

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE DORADO

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

YEAR ENDED JUNE 30, 2003

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

YEAR ENDED JUNE 30, 2003

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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 Legislature
Municipality of Dorado
Dorado, Puerto Rico**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico**, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico**, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments*, and has adopted paragraphs six to eleven of GASB Statement No. 38, *Certain Financial Statements Note Disclosures*, as of June 30, 2003.

INDEPENDENT AUDITORS' REPORT (Continued)

In addition, the Municipality adopted a prospective reporting of its general infrastructure assets.

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule-General Fund on page 50 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2003 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.

Our audit was performed for the purpose of forming an opinion on the basic 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 respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 19, 2003

Stamp No. 1942275 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**

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2003

Management of the Municipality of Dorado (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the fiscal year ended on June 30, 2003. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the following goals:

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

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net assets increased by \$1,831,825.
- In the fund financial statements, the governmental activities revenue increased \$4,298,284 (or 19%) while governmental activities expenditures increased \$2,725,680 (or 10%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$385,109.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$419,489.

Using This Annual Report

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2002, the Municipality commenced the reporting of infrastructure assets during the current year. The Municipality expects to retroactively report the historical costs of infrastructure assets during the fiscal year beginning July 1, 2003. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$4,461,292 at the end of 2003, compared to \$2,629,467 at the end of the previous year.

**Condensed Statement of Net Assets
June 30, 2003**

Current assets	\$16,589,554
Capital assets	<u>16,991,646</u>
Total assets	<u>33,581,200</u>
Current liabilities	5,337,075
Noncurrent liabilities	<u>23,782,833</u>
Total liabilities	<u>29,119,908</u>
Invested in capital assets, net of related debt	(761,714)
Restricted	8,680,263
Unrestricted	<u>(3,457,257)</u>
Total net assets	<u>\$4,461,292</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Changes in Net Assets

The Municipality's net assets increased by \$1,831,825. Approximately 57% percent of the Municipality's total revenue came from taxes, while 38% percent resulted from grants and contributions, including federal aid. Charges for Services provided 1% percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare services, general government, public works, and urban development. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Condensed Statement of Activities
June 30, 2003

Program revenues:	
Charges for services	\$530,549
Operating grants and contributions	6,233,334
Capital grants and contributions	1,326,563
General revenues:	
Property taxes	8,666,679
Municipal license tax	3,488,017
Other taxes	3,813,748
Grants and contributions not restricted to specific programs	3,226,941
Interest and investment earnings	306,304
Miscellaneous	<u>133,628</u>
Total revenues	<u>27,725,763</u>
Expense:	
General government	9,265,069
Public safety	1,431,360
Public works	8,124,865
Culture and recreation	343,929
Health and welfare	4,785,521
Economic development	407,612
Community development	407,857
Interest on long-term debt	1,054,548
Education	<u>73,177</u>
Total expenses	<u>25,893,938</u>
Change in net assets	1,831,825
Net assets, beginning of year	<u>2,629,467</u>
Net assets, end of year	<u>\$4,461,292</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$9,876,231, a decrease of \$2,358,425 in comparison with the prior year. There are reservations of fund balance amounting to \$9,127,638. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$447,375), 2) to pay debt service (\$2,954,188), 3) to pay for capital projects (\$5,283,810) and 4) for other purposes (\$442,265).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a fund balance of \$1,195,968.

The Financial Sector had a better financial performance in comparison to previous years accordingly paid with additional Municipal License Taxes revenues to the Municipality.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

PROPRIETARY FUND

The only Municipality of Dorado proprietary fund is the enterprise fund from "Commercial Pavilion Rafael Hernández Colón". This fund provides the same information found in the government wide financial statements but in more detail. Net assets for the enterprise fund at June 30, 2003 was \$2,671,891 which was an increase of \$24,716 over last year. The statement of net assets and the statement of revenues, expenses and changes in net assets for the proprietary fund are showed in separate schedules for presentation purposes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets, for its governmental funds, as of June 30, 2003, amounts to \$21,453,177, net of accumulated depreciation of \$7,776,094, leaving a net book value of \$13,677,083. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets, for its governmental funds, for the current fiscal year was \$ 2,633,093 or 23% in terms of net book value. Depreciation charges for the year totaled \$2,633,093.

The Municipality's investment in capital assets, for its proprietary funds, as of June 30, 2003, amounts to \$3,926,248, net of accumulated depreciation of \$611,685, leaving a net book value of \$3,314,563. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality did not investment in capital assets, for its proprietary funds, during the current fiscal year. Depreciation charges for the year totaled \$87,758.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003, the Municipality has \$4,008,253 of unexpended proceeds from bond issuances that are committed to future construction activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Debt Administration

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been predictable with increases of approximately five percent annually. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Net Assets
June 30, 2003

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 6,343,277	567,954	\$ 6,911,231
Cash with fiscal agent	6,962,441	455,219	7,417,660
Accounts receivable:			
Municipal license tax	139,484		139,484
Intergovernmental	1,536,373		1,536,373
Federal grants	258,797		258,797
Rent	29,232		29,232
Other	293,444	12,589	306,033
Internal balances	(15,413)	15,413	-
Capital assets			
Land, improvements, and construction in progress	3,254,353	388,790	3,643,143
Other capital assets, net of depreciation	10,422,730	2,925,773	13,348,503
Total capital assets	<u>13,677,083</u>	<u>3,314,563</u>	<u>16,991,646</u>
Total assets	<u>29,224,718</u>	<u>4,365,738</u>	<u>33,590,456</u>
Liabilities			
Accounts payable and accrued liabilities	1,276,726		1,276,726
Due to other governmental entities	657,792		657,792
Deferred revenues:			
Municipal license tax	2,808,612		2,808,612
Federal grant revenues	544,161		544,161
Interest payable	-	59,040	59,040
Noncurrent liabilities:			
Due within one year	2,748,306	206,560	2,954,866
Due in more than one year	19,399,720	1,428,247	20,827,967
Total liabilities	<u>27,435,317</u>	<u>1,693,847</u>	<u>29,129,164</u>
Net Assets			
Invested in capital assets, net of related debt	(2,382,430)	1,620,716	(761,714)
Restricted for:			
Capital projects	5,283,810		5,283,810
Debt service	2,954,188		2,954,188
Other purpose	442,265		442,265
Unrestricted (deficit)	(4,508,432)	1,051,175	(3,457,257)
Total net assets	<u>\$ 1,789,401</u>	<u>\$ 2,671,891</u>	<u>\$ 4,461,292</u>

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 9,169,688	\$ 282,697	\$ 164,326	\$ 315,042	\$ (8,407,623)		\$ (8,407,623)
Public safety	1,431,360	2,405	237,758		(1,191,197)		(1,191,197)
Public works	8,124,865		293,045	1,011,521	(6,820,299)		(6,820,299)
Health and welfare	4,785,521		4,638,554		(146,967)		(146,967)
Culture and recreation	343,929		12,000		(331,929)		(331,929)
Economic development	407,612		887,651		480,039		480,039
Community development	407,857				(407,857)		(407,857)
Education	73,177				(73,177)		(73,177)
Interest on long-term debt	929,198				(929,198)		(929,198)
Other					-		-
Total governmental activities	\$ 25,673,207	\$ 285,102	\$ 6,233,334	\$ 1,326,563	\$ (17,828,208)	\$ -	\$ (17,828,208)
Business Type Activities:							
General Government	95,381	245,447				150,066	150,066
Interest on long-term debt	125,350					(125,350)	(125,350)
Total business type activities	220,731	245,447	-	-	-	24,716	24,716
Total Primary Government	\$ 25,893,938	\$ 530,549	\$ 6,233,334	\$ 1,326,563	\$ (17,828,208)	\$ 24,716	\$ (17,803,492)
General revenues:							
Property taxes					8,666,679		8,666,679
Other local taxes					3,813,748		3,813,748
Municipal license tax					3,488,017		3,488,017
Grants and contributions not restricted to specific programs					3,226,941		3,226,941
Interest and investment earnings					306,304		306,304
Miscellaneous					133,628		133,628
Total general revenues					19,635,317	-	19,635,317
Change in net assets					1,807,109	24,716	1,831,825
Net assets - beginning					(17,708)	2,647,175	2,629,467
Net assets - ending					\$ 1,789,401	\$ 2,671,891	\$ 4,461,292

Commonwealth of Puerto Rico
Municipality of Dorado
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Special Revenue Fund Head Start	Debt Service Fund	Capital Projects Fund Local and State Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 3,917,083	\$ -	\$ -	\$ 1,387,846	\$ 1,038,348	\$ 6,343,277
Cash with fiscal agent			2,954,188	4,008,253	-	6,962,441
Accounts receivable:					-	
Municipal license tax	1,098				-	1,098
Intergovernmental	1,329,094			110,000	97,279	1,536,373
Federal Grants		138,721			120,076	258,797
Due from other funds	117,369				-	117,369
Other	76,950				-	76,950
Total assets	\$ 5,441,594	\$ 138,721	\$2,954,188	\$ 5,506,099	\$ 1,255,703	\$ 15,296,305
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 763,809	\$ 138,721	\$ -	\$ 164,034	\$ 210,162	\$ 1,276,726
Due to other governmental entities	657,792					657,792
Due to other funds	15,413			58,255	59,115	132,783
Deferred revenues:						
Municipal license tax	2,808,612				-	2,808,612
Federal grant revenues					544,161	544,161
Total liabilities	4,245,626	138,721	-	222,289	813,438	\$ 5,420,074
Fund balances:						
Reserved for:						
Encumbrances	447,375					447,375
Capital projects				5,283,810		5,283,810
Other purposes					442,265	442,265
Debt service fund			2,954,188		-	2,954,188
Unreserved:						
Undesigned	748,593				-	748,593
Total fund balances	1,195,968	-	2,954,188	5,283,810	442,265	\$ 9,876,231
Total liabilities and fund balances	\$ 5,441,594	\$ 138,721	\$2,954,188	\$ 5,506,099	\$ 1,255,703	

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

Accrual basis of accounting account receivables recognized in government-wide financial statements	384,113
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	13,677,083
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(22,148,026)
Net assets of governmental activities	\$ 1,789,401

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Special Revenue Fund Head Start	Debt Service Fund	Capital Projects Fund Local and State Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 6,763,408	\$ -	\$ 1,656,820	\$ -	\$ -	\$ 8,420,228
Municipal license taxes	3,349,630					3,349,630
Licenses, permits and other local taxes	3,610,695					3,610,695
Intergovernmental	3,379,390			1,011,521	884,141	5,275,052
Rent of property	253,465					253,465
Fines and forfeitures	2,405					2,405
Interest	306,304					306,304
Federal grants		2,840,702			2,354,294	5,194,996
Miscellaneous	364,948	1,235			2,204	368,387
Total revenues	\$ 18,030,245	\$ 2,841,937	\$ 1,656,820	\$ 1,011,521	\$ 3,240,639	\$ 26,781,162
Expenditures						
Current:						
General government	10,844,100				5,360	\$ 10,849,460
Public safety	1,222,106				300,060	1,522,166
Public works	4,914,632			3,139,626	75,350	8,129,608
Health and welfare		2,926,999			1,858,523	4,785,522
Culture and recreation	607,484				9,930	617,414
Economic development					407,612	407,612
Community development					407,857	407,857
Debt service:						
Principal	225,750		1,265,000			1,490,750
Interest	101,593		827,605			929,198
Total expenditures	17,915,665	2,926,999	2,092,605	3,139,626	3,064,692	\$ 29,139,587
Excess (deficiency) of revenues over (under) expenditures	114,580	(85,062)	(435,785)	(2,128,105)	175,947	(2,358,425)
Other financing sources (uses)						
Transfers in	450,000	85,062		21,259	73,150	629,471
Transfers out	(179,471)		(450,000)		-	(629,471)
Total other financing sources (uses)	270,529	85,062	(450,000)	21,259	73,150	-
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	385,109	-	(885,785)	(2,106,846)	249,097	\$ (2,358,425)
Fund balance, beginning, as restated	810,859		3,839,973	7,390,656	193,168	\$ 12,234,656
Fund balance, ending	\$ 1,195,968	\$ -	\$ 2,954,188	\$ 5,283,810	\$ 442,265	\$ 9,876,231

Commonwealth of Puerto Rico
Municipality of Dorado
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	(2,358,425)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental Funds report capital outlays as expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.</p>		3,745,427
<p>Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.</p>		(1,112,334)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.</p>		(704,271)
<p>Some expenses reported in the Governmental Funds require the use of current financial resources and, therefore, are not reported as expenditures in Statement of Activities.</p>		346,849
<p>Some revenues reported in the Statement of Activities do not provide current financial resources in Governmental Funds.</p>		384,113
<p>Change in landfill accrual</p>		-
<p>The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments.</p>		1,505,750
Change In Net Assets of Governmental Activities	\$	<u>1,807,109</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30,2003

	Business Type Activity Enterprise	Total Business Type Activity Enterprise
Current Assets		
Cash and cash equivalents	\$ 567,954	\$ 567,954
Cash with fiscal agent	455,219	455,219
Accounts receivable:		
Internal balances	15,413	15,413
Other	12,589	12,589
Total current assets	1,051,175	1,051,175
Noncurrent Assets		
Capital Assets		
Cost	3,926,248	3,926,248
Accumulated depreciation	(611,685)	(611,685)
Total non-current assets	3,314,563	3,314,563
Total assets	4,365,738	4,365,738
Current Liabilities		
Revenue Fund-Banco Santander Loan	206,560	206,560
Interest Payable-Banco Santander Loan	59,040	59,040
Total current liabilities	265,600	265,600
Noncurrent Liabilities		
Revenue Fund-Banco Santander Loan	1,428,247	1,428,247
Total current liabilities	1,428,247	1,428,247
Total liabilities	1,693,847	1,693,847
Net Assets		
Invested in Capital Assets, net of related debt	1,620,716	1,620,716
Unrestricted	1,051,175	1,051,175
Total Net Assets	\$ 2,671,891	\$ 2,671,891

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30,2003

	Business - Type Activities Enterprise	Total Business - Type Activities Enterprise
Operating Revenues:		
Charges for services	\$ 245,447	\$ 245,447
Total operating revenues	<u>245,447</u>	<u>245,447</u>
Operating Expenses:		
Operations and maintenance	7,623	7,623
Depreciation and Amortization	<u>87,758</u>	<u>87,758</u>
Total operating expenditures	<u>95,381</u>	<u>95,381</u>
Operating Income (Loss)	150,066	150,066
Non-operating revenues (expenses):		
Interest Expense	<u>(125,350)</u>	<u>(125,350)</u>
Total non-operating revenues (expenses)	<u>(125,350)</u>	<u>(125,350)</u>
Income (Loss) before contributions and transfers	24,716	24,716
Transfers (Out)	<u>-</u>	<u>-</u>
Change in Net Assets	-	-
Total net assets-Beginning	<u>2,647,175</u>	<u>2,647,175</u>
Total net assets-Ending	<u>\$ 2,671,891</u>	<u>\$ 2,671,891</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND- BUSINESS TYPE ACTIVITY- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2003

Cash flows from operating activities:

Cash received from customers	\$ 237,748
Cash paid to suppliers	(7,623)
Interest paid	<u>(128,392)</u>
Net cash provided (used) by operating activities	<u>101,733</u>

Cash flows from financing activities:

Repayment of revenue bonds	<u>(81,450)</u>
Net cash (used) by financing activities	<u>(81,450)</u>
Net Increase in Cash and Cash with Fiscal Agent, restricted	20,283
Cash and Cash with Fiscal Agent at beginning of period, restricted	<u>1,002,890</u>
Cash and Cash with Fiscal Agent at end of period, restricted	<u>\$ 1,023,173</u>

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

Operating Income	<u>\$ 24,716</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	87,758
Interest receivables	-
Other receivables	(7,699)
Due from other funds	-
Accrued expenses	(3,042)
Due to other funds	<u>-</u>
Total adjustments	<u>77,017</u>
Net cash provided (used) by operating activities	<u>\$ 101,733</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Dorado (the Municipality) was founded on the year 1842. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in Note 12.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-typed activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Special Revenue Fund - Head Start- Is the accounting entity in which revenues derived from the federal agency are used to provide comprehensive health, educational, nutritional, social, and other developmental services primarily to economically disadvantaged preschool children (ages 3 to 5) and infants and toddler (birth through age 3) so that the children will attain school readiness.

Debt Service Fund - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

Capital Project Fund - Local, State and Federal Grants - is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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 and 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.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each if which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

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

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

Capital Projects Funds – Local, State and Federal Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

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

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

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

1. Cash, cash equivalents, and cash with fiscal agent- The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

Cash with fiscal agent is shown in the Enterprise Fund which is held by the Government Development Bank and its use is limited to the expenditures associated with "Commercial Pavilion of Dorado Rafael Hernández Colón"

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 4. Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

- 5. Long-term obligations-** The liabilities reported in the government-wide financial statements include to general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

- 6. Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay it is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

- 7. Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
- 8. Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

- a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
- 9. Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:
- a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
- 10. Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$346,162. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$260,097 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets - Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$13,677,083	
Deduct:		
Bonds Payable	<u>(16,059,513)</u>	\$(2,382,430)
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		5,283,810
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		2,954,188
<u>Net assets restricted for other purposes</u>		
Other governmental funds- fund balance restricted for other purposes	\$442,265	442,265

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

11. Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net assets unrestricted (deficit)

General fund – total fund balance:	\$1,195,968	
Add:		
Accrual basis Account Receivables	384,113	
Deduct:		
Notes Payable	(110,751)	
Compensated absences debt	(1,762,904)	
Landfill Obligation	(3,270,010)	
Property tax debt – CRIM Law 42	(247,465)	
Department of Labor	(85,774)	
Property tax debt – CRIM Law 146	<u>(611,609)</u>	<u>(4,508,432)</u>
Total net assets – governmental activities		<u>\$1,789,401</u>

2. DEPOSITS

Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$3,917,083 and \$1,387,846 in the general fund and capital project fund – local and state grants, respectively, were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of approximately \$1,038,348, that were fully collateralized.

The deposits at GDB of approximately \$4,008,253, that is restricted principally for capital projects in the capital project fund – local and state grant and the 2,954,188 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax*- The Municipality impose a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 24 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

1. Financial business- 1.50% of gross revenues

2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 24. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

B. **Intergovernmental Receivables**- Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes, and the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from the excess of current year property tax collections over current year advances. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$549,141
Municipal Revenue Collection Center ("CRIM")	<u>779,953</u>
Total	<u>\$1,329,094</u>

Intergovernmental receivable in capital project funds - State grants represent expenditures incurred not yet reimbursed by local and state government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Department of Treasury	<u>\$110,000</u>
Total	<u>\$110,000</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in other governmental funds represent expenditures incurred not yet reimbursed by local and state government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Department of Treasury	\$3,485
Department of Labor	<u>93,794</u>
Total	<u>\$97,279</u>

Intergovernmental receivable in special revenue fund- Head Start represent expenditures incurred not yet reimbursed by federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Head Start Program	<u>\$138,721</u>
Total	<u>\$138,721</u>

Intergovernmental receivable in other governmental funds represent expenditures incurred not yet reimbursed by federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Child Care Block Grant	\$14,695
Community Development Block Grant	83,069
Special Programs for Aging - Title III, Part C - Nutrition Services	<u>22,312</u>
Total	<u>\$120,076</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2003, and interfund transfers during the fiscal year ended at June 30, 2003, are summarized as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

4. INTERFUND TRANSACTIONS (CONTINUED)

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Federal Grants	Reimbursable Expenditures	\$42,441
General Fund	Capital Project Fund - Local, State and Federal Grants	Reimbursable Expenditures	58,255
General Fund	Other Governmental Funds	Reimbursable Expenditures	16,674
Enterprise Fund	General Fund	Incorrect deposit	<u>15,413</u>
Total			<u>\$132,783</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Capital Project Fund - Local, State and Federal Grants	Transfer of Funds for Capital Outlays	\$21,259
General Fund	Special Revenue Fund - Federal Grants	Matching Share of Federal Grant	85,062
General Fund	Other Governmental Funds	Matching Share of Federal Grant and reclassify	73,150
Debt Service Fund	General Fund	Transfer of funds for operating purposes	<u>450,000</u>
Total			<u>\$629,471</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital asset, not being depreciated:				
Land	\$2,341,507	\$582,014	\$ -	\$2,923,521
Construction in progress	<u> </u>	<u>330,832</u>	<u> </u>	<u>330,832</u>
Total capital assets not being depreciated	<u>2,341,507</u>	<u>912,846</u>	<u>-</u>	<u>3,254,353</u>
Capital assets, being depreciated:				
Buildings	9,562,926	364,234		9,927,160
Buildings improvements	438,473	285,090		723,563
Infrastructure		515,091		515,091
Infrastructure improvements	199,573	41,914		241,487
Equipment	1,280,033	384,877		1,664,910
Furnishing	8,003			8,003
Computers	190,177	38,175		228,352
Vehicles	<u>3,687,058</u>	<u>1,203,200</u>	<u>-</u>	<u>4,890,258</u>
Total capital assets being depreciated	<u>\$15,366,243</u>	<u>\$2,832,581</u>	<u>-</u>	<u>\$18,198,824</u>
Less accumulated depreciation for:				
Buildings	\$(2,716,367)	\$(240,591)		\$(2,956,958)
Buildings improvements	(52,292)	(13,471)		(65,763)
Infrastructure		(4,280)		(4,280)
Infrastructure improvements	(147,873)	(22,714)		(170,587)
Equipment	(1,054,683)	(144,101)		(1,198,784)
Furnishing	(5,870)	(800)		(6,670)
Computers	(82,658)	(50,201)		(132,859)
Vehicles	<u>(2,604,017)</u>	<u>(636,176)</u>	<u>-</u>	<u>(3,240,193)</u>
Total accumulated depreciation	<u>(6,663,760)</u>	<u>(1,112,334)</u>	<u>-</u>	<u>(7,776,094)</u>
Total capital assets being depreciated, net	<u>8,702,483</u>	<u>1,720,247</u>	<u>-</u>	<u>10,422,730</u>
Governmental activities capital assets, net	<u>\$11,043,990</u>	<u>\$2,633,093</u>	<u>-</u>	<u>\$13,677,083</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	\$484,198
Public safety	170,013
Public works	345,136
Culture and recreation	32,710
Education	<u>80,277</u>
Total depreciation expense-governmental activities	<u>\$1,112,334</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

<u>Business - type Activities</u>	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2003</u>
Capital asset, not being depreciated:				
Land	\$388,790	-	-	\$388,790
Total capital assets not being depreciated	<u>\$388,790</u>	-	-	<u>\$388,790</u>
Capital assets, being depreciated:				
Building	\$3,537,458	-	-	\$3,537,458
Total capital assets being depreciated	<u>\$3,537,458</u>	-	-	<u>\$3,537,458</u>
Less accumulated depreciation for:				
Building	\$(523,927)	\$(87,758)	-	\$(611,685)
Total accumulated depreciation	<u>\$(523,927)</u>	<u>\$(87,758)</u>	-	<u>\$(611,685)</u>
Total capital assets being depreciated, net	<u>\$3,013,531</u>	<u>\$(87,758)</u>	-	<u>\$2,925,773</u>
Business Type Activities capital assets, net	<u>\$3,402,321</u>	<u>\$(87,758)</u>	-	<u>\$3,314,563</u>

Depreciation expense was charged to functions/programs of the Municipality as follows:

Business -Type Activities

General government	<u>\$87,758</u>
Total depreciation expense-governmental activities	<u>\$87,758</u>

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

On June 26, 1997, Public Law 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government wide statement of net assets includes an outstanding debt balance of \$247,465 and \$611,609 related to Law 42 and Law 146 respectively.

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 Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

The annual tax rate is 8.83% for real property and 6.83% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.80%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.00% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$2,808,612 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. DEFERRED REVENUES (CONTINUED)

B. Federal Government- The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Voucher	\$275,597
Nutrition Program for the Elderly	579
Community Service Block Grant	3,956
Emergency Management Performance Grant-State and Local Assistance	7,193
Special Program for Aging - Title III	22,786
Housing Opportunities for Persons with AIDS (HOPWA)	21,949
Section 108 Loan Guarantee	129,820
Local Law Enforcement Block Grant	12,652
Child Care and Development Block Grant	6,533
Federal Transit Authority	<u>63,096</u>
Total	<u>\$544,161</u>

8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$14,860,000	\$ -	\$(825,000)	\$14,035,000	\$880,000
Notes Payable	2,551,500		(680,750)	1,870,750	590,750
Property Tax Debt - CRIM	912,452		(53,378)	859,074	19,740
Compensated Absences	1,437,651	479,426	(154,173)	1,762,904	150,000
Lease Obligation-IBM	93,191		(53,522)	39,669	39,669
Lease Obligation-Cross Border		224,845		224,845	39,793
Landfill obligation	3,270,010			3,270,010	942,580
Department of Labor	<u>171,549</u>	<u>-</u>	<u>(85,775)</u>	<u>85,774</u>	<u>85,774</u>
Total	<u>\$23,296,353</u>	<u>\$704,271</u>	<u>\$1,852,598</u>	<u>\$22,148,026</u>	<u>\$2,748,306</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.

2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2003 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2003</u>
1992-Series	7-1-2007	1,860,000	5.00% to 7.50%	\$910,000
1993-Series	7-1-2008	150,000	5.87% to 7.60%	35,000
1995-Series	7-1-2007	765,000	5.00% to 7.50%	370,000
1996-Series	7-1-2014	2,750,000	6.87% to 8.00%	2,205,000
1997-Series	7-1-2009	2,650,000	6.75% to 8.00%	1,740,000
1997-Series	7-1-2016	290,000	6.63% to 8.00%	225,000
1997-Series	7-1-2016	110,000	6.63% to 8.00%	75,000
1998-Series	7-1-2013	3,675,000	6.00% to 7.50%	3,045,000
1998-Series	7-1-2021	1,065,000	6.71% to 8.00%	835,000
2000-Series	7-1-2013	65,000	5.88% to 8.00%	55,000
2000-Series	7-1-2025	310,000	5.88% to 8.00%	300,000
2000-Series	7-1-2020	1,500,000	5.88% to 8.00%	1,430,000
2002-Series	7-1-2026	2,850,000	5.00% to 8.00%	<u>2,810,000</u>
Total general obligation bonds				<u>\$14,035,000</u>

These bonds, except the 1997 Series bonds amounting to \$300,000, are payable from the ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$880,000	\$758,846
2005	935,000	710,782
2006	1,025,000	657,158
2007	1,115,000	597,290
2008	1,190,000	531,473
2009-2013	4,545,000	1,829,986
2014-2018	2,110,000	806,817
2019-2023	1,270,000	428,122
2024-2028	<u>965,000</u>	<u>111,300</u>
Total	<u>\$14,035,000</u>	<u>\$6,431,774</u>

- 3. Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity</u> <u>Date</u>	<u>Original</u> <u>Amount</u>	<u>Range of</u> <u>Interest rates</u>	<u>Balance at</u> <u>June 30, 2003</u>
1985-Series	1-1-2004	\$15,000	10.00%	\$750
1987-Series	1-1-2006	810,000	9.00%	225,000
1987-Series	7-1-2006	500,000	8.00%	75,000
1987-Series	7-1-2006	1,545,000	9.00%	425,000
1998-Series	7-1-2003	470,000	6.31% to 7.50%	110,000
2000-Series	7-1-2005	230,000	5.88% to 8.00%	150,000
2001-Series	7-1-2005	235,000	6.13% to 8.00%	150,000
2002-Series	7-1-2006	885,000	5.00% to 8.00%	<u>735,000</u>
Total notes payable				<u>\$1,870,750</u>

The notes except the 1985 and 1987 series amounting to \$725,750 are payable from the ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$590,750	\$93,044
2005	515,000	62,851
2006	560,000	33,316
2007	<u>205,000</u>	<u>3,290</u>
Total	<u>\$1,870,750</u>	<u>\$192,501</u>

4. The Municipality has entered into a lease agreement as lessee for financing the acquisition of a 2002 Ford Winnebago to be used as an electronic library. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through the capital lease are as follows:

<u>Assets</u>	<u>Governmental Activities</u>
2002 Ford Winnebago	\$231,845
Less: Accumulated Depreciation	<u>(34,777)</u>
Net value	<u>\$197,068</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, were as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Governmental</u> <u>Activites</u>
2004	\$79,131
2005	52,754
2006	52,754
2007	52,754
2008	<u>26,376</u>
Total minimum lease payments	263,769
Less amount representing interest	- 38,924
Present value of minimum lease payments	<u>\$224,845</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 amounted to \$53,522.

The assets acquired through the capital lease are as follows:

<u>Assets</u>	<u>Governmental</u> <u>Activites</u>
1999 Ford Winnebago	\$227,000
Less:	
Accumulated Depreciation	<u>(223,217)</u>
Net value	<u>\$3,783</u>

The outstanding debt balance as of June 30, 2003 amounts to \$39,669. The debt service requirements to maturity including \$1,246 of interest are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Governmental</u> <u>Activites</u>
2004	<u>\$40,914</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

5. 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 9.00%. 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 9.50% or 1.00% over the London Interbank Offered Rate (L.I.B.O.R.) +1%. Total principal payments during the current year amounted to \$81,210. The outstanding debt balance as of June 30, 2003 amounts to \$1,634,807. The debt service requirements to maturity including \$657,190 of interest are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$90,084	\$116,476
2005	96,733	109,827
2006	103,874	102,686
2007	111,541	95,019
2008	119,774	86,786
2009-2013	<u>1,112,801</u>	<u>146,396</u>
Total	<u>\$1,634,807</u>	<u>\$657,190</u>

6. **Property Tax Debt-** These amounts represent the balance owned to the Municipal Revenue Collection Center (CRIM) at June 30, 2003, as described in Note 6, from property tax advances in excess of actual collections and the debt related to property tax .

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

7. **Compensated absences-** The government-wide statement of net assets includes approximately \$1,042,199 of accrued sick leave benefits, and approximately \$720,705 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
8. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$1,800,010 as the Municipality's estimated current cost for landfill closure as of June 30, 2003. The preliminary annual estimate of post closure costs has been assessed approximately to be \$1,470,000 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2002, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$1,800,010 and \$1,470,000, respectively, are reported in the government-wide statement of net assets.
9. **Operation 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 financial statements.

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, 2003:

<u>Year Ending</u>	<u>Governmental</u>
	<u>Activites</u>
<u>June 30,</u>	
2004	\$74,169
2005	67,601
2006	56,639
2007	<u>8,016</u>
Total minimum payments required	<u>\$206,425</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately \$383,669 and \$430,034, respectively.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN (CONTINUED)

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

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

10. RISK MANAGEMENT

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

11. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from the ordinary course of the Municipality's activities. It is the opinion of the Municipality's management and the Municipality's attorney that any losses not covered by insurance which may ultimately be incurred as a result of the suits and claims will not be material. 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.

12. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$378,459 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the recognition of interfund transactions pending at year end, and the elimination of liabilities.

The beginning Fund Balance for Special Revenue has been restated by approximately \$26,991 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the reclassification of fund balance to deferred revenue.

The beginning Fund Balance for Debt Service Fund has been restated by approximately (\$312,830) to properly present the previously reported fund balances at June 30, 2002. The restatement is mainly due to the recognition of the amount due to CRIM related to the Final Liquidation of the fiscal year 2001-2002.

The beginning Fund Balance for Capital Projects Funds has been restated by approximately \$175,734 to properly present the previously reported fund balances at June 30, 2002.

13. SUBSEQUENT EVENTS

On July 1, 2003, the Municipality issued \$3,150,000 in general obligation bonds. These bonds will be used to finance capital projects. Repayment of the bonds is scheduled to begin in 2004 through 2023.

On July 1, 2003, the Municipality issued \$ 285,000 in special obligation bonds. These bonds will be used to pay debts incurred with the Treasury Department, the Internal Revenue Service and other operational liabilities. Repayment of the bonds is scheduled to begin in July 2004 through June 2010.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

13. SUBSEQUENT EVENTS (CONTINUED)

On July 14, 2003, the Municipality issued \$ 550,000 in general obligation bonds. These bonds will be used to pay debts incurred with Treasury Department and the Puerto Rico Telephone Company. Repayment of the bonds is scheduled to begin in 2004 through 2028.

On October 23, 2003, the Municipality issued \$115,000 in general obligation bonds. These bonds will be used to acquire land and building in Méndez Vigo Street. Repayment of the bonds is schedule to begin in 2004 through 2023.

On September 8, 2003, the Municipality issued \$ 370,000 in general obligation notes. These notes will be used for the acquisition of equipment and machinery. Repayment of the notes will begin in 2004 through 2010.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)
YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis) (See Note 1)	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$5,983,455	\$5,983,455	\$6,423,175	\$439,720
Municipal license tax	3,361,802	3,361,803	3,349,630	(12,173)
Licenses, permits and other local taxes	1,160,000	2,771,000	3,610,695	839,695
Charges for service				
Intergovernmental	2,044,773	2,921,414	3,379,390	457,976
Rent of property	269,319	269,319	253,465	(15,854)
Fines and forfeitures	5,100	5,100	2,405	(2,695)
Interest	700,100	700,100	306,304	(393,796)
Miscellaneous	<u>564,700</u>	<u>1,133,823</u>	<u>364,948</u>	<u>(768,875)</u>
Total revenues	<u>14,089,249</u>	<u>17,146,014</u>	<u>17,690,012</u>	<u>543,998</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	7,371,561	9,502,998	10,627,599	(1,124,601)
Public safety	1,407,825	1,149,514	1,087,003	62,511
Public works	4,616,163	5,716,291	4,750,493	965,798
Culture and recreation	573,700	568,990	562,859	6,131
Operating transfer to other fund	<u>120,000</u>	<u>208,221</u>	<u>242,569</u>	<u>(34,348)</u>
Total expenditures, encumbrances and other financing uses	<u>14,089,249</u>	<u>17,146,014</u>	<u>17,270,523</u>	<u>(124,509)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-----</u>	<u>-----</u>	<u>419,489</u>	<u>419,489</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$17,690,012
Differences-budget to GAAP:				
Collections of prior year CRIM receivables				(439,720)
Current year CRIM receivables collected during year 2003-2004				779,953
Non budgeted transfer in from debt service fund				<u>450,000</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$18,480,245</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$17,270,523
Differences-budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				1,023,724
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(199,111)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$18,095,136</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2003

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund.

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
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	\$ 254,772
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>16,345</u>
Total U.S. Department of Agriculture			<u>271,117</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Section 8 Housing Choice Voucher Program	14.871		1,548,961
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs: Community Development Block Grant - State Program		94-FD-22 95-FD-22 98-FD-22 99-FD-22 00-FD-22 01-FD-22 02-FC-22 02-AB-22	
	14.228		336,049
Community Development Block Grant - Section 108 Loan Guarantees	14.248	Not Available	71,808
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan: Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>25,822</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 1,982,640</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF JUSTICE:			
Direct Program:			
Local Law Enforcement Block Grant	16.592		94,335
Public Safety Partnerships and Community Policing Grants (COPS).	16.710	98-UM-WX- 1569	<u>106,440</u>
Total U.S. Department of Justice			<u>200,775</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA):			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency: Emergency Management Performance Grant	83.552		<u>589</u>
Total U.S. Department of Justice			<u>589</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
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	45,679
Special Programs for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	65,933
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ADFAN):			
Child Care and Development Block Grant	93.575	Not Available	42,270
Head Start Program	93.600	02-CH-0483-37 02-CH-0483-38	2,585,993
Total U.S. Department of Health and Human Services			2,739,875
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,194,996

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, 2003

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 fund 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 Head Start and Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund Head Start	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$2,840,765	\$2,354,231	\$5,194,996
Non federal programs Expenditures	86,234	710,461	796,695
Total expenditures in the fund financial statements	\$ 2,926,999	\$3,064,692	\$ 5,991,691



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- 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 basic financial statements of the **Municipality of Dorado** as of and for the year ended June 30, 2003, and have issued our report thereon dated December 19, 2003, which was unqualified. 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** basic 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 basic 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 basic 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 basic financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **03-01** through **03-04**.

**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 basic 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 the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is not 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 19, 2003.

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 19, 2003

Stamp No. 1942276 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, 2003. 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 03-18 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, 2003. 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, 03-05 through 03-17 and 03-19, through 03-20.

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 03-05 through 03-20.

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 03-06, through 03-07, and 03-10 through 03-18 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 March 12, 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
March 12, 2003

Stamp No. 1942277 of the Puerto Rico
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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, 2003

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No X
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>
14.228	Community Development Block Grant-State Program
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, 2003

Section II - Financial Statements Findings

Finding Reference	03-01
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).
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 establish 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 And Corrective Action	The Municipality concurs with the finding. To correct the situation, the Municipality contracted a company to implement OCAM accounting system. Implementation date: 5/1/04. Responsible Person: Mr. Luis R. Sierra Salgado

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-02
Requirement	Cash Receipts- Revenues, Receivables and Collections
Statement of Condition	<p>We performed a cash receipt test and examined a sample of sixty (60) collections. The following summarize the exceptions found:</p> <ul style="list-style-type: none">a. In one (1) case a bank deposit of \$145,000 was realized after twenty four of been collected in the Treasury Office.b. In one (1) case the taxpayer file was not available for examination.
Criteria	<p>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.</p>
Cause of Condition	<p>Internal controls failed to assure that daily collections were duly accounted for and deposited in a reasonable time and to assure that adequate documentation exist for taxpayer excise tax payments.</p>
Effect of Condition	<p>The Municipality did not comply in these cases 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.</p>
Recommendation	<p>The Municipality should establish the following procedures in order to avoid these situations in a future:</p> <ul style="list-style-type: none">a. Strengthen the filling procedures in order to assure that collection supporting documents as deposit slips, treasurer receipts and other required documents are duly organized and filled.b. Strengthen the control procedures of the daily revision of the amounts collected and amount credited in bank to assure that the revenues are duly accounted and processed in the period of collection.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference 03-02 (Continued)

Management Response
And Corrective Action

The Municipality concurs with the finding. Operations of the Collection Department are monitored through reports submitted daily by the Treasurer. Also, the Municipality Internal Auditor conducts periodical revisions of the operations. These situations are isolated errors, not internal control failures.

Implementation date: Corrective action taken immediately.

Responsible Person: Mr. Luis R. Sierra Salgado

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference 03-03

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

Statement of Condition We performed a cash disbursement test and examined one hundred and thirteen (113) disbursement vouchers which belonged to Head Start Program, sixty five (65) disbursement vouchers belonged to SBGP Program, and nine teen (19) disbursement vouchers belonged to Section 8 Voucher program. The following will summarize the exceptions noted:

- a. One (1) disbursement voucher from Section 8 Voucher program did not include an original invoice.
- b. Nine (9) cancelled checks from Head Start Program were not available for examination.
- c. Six (6) payroll liability disbursement vouchers from Head Start program were not available for examination.
- d. In thirty one (31) disbursement vouchers, the Report of receipt and inspection of goods acquired or services rendered was not available for examination.
- e. One (1) Purchase Order was issued after receipt of goods and services.
- f. Four (4) disbursement vouchers from SBGP program did not include evidence of the quotations process.
- g. Two (2) payroll liability disbursement vouchers from Head Start Program did not include the required supporting documentation.

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 internal control failed to assure that all transactions realized by the Municipality are supported by all the required documentation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference 03-03 (Continued)

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

Recommendation We recommend the Municipality to improve its internal control and procedures in order to assure that disbursement vouchers includes all the required supporting documents before the issuance of any payment.

Questioned Costs None

Management Response
And Corrective Action The Municipality concurs with the finding. The Municipality will verify its internal controls and procedures to assure that all disbursement vouchers contain all the necessary supporting documents. Instructions were given to the Finance Department personnel to follow up on this finding.

Implementation date: 5/1/04

Responsible Person: Mr. Luis R. Sierra Salgado

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-04
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 five (5) employees 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 two (2) employees we found differences between the sick and regular vacations used by the employees as per the time assistance card and the sick and regular vacations discounted in the accumulative vacations card.c. For two (2) Section 8 Voucher Program employee files, the Human Resources Department did not maintain proper and updated information.
Criteria	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.
Cause of Condition	<p>The internal control procedures failed to assure the proper preparation and payment of payroll and the correctness of accumulative vacation and sickness balances in these cases.</p> <p>The internal control procedures failed to assure that municipal employee files includes all required documentation.</p>
Effect of Condition	The Municipality did not maintain an adequate control over these 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. Also, the Human Resources Department should prepare control procedures to maintain proper employee files.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference 03-04 (Continued)

Management Response

And Corrective Action The Municipality concurs with the finding. Specific instructions were given to the Human Resources Department to correct the finding and evaluate the auditor's recommendations.

Implementation Date: 5/1/04

Responsible Person: Mrs. Evelyn Landrón

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-05
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs
Requirement	Allowable Activities
Statement of Condition	During our test of five (5) housekeeping assistance project participant files we noted the following: a. In five (5) cases the Service Coordinator visited only one time per month the participant house to ensure the quality of services.
Criteria	The Office of the Commissioner of Municipal Affairs (OCAM) procedures manual for housekeeper's assistance states that the Service Coordinator must visit at least two times per month the participant housing unit to ensure the quality of services.
Cause of Condition	The Municipality internal controls failed to assure that the project performance is in accordance with regulations.
Effect of Condition	The Municipality is not in compliance with The Office of the Commissioner of Municipal Affairs (OCAM) regulations.
Recommendation	We recommend that the Municipality should strength its procedures to assure that at least two visits per month are realized to participant house in order to ensure the quality of services.
Questioned Cost	None.
Management Response And Corrective Action	The Housekeeping Program had transportation problems at the beginning of the project. The Federal program director gave instructions to the Service Coordinator to assure that at least two visits per month are performed to the participant housing unit. Implementation Date: 4/1/04 Responsible Person: Paulina Márquez

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 03-06

Program Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs

Requirement Allowable Cost and Cost Principles

Statement of Condition Section II – Financial Statements Findings- Finding Reference 03-03.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07
Program	Community Development Block Grants – State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs
Requirement	Cash Management
Statement of Condition	<p>We realized Cash Management Test and after our procedures were performed we found the following exceptions:</p> <ol style="list-style-type: none">We noted that funds which belonged to requisition number 79-SBGP 94, 25- SBGP 99 and 12- SBGP 01 were disbursed by the program after one month of being deposited in the bank.We noted that funds which belonged to requisition number 21-SBGP 00 amounting to \$7,949 were maintained in the bank for eleven months. At audit date those funds were in the bank.We noted that funds belonged to requisition number 17-SBGP 01, 2-SBGP 02 and 13-SBGP 02 were disbursed by the program from eight to twenty days of being deposited in the bank.We noted as of June 30, 2003 the program maintained an average cash balance per month of \$15,274 which mainly belonged to cash balance maintained in SBGP- 2000 of \$8,000.
Criteria	Code of Federal Regulations 24, Subpart I, Section 85.20 (b) (7) states that units of general local governments shall use procedures to minimize the time elapsed between the transfer of funds by the state and disbursements for CDBG activities, according with Treasury Circular 1075. Units of general local government shall also use procedures to minimize the time elapsed between the transfer of funds by the state and disbursement of CDBG activities.
Cause of Condition	The Federal Program Department does not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07 (Continued)
Effect of Condition	The Municipality requested funds in excess of immediate needs and for that reason the Municipality did not comply with the Code of Federal Regulations 24, Subpart I, 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 entity and the disbursements made by the Municipality. Also, we recommend that management should strength its accounting procedures in order to assure a clear trace of transactions to the accounting records.
Questioned Costs	None
Management Response And Corrective Action	The Municipality is in the process of implementing a new accounting system which complies with the regulations and laws of OCAM. In the current system maintained by the Municipality the federal program has to prepare the disbursement voucher only when federal funds are available in the bank and available in the fund. After all authorizations are obtained, the Municipality proceeds to prepare the check with a subsequent date of the disbursement of the voucher. We consider that with the new accounting system the payments will be realized at the moment that the funds are available in the bank.

Implementation Date: 4/1/04

Responsible Person: Roberto Vera Molina

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-08
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs
Requirement	Procurement and Suspension and Debarment
Statement of Condition	During our contract provision test we noted the following situations: a. Four (4) contracts did not include a provision for granting access to GAO or other federally agency, to books, documents, etc. b. Four (4) contracts did not include provisions for retention of all required records for three years.
Criteria	Code of Federal Regulations 24, Subpart I, Section 570.489 (g) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations.
Cause of Condition	The Municipality internal control procedures failed to assure that contract includes all required clauses.
Effect of Condition	In these cases, the Municipality was not in compliance with Code of Federal Regulation 24, Subpart I, Section 570.489 (g).
Recommendation	We recommend that the Municipality should strength its procedures in order to assure that the contracts contain all provisions requested by federal agencies.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-08 (Continued)

Management Response
And Corrective Action

All the professional service contracts paid with federal funds includes all required clauses to assure the compliance with applicable laws and regulations. In order to assure that the clauses required, the contractor maintains the documents for a minimum of four (4) years and the access to those documents in future audits by GAO (General Accounting Office). The contract office was informed to complete with this requirement and a contract model will be submitted to them including the clauses.

Implementation Date: 4/1/04

Responsible Person: Roberto Ramos Pérez

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 03-09

Program Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S.
Department of Housing and Urban Development

Requirement Allowable Cost and Cost Principles

Statement of Condition Section II - Financial Statements Findings- Finding Reference 03-03.-

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-10
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 fifteen (15) participant files we noted the following exceptions related to the Housing Assistance Payment calculation:</p> <ul style="list-style-type: none">a. In one (1) case the program did not consider all participant revenues.b. In three (3) cases we found errors in the Utility Allowance used to calculate the Housing Assistance Payment.
Criteria	<p>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 Hap's calculation. Code of Federal Regulations 24 CFR, Section 880.603 requires the PHA to reexamine family income and composition at least once every twelve months and adjust the tenant rent and housing assistance payment as necessary.</p>
Cause of Condition	<p>The Municipality internal control and procedures failed to assure that the HAP calculation for these participants was calculated using the third party income evidence obtained and the correct utility allowance.</p>
Effect of Condition	<p>In these cases the Municipality was not in compliance with Code of Federal Regulations 24, Sections 880.603 and 982.505.</p>
Recommendation	<p>We recommend the municipality to improve it's monitoring controls in order to assure that HAP's are duly computed.</p>
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-10 (Continued)

Management Response

Corrective Action Management assures us that:

- a. We are going to do a review in this case and transmit the correction in PIC.
- b. The corrective actions were made and we improved the monitoring controls in order to assure the HAP in future cases.

Implementation Date: 05/ 1/04

Responsible Person: Arlyn Velez, Technician

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-11
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 fifteen (15) participant files. The following will summarize the exceptions noted:</p> <ul style="list-style-type: none">a. In four (4) 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 signed by participants of eighteen years or older.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 five (5) participant files the Privacy Act Notice was not signed by participants of eighteen years or older.d. The program staff did not document the utilities provided by the tenant or the owner at annual reexamination.e. There was no adequate evidence of the Labor Department Certification of one (1) participant in the annual reexamination.f. In nine (9) participant files the program did not document the student certification of children's which not has eighteen years old.g. In one (1) participant file the contract was not renewed for more than one (1) year.
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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-11(Continued)
	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 Municipality internal control procedures failed to assure that the participant files include all required documentation and releases required by federal agencies.
Effect of Condition	In these cases the Municipality was 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
Management Response And Corrective Action	Management assured us that: a. Our PHA Staff will provide to the assistance applicant and to the participants in the annual recertification a release form to allow the PHA to obtain information for third parties. (Who are at least 18 years old). b. The PHA will obtain and document in families files third party verification of Value of Assets. c. The corrective actions were made and we have taken preventive procedures for future cases.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference

03-11 (Continued)

- d. We are going to add the utility schedule in each re-examination and adjustment in order to assure the HAP's calculation.
- e. The corrective actions were made and we have taken preventive procedures for futures cases.
- f. We are going to establish procedures so that each file includes this information.
- g. We proceed to cancel the contract with the family because they did not provide all the necessary information.

Implementation Date: For indicators a,b,d,f it will be prospective.
Indicators c,e,g will be implemented on 05/01/04.

Responsible Person: Technicians- : Arlyn Velez and Carmen Salgado

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-12
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 the 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 approximately \$110,000. HUD deducted \$13,677 overpayment which belonged to the current year.
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 internal control failed to assure that the program cash balance in books not excessive and cash maintained in bank is 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 its procedures verifying and evaluating the cash balance in books in order to comply with cash management requirement. In the case that an excessive cash balance is maintained in the bank the program must request HUD to adjust fund advances.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-12 (Continued)

Management Response
And Corrective Action

On 2/4/2003 the Municipality of Dorado submitted to Hud a revised Requisition Form 52663 which was approved by HUD on 2/18/03 to reduce the monthly payments (advances) by \$76,728 for fiscal year ended 6/30/2003. As a result Section 8 Program had a overpayment of \$13,677 representing less than 1% of the Total Annual Contributions. HUD permits overpayments up to 5% of Total Annual Contributions. In the same year, the permissible limit would have been \$77,483. Nevertheless, the permissible cash fund has accumulated old cash balances which includes fees earned by the program, the excess Administrative fees (Operating Reserved), earned Preliminary Administrative and General Expense when additional projects were approved as well as Reserves for the Family self -Sufficiency Program, which have not to be returned to HUD.

Below is a projection of the cash activity and balances for the current fiscal year ending on 6/30/2004.

Voucher adjusted cash balance as of 6/30/2003	\$277,379.09
Less Reserved Funds included:	
Operating Reserved	167,178.00
Overpayment of FY 2003 due Hud	13,677.00
Family Self Sufficiency Escrow Account	6,749.00
	<u>(187,604.00)</u>
Available for next month (July 2004) Program Expenses)	89,775.09
Total Receipts from 7/1/2003 thru 3/31/2004	1,186,073.00
Total disbursement from 7/1/2003 thru 3/31/2004	<u>(1,166,974.00)</u>
Balance available as of 3/31/2004	108,874.09
Less: Payroll Salaries, Employees Benefits Expenses,	
Audit expense not paid yet for FY 2004	<u>(97,000.00)</u>
Excess as of 3/31/2004	<u>\$11,874.09</u>

Implementation Date: 04/01/04

Responsible Person: Sara Villanueva

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-13
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	<p>During our waiting list test we noted the following exceptions:</p> <ul style="list-style-type: none">a. We did not obtain sufficient documentation which let us determine how participants were selected from the top of the waiting list. During our test we noted that the program staff did not document adequately why vouchers approved were not in accordance with the numerical sequence of the participant numbers in the waiting list or the program priorities.b. We noted that two (2) participant's waiting list turn numbers were cancelled. In change, the Municipality proceeded to activate those participant turns instead of giving them a new number. That affected the selection of participants from the top of the waiting list.
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 did not leave a clear audit trail in the participants' selection from the waiting list process.
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 trial that can be used to verify that each participant has been selected in accordance with the methods specified in the administrative plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-13 (Continued)

Questioned Costs None

**Management Response
And Corrective Action**

To maintain documentation that shows how participants are selected from the top of the waiting list, our PHA will implement a report in a computer. This report will show the date of the selected participants and documents the exceptions.

Implementation Date: Prospective

Responsible Person: Andrea López

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-14
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 the current year the Federal Program Department did not document the reasonable rent determination in accordance with the administrative plan in the participant file. In addition, no quality control samples of tenant files were evaluated by the program staff to verify the compliance with the requirement.
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 And Corrective Action	Our PHA applies with the new Payment Standard on December 2003 which determine and document the reasonable rents for each units. In addition, will do quality control in future cases.

Implementation Date: Prospective

Responsible Person: Maria I. Molina, Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-15
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 use an up-to-date utility allowance schedule for Housing Assistance Payment calculation for the audit period ending June 30, 2003. 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 use an updated utility allowance schedule.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR Section 982.517.
Recommendation	The Municipality should use an up-to-date utility allowance schedule based on the typical cost of utilities and service paid by conservative households that occupy housing of similar size and type in the same locality.
Questioned Costs	None
Management Response And Corrective Action	Our PHA reviewed Utility Rate Data and will adjust its allowance schedule. Implementation Date: Prospective Responsible Person: Technicians- : Arlyn Velez and Carmen Salgado

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 03-16

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 Allowable Cost and Cost Principles

Statement of Condition Section II - Financial Statements Findings- Finding Reference 03-03.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	03-17
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 \$68,678.
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 And corrective Action	The Municipality concurs with the finding. The Municipality states that due to the delay in the request of funds, the reports are submitted using estimated amounts. When the deposit is received, the Municipality starts to pay off its obligations. Due to the internal controls and procedures used by the Municipality to disburse funds, payments may be delayed. The "ACUDEN" auditors have indicated that a 10% of total budget cash balance is permitted.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 03-17 (Continued)

Implementation Date: 7/1/04

Responsible Person: Mrs. Teresa Acevedo

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	03-18
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 unallowable 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 And Corrective Action	The Municipality do not concur with the finding. The program accountant prepares the Report of 15% of Administrative Cost with the actual expenses of the program. This report prepared by "ACUDEN", separates administrative costs from programmatic costs with given percentages. The program accountant adapts the report to reflect actual expenses by the program.

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 03-18 (Continued)

Implementation Date: 7/1/02

Responsible person: Mrs. Teresa Acevedo

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-19
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. Five (5) 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. Five (5) 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.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.
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.
Cause of Condition	The Municipality procurement standard procedures failed to include the required contract provisions.
Effect of Condition	In these cases 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

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 03-19(continued)

Management Response
And Corrective Action

The Municipality concurs with the finding. The program Director sent a letter to Ms. Sonia Arroyo, Director of the Municipality's Secretary Office, requesting information of the clauses to be included in the Federal fund contracts. New contracts for the following fiscal year will contain all clauses requested by Federal Law.

Implementation Date: 7/1/04

Responsible Person: Mrs. Sarahí Meléndez

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-20
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	<p>In our Reporting Test we observed the following exceptions:</p> <ul style="list-style-type: none">a) The Fund Liquidation Report, the Trial Balance and the Financial Report for the program year ended February 28, 2003 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 and the amounts recorded in the general ledger for approximately \$3,000 on September, 2002 and \$88,000 on February, 2003c) We could not trace the amounts in the Fund Liquidation Report and Financial Report for the program year ended 2/28/03d) We could not trace the monthly reports to the accounting records for the months of October 2002 and December 2002.
Criteria	<p>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.</p>
Cause of Condition	<p>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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-20(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
And Corrective Action**

The Municipality concurs with the finding. Differences in the reports are due to estimated amounts arising from lack of information at the time the monthly reports are submitted. In the closing report, adjustments are incorporated to correct any prior report error, differences, if any, are not material.

Implementation date: 7/1/04

Responsible Person: Mrs. Teresa Acevedo

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-06	93.600	<p><u>The Municipality should follow cash management system procedures developed by it in order to assure that funds requested are disbursed as required by the regulation.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-17.</p>
02-07	93.600	<p><u>The Municipality should perform a physical inventory in order to actualize the property subsidiary</u></p> <p>Full corrective action was taken.</p>
02-08	93.600	<p><u>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.</u></p> <p>Full corrective action was taken.</p>
02-09	93.600	<p><u>The Municipality should 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-18.</p>
02-10	93.600	<p><u>The Municipality should include all contract provisions required by federal regulations before each contract execution.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-19.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-11	93.600	<p><u>The Municipality should prepared the required reports including all the required information and submit them in a timely manner. If the deadline is not achievable, a request for an extension should be obtained from the federal agency. Also, the Municipality should establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-20.</p>
02-12	14.871	<p><u>The Municipality should improve internal control procedures related to procurement requirements.</u></p> <p>Full corrective action was taken</p>
02-13	14.871	<p><u>The Municipality should perform monitoring activities in order to assure that HAP are duly computed</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-10.</p>
02-14	14.871	<p><u>The Program should 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-11.</p>
02-15	14.871	<p><u>The Municipality 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-12.</p>

COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-16	14.871	<p><u>The Municipality should improve internal controls and monitoring procedures to assure that the program comply with federal regulations.</u></p> <p>Full Corrective action was taken</p>
02-17	14.871	<p><u>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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-13.</p>
02-18	14.871	<p><u>The Federal Program Department should establish adequate controls to assure that appropriate documentation of the determination of reasonable rent is maintained in each participant's file.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-14.</p>
02-19	14.871	<p><u>The Municipality should evaluate utility allowance rate each year as established in the federal regulations</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-15.</p>
02-20	14.871	<p><u>The Municipality should 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.</u></p> <p>Full corrective action was taken.</p>
01-05	93.600	<u>Deficiencies in disbursement test.</u>

COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

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 was taken. The auditors reissued the finding for the current year. Finding Reference 03-16.
01-06	93.600	<u>No adequate cash management procedures.</u>
		<u>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-17.</u>
01-08	93.600	<u>The Municipality did not maintain adequate property records.</u>
		Full corrective action has been taken.
01-10	93.600	<u>Deficiencies in Participants files.</u>
		Full corrective action has been taken.
01-11	93.600	<u>Deficiencies in procurement process</u>
		No corrective action was taken. <u>The auditors reissued the finding for the current year. Finding Reference 03-19.</u>
01-12	93.600	<u>Deficiencies in procurement process</u>
		Full corrective action has been taken.
01-13	93.600	<u>Reporting</u>
		No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-20
01-14	93.600	<u>No adequate control to account Due To and Due From.</u>
		Full corrective action has been taken.
01-16	14.855 14.857	<u>Deficiencies in Housing Assistance payments calculation</u>
		No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-10
01-17	14.855	

COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
	14.857	<u>No adequate cash management procedures.</u> No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-12.
01-18	14.855 14.857	<u>Deficiencies in eligibility test</u> No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-11.
01-20	14.855 14.857	<u>No adequate documentation of the participant selection from the waiting list</u> No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-13
01-21	14.855 14.857	<u>No adequate documentation of the SEMAP answers and fails in SEMAP requirements</u> Full corrective action has been taken
00-2	93.600	<u>Lack of proper documentation on participants files</u> No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-11.