451	336,989
Federal grants		5,095,485				5,095,485
Miscellaneous	30,858	144,235				175,093
Total revenues	13,493,310	5,666,560	2,258,641	814,868	249,499	22,482,878
EXPENDITURES/EXPENSES						
Current:						
Mayor and Municipal Assembly	1,875,199					1,875,199
General government	5,847,870	305,554			81,336	6,234,760
Public safety	977,888	209,811				1,187,699
Public works	6,125,920			16,786		6,142,706
Public health and sanitation	704,471					704,471
Welfare		4,427,045				4,427,045
Recreation	459,177					459,177
Depreciation					88,437	88,437
Debt service:						
Principal retirement	249,079	595,000	1,085,000		74,447	2,003,526
Interest	120,008	24,455	755,358		134,932	1,034,753
Capital outlays	282,536	45,705		1,927,893		2,256,134
Total expenditures/expenses	16,642,148	5,607,570	1,840,358	1,944,679	379,152	26,413,907
Excess (deficiency) of revenues over (under) expenditures/expenses	(3,148,838)	58,990	418,283	(1,129,811)	(129,653)	(3,931,029)
OTHER FINANCING SOURCES (USES):						
Proceeds from bonds and notes issuance				3,735,000		3,735,000
Total other financing sources (uses)				3,735,000		3,735,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing sources (uses)	(3,148,838)	58,990	418,283	2,605,189	(129,653)	(196,029)
Fund balances/retained earnings, beginning, as restated	3,581,238	107,187	3,734,520	4,609,733	2,776,828	14,809,506
Fund balances/retained earnings, ending	\$432,400	\$166,177	\$4,152,803	\$7,214,922	\$2,647,175	\$14,613,477

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2002**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$5,182,890	\$5,182,890	-	\$1,650,111	\$2,258,641	\$608,530
Municipal license taxes	3,005,000	3,115,355	\$110,355			
Licenses and permits	1,105,200	1,724,304	619,104			
Intergovernmental	2,401,891	2,456,624	54,733			
Rent of property	264,089	208,255	(55,834)			
Fines and penalties	3,100	5,766	2,666			
Interest	700,100	329,538	(370,562)			
Miscellaneous	409,500	30,858	(378,642)			
Total revenues before carryover	13,071,770	13,053,590	(18,180)	1,650,111	2,258,641	608,530
Budgeted carryover (1)	3,922,679	3,922,679				
Total revenues and budget carryover	16,994,449	16,976,269	(18,180)	1,650,111	2,258,641	608,530
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	2,087,545	1,911,804	175,741			
General government	6,180,644	6,004,707	175,937			
Public safety	1,060,838	992,120	68,718			
Public works	5,624,951	5,407,203	217,748			
Public health and sanitation	609,310	704,471	(95,161)			
Recreation	530,865	476,695	54,170			
Capital outlays	523,799	282,536	241,263			
Debt service:						
Principal retirement	249,079	249,079	-	887,324	1,085,000	(197,676)
Interest	127,418	120,008	7,410	762,787	755,358	7,429
Total expenditures and encumbrances	16,994,449	16,148,623	845,826	1,650,111	1,840,358	(190,247)
Excess (deficiency) of revenues over (under) expenditures and encumbrances		827,646	827,646		418,283	418,283
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
GAAP adjustments to revenues		439,720				
Current year encumbrances treated as current year expenditures for budgetary basis		511,647				
Prior year encumbrances paid during the current year		(1,005,172)				
Fund balances, beginning, as restated		3,581,238			3,734,520	
Less budgeted carryover (1)		(3,922,679)				
Fund balances, ending		\$432,400			\$4,152,803	

1) Budget include fund balances carried over from prior years. It is not revenue of the current period, but is presented as revenue only for budgetary reporting purposes.

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2002

Cash flows from operating activities:

Cash received from customers	\$ 244,650
Cash paid to suppliers and employees	(189,966)
Interest paid	<u>(137,763)</u>
Net cash provided (used) by operating activities	<u>(83,079)</u>

Cash flows from financing activities:

Repayment of revenue bonds	<u>(74,447)</u>
Net cash (used) by financing activities	<u>(74,447)</u>
Net (decrease) in Cash and Cash with Fiscal Agent, restricted	(157,526)
Cash and Cash with Fiscal Agent at beginning of period, restricted	<u>1,160,415</u>
Cash and Cash with Fiscal Agent at end of period, restricted	<u>\$ 1,002,889</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating Loss	<u>\$ (129,652)</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	88,437
Interest receivables	-
Other receivables	(4,890)
Due from other funds	41
Accrued expenses	(2,832)
Due to other funds	<u>(34,183)</u>
Total adjustments	<u>46,573</u>
Net cash provided (used) by operating activities	<u>\$ (83,079)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Dorado** (the Municipality) was established in 1848. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: public safety, public works, culture and recreation, health, urban development and welfare.

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (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. A summary of the Municipality's significant accounting policies follows:

A. Financial reporting entity:

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria there are no potential component units, which should be included in the general-purpose financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

B. Basis of presentation:

The Municipality records its transactions in the fund types and account groups described below:

Governmental fund types:

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

General - is the general operating fund of the Municipality. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to be expended for specific purposes.

Debt Service - is used to account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

Capital Projects - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary fund types:

The Enterprise Fund, which was established in June 1996, is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, are financed or recovered primary through uses, charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The enterprise fund of the Municipality includes land and buildings known as "Commercial Pavilion Rafael Hernández Colón located in 349 Méndez Vigo Street at Dorado, Puerto Rico. The main source of income comes from rent received from spaces rented with formal contracts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

B. Basis of presentation (continued):

Account groups:

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

General Long-term Debt - is used to account for all long-term debt obligations of the Municipality.

C. Basis of accounting:

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

C. Basis of accounting (continued):

The proprietary fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned and their expenses are recognized when they are incurred. Most of the fund transactions are made through the Government Development Bank.

D. Reservations of fund balance:

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

Encumbrances - Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

Debt Service - Represents net assets available to finance future debt service payments.

E. Budgetary data:

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law:

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

E. Budgetary data (continued):

- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same as the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

F. Inventories:

The General Fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as expenditure and, consequently, the inventory is not recorded in the general-purpose financial statements.

G. Property and equipment:

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

H. Cash and cash equivalents:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2002 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent:

Debt Service Fund: represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service and unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements.

Enterprise Fund: Additional cash with a fiscal agent is shown in the Enterprise Fund which is held by the Government Development Bank and its use is limited for the expenditures associated with "Commercial Pavilion of Dorado Rafael Hernández Colón."

Capital Projects Fund: Funds restricted and held by Governmental Development Bank for the future disbursements of capital projects. This account includes deposits from loans proceeds for capital projects.

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" by the disbursing fund.

Transfer of Expenditures (Reimbursements) - Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

J. Compensated absences:

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

The Municipality accrues a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2002.

K. Insurance:

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

L. Total columns (memorandum only):

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

M. Use of estimates in the preparation of general purpose financial statements:

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Claims and judgments:

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The General Long-term Debt Account Group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

Retirement System Administration	\$ 32,772
Department of Treasury	251,573
Puerto Rico Aqueduct and Sewer Authority	2,036
General Services Administration	1,634
Department of Labor	52
Internal Revenue Service	225,750
	<hr/>
	\$513,817
	<hr/>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the General Long-term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2002. The following is the balance of these accounts:

Department of Labor	\$ 171,549
Municipal Revenue Collection Center	300,843
	<hr/>
	\$ 472,392

3. PROPERTY TAXES:

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957.

Tax rates are 8.33% for real property and 6.33% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.50% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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 CRIM 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 retailers with an annual volume of net sales under \$150,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

3. PROPERTY TAXES (CONTINUED):

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. At the date of the release of these financial statements, the CRIM issued the final liquidation noting that the collections were in excess of advances by \$439,720. Such amount was included as intergovernmental receivables in the General Fund at June 30, 2002.

4. MUNICIPAL LICENSE TAXES:

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.50%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

5. INTERGOVERNMENTAL:

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

6. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$1,582,361
Certificates of deposit (90 days or less)	36,066
Money Market Bank Account	<u>4,479,023</u>
 Total cash and cash equivalents,	 <u>\$6,097,450</u>

7. DEBT SERVICE FUND:

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

8. GENERAL FIXED ASSETS:

The Municipality has not maintained complete and adequate records of its general fixed assets. Also, there are no written procedures to ascertain that all capital expenditures are properly recorded in the property ledger. In addition, the Municipality has not taken a physical inventory of its property and equipment.

A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance July 1, 2001	Adjustments to Beginning Balance	Adjusted Beginning Balance	Additions	Retirements	Balance June 30, 2002
Vehicles & Equipment	\$ 6,126,057	\$ 961,590	\$ 7,087,647	\$ 827,637	\$ (190)	\$ 7,915,094
Real Estate Property	9,911,443	(972,218)	8,939,225			8,939,225
Total	<u>\$16,037,500</u>	<u>\$ (10,628)</u>	<u>\$ 16,026,872</u>	<u>\$ 827,637</u>	<u>\$ (190)</u>	<u>\$ 16,854,311</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

9. GENERAL OBLIGATION BONDS:

The general obligation bonds transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 2001	\$ 12,730,000
Debt issued	2,850,000
Principal retirements	<u>(720,000)</u>
 Balance at June 30, 2002	 <u>\$ 14,860,000</u>

General obligation bonds at June 30, 2002 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2002
1992 Series	7-1-07	\$ 1,860,000	5.00% to 7.50%	\$ 1,050,000
1993 Series	7-1-08	150,000	5.87% to 7.60%	40,000
1995 Series	7-1-07	765,000	5.00% to 7.50%	425,000
1996 Series	7-1-14	2,750,000	6.87% to 8.00%	2,305,000
1997 Series	7-1-09	2,650,000	6.75% to 8.00%	1,920,000
1997 Series	7-1-16	290,000	6.63% to 8.00%	245,000
1997 Series	7-1-16	110,000	6.63% to 8.00%	85,000
1998 Series	7-1-13	3,675,000	6.00% to 7.50%	3,220,000
1998 Series	7-1-21	1,065,000	6.71% to 8.00%	890,000
2000 Series	7-1-13	65,000	5.88% to 8.00%	60,000
2000 Series	7-1-25	310,000	5.88% to 8.00%	305,000
2000 Series	7-1-20	1,500,000	5.88% to 8.00%	1,465,000
2002 Series	7-1-26	2,850,000	5.00% to 8.00%	<u>2,850,000</u>
 Total general obligation bonds				 <u>\$ 14,860,000</u>

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2002, are as follows:

Year ended June 30	Total
2003	\$ 810,000
2004	880,000
2005	935,000
2006	1,025,000
2007	1,115,000
Thereafter	<u>10,095,000</u>
 Total	 <u>\$ 14,860,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

9. GENERAL OBLIGATION BONDS (CONTINUED):

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond debt to 10 percent of the assessed valuation of the property located in the Municipality.

10. NOTES AND LEASE OBLIGATIONS PAYABLE:

The notes payable transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 2001	\$ 2,998,688
Debt issued	885,000
Payments during the current year	(1,170,750)
Adjustments	(161,438)
Balance at June 30, 2002	\$ 2,551,500

Notes payable at June 30, 2002 are as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2002
1976 Series	1-1-06	\$ 810,000	9.00%	\$ 290,000
1985 Series	1-1-04	15,000	10.00%	1,500
1987 Series	7-1-06	500,000	8.00%	100,000
1987 Series	7-1-06	1,545,000	9.00%	545,000
1998 Series	7-1-02	460,000	6.69% to 8.00%	105,000
1998 Series	7-1-02	125,000	6.71% to 8.00%	30,000
1998 Series	7-1-03	470,000	6.31% to 7.50%	210,000
2000 Series	7-1-05	230,000	5.88% to 8.00%	190,000
2001 Series	7-1-05	235,000	6.13% to 8.00%	195,000
2002 Series	7-1-06	885,000	5.00% to 8.00%	885,000
Total notes payable				\$ 2,551,500

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. NOTES AND LEASE OBLIGATIONS PAYABLE (CONTINUED):

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2002, are as follows:

<u>Year ended June 30</u>	<u>Total</u>
2003	\$ 680,750
2004	590,750
2005	515,000
2006	560,000
2007	<u>205,000</u>
Total	<u>\$ 2,551,500</u>

During the fiscal year June 30, 1999 the Municipality acquired computer equipment under a capital lease. The capital lease to IBM Credit Corp. is payable in monthly installments of \$4,546 which includes interests at 7.48% through June 30, 2004. Total principal payments during the current year amount to \$38,329. The outstanding debt balance as of June 30, 2002 amounts to \$93,191. The debt service requirements to maturity including \$6,821 of interest are as follows:

<u>Year ended June 30</u>	<u>Total</u>
2003	\$ 63,644
2004	<u>36,368</u>
Total	<u>\$ 100,012</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

11. REVENUE BONDS-ENTERPRISE FUNDS:

In 1994, the Municipality issued \$2,090,000 revenue bonds, in which the Municipality pledges rent income from the enterprise fund (completed construction by July 1996 of the Commercial Pavilion "Rafael Hernández Colón") to pay such debt. On January 18, 2000 the Municipality formalizes a revenue bond payable with Banco Santander Puerto Rico. This loan was used to refinance the outstanding loan with Governmental Development Bank at 9%. The note will be paid by semi-yearly installments of \$103,280, which includes interest at 7.25% for the first ten years. After the first ten years the Municipality can exercise the option to fully repay the outstanding balance of \$943,238 or refinance the debt at an interest rate determined by the lesser of 9.5% or 1% over the London Interbank Offered Rate (L.I.B.O.R. + 1%). Total principal payments during the current year amount to \$74,447. The outstanding debt balance as of June 30, 2002 amounts to \$1,716,257. The debt service requirements to maturity including \$776,181 of interest are as follows:

<u>Year ended June 30</u>	<u>Total</u>
2003	\$ 206,560
2004	206,560
2005	206,560
2006	206,560
2007	206,560
Thereafter	<u>1,459,638</u>
Total	<u>\$ 2,492,438</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. RETIREMENT PLAN:

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

For participants who retire with less than 30 years of service the pension benefits is computed at the rate of 1-1/2% of their average compensation for each year of credited service for the first 20 years and 2% for each of credited service for the remaining years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. RETIREMENT PLAN (CONTINUED)

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 14, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. RETIREMENT PLAN (CONTINUED):

The Municipality is required by the Act No. 305 to contribute 9.275% of the participant's gross salary. The System will use these contributions to increase its asset level and reduce the unfounded status of the defined benefits pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant spouse in case of the participant death. Participants with balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to his/her beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2002 recorded as pension expenditures were approximately \$ 374,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2002.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employees services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- * The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- * Future pension payments reflect an assumption of 5% salary increase.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. RETIREMENT PLAN (CONTINUED):

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the System.

13. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

14. LANDFILL OBLIGATIONS:

State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site until compliance is achieved. In accordance with statement No. 18 of the Governmental Accounting Standards Board, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, the Municipality has performed a study of the activities that need to be implemented at the landfill to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$ 4,247,145 as the Municipality's estimated total current cost for landfill closure and postclosure care costs. As of June 30, 2002, these estimated closure and postclosure care costs were adjusted to \$1,847,841 as per the Municipality's consultant updated estimate. Such amount represents the total closure and postclosure costs and, is reported in the General Long-term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2002.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

15. AGREEMENT WITH ANDRES REYES BURGOS ("A.R.B. INC")

The Municipality of Dorado maintained a contract with A.R.B., Inc. for waste disposal. The contract established the terms and conditions, payment method, penalties, among other operating and service commitments. The contract was formalized on November 2, 1998 and effective December of 1998 for \$99,207 monthly. The monthly fee consists of collection and final waste disposition of 13,263 residential, commercial and rural units at \$7.48 per unit for the first two years of the contract and \$8.15 beginning on the third year through the fifth year of the contract. In the year ended June 30, 2002, the waste disposal cost for the Municipality was \$1,481,791 which \$1,428,814 was covered by this contract.

16. OPERATING LEASES:

The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality's account groups.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2002:

<u>Year ending</u> <u>June 30,</u>	<u>Amounts</u>
2003	\$ 176,308
2004	176,308
2005	64,570
2006	<u>47,199</u>
Total minimum payments required	<u>\$ 464,385</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

17. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2002, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

B. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

18. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balances for General and Debt Service Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental Fund, as follows:

Description	General	Debt Service
Beginning Fund Balances at July 1, 2001	\$4,429,684	\$3,132,932
To correct Intergovernmental Receivables from CRIM as per Final Liquidation 2000-2001	(848,446)	
To recognize a due from CRIM related to Final Liquidation 1999-2000		836,169
To recognize a Due to CRIM related to Final Liquidation 2000-2001		(234,581)
Beginning Fund Balances at July 1, 2001, as restated	<u>\$3,581,238</u>	<u>\$3,734,520</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

19. SUBSEQUENT EVENTS

On August, 2002 the Municipal Legislature approved changes in Tax rates as follows: 8.83% for real property and 6.83% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 2.00% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.