

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

MUNICIPIO DE DORADO
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2004

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

YEAR ENDED JUNE 30, 2004

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

YEAR ENDED JUNE 30, 2004

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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, the business-type 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, 2004, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico**, as of June 30, 2004, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (Continued)

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule-General Fund on page 50 through 51 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 6, 2004 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 6, 2004

Stamp No. 2019424 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'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2004

Management's Discussion and Analysis

As management of the Municipality of Dorado, we offer readers of the Municipality's basic financial statements this narrative overview and analysis of the financial activities of the Municipality as of and for the fiscal year ended June 30, 2004. This Management's Discussion and Analysis (MD&A) include comparative data, and it has been designed accordingly with the following goals:

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

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 \$3,497,754.
- In the fund financial statements, the governmental activities revenue increased \$1,067,130 (or 4%) while governmental activities expenditures increase \$477,187 (or 2%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$955,118.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$(83,557).
- The Municipality issued bonds amounting to \$5,125,000 to finance the acquisition of land and building, public works, capital improvements and constructions of different projects.
- The Municipality issued a note payable amounting to \$370,000 to acquire equipments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Fund Financial Statements (Continued)

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.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

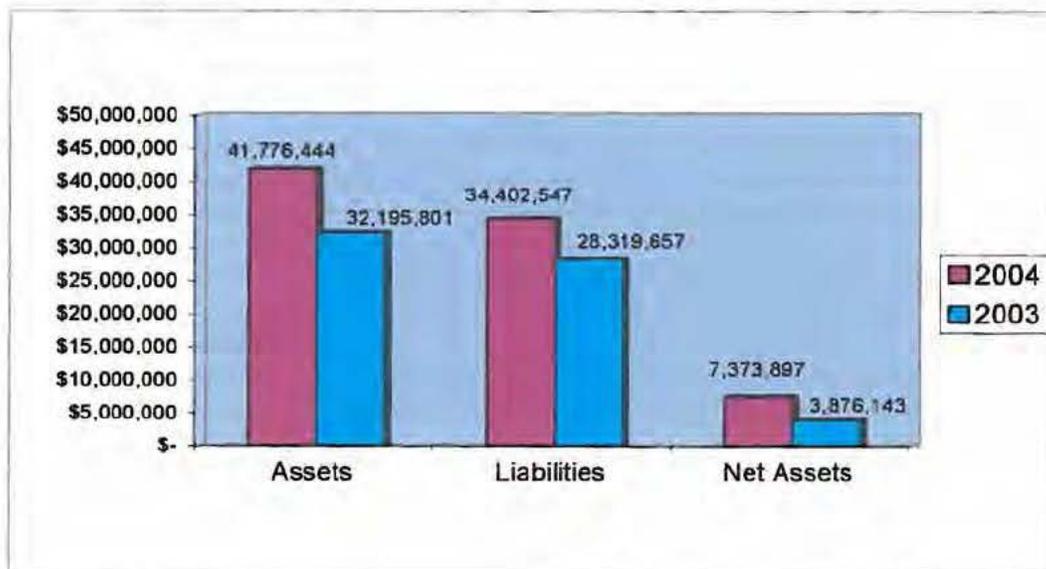
Net Assets

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 \$7,373,897 at the end of 2004, compared to \$3,876,143 at the end of the previous year, as restated.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets (Continued)

Condensed Statement of Net Assets	2004	2003	Change	%
Current assets	\$23,535,047	\$17,417,962	\$6,117,085	35%
Capital assets	18,241,397	14,777,839	3,463,558	23%
Total assets	41,776,444	32,195,801	9,580,643	30%
Current liabilities	6,859,445	5,376,787	1,482,658	28%
Noncurrent liabilities	27,543,102	22,942,870	4,600,232	20%
Total liabilities	34,402,547	28,319,657	6,082,890	21%
Invested in capital assets, net of related debt	(3,425,962)	(2,975,521)	(450,441)	15%
Restricted	13,481,013	9,499,414	3,981,599	42%
Unrestricted	(2,681,154)	(2,647,750)	(33,404)	1%
Total net assets	\$7,373,897	\$3,876,143	\$3,497,754	90%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Changes in Net Assets

The Municipality's net assets increased by \$3,497,754. Approximately 59 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 2 percent of the total revenues. Interest earnings and miscellaneous provided 1 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and health and welfare. As follow, is presented a comparative analysis of government-wide data. In this analysis was determined the percentage change in revenues and expenditures from prior year to current year.

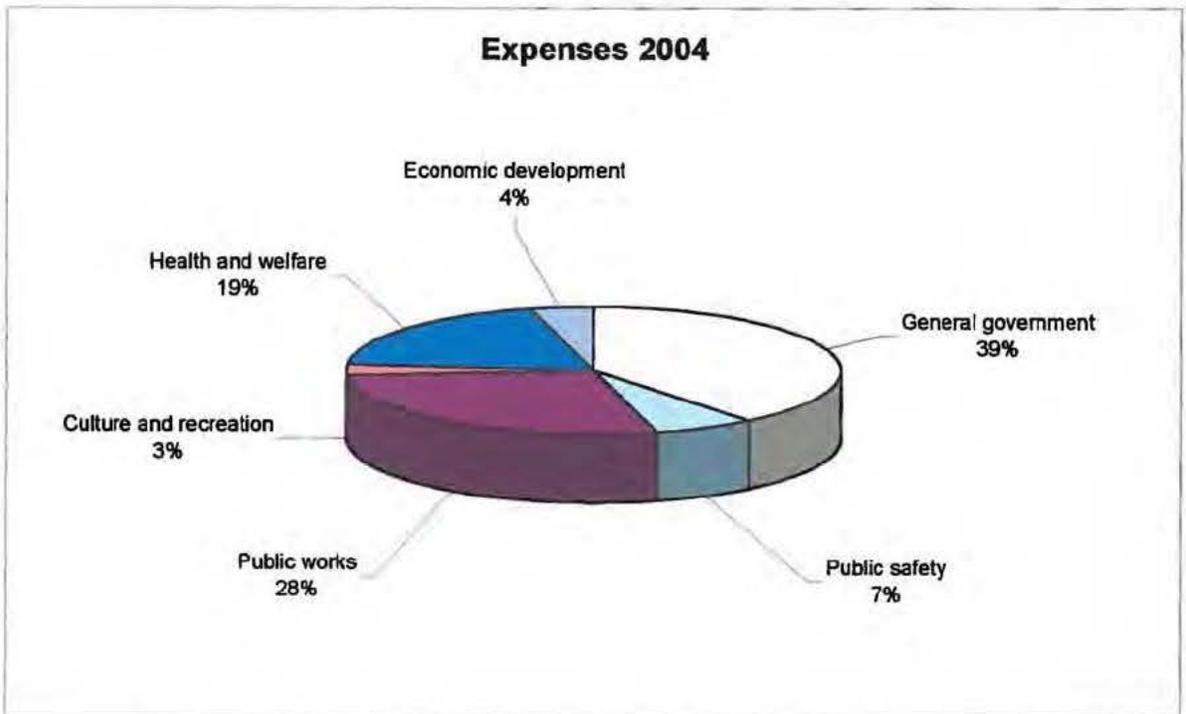
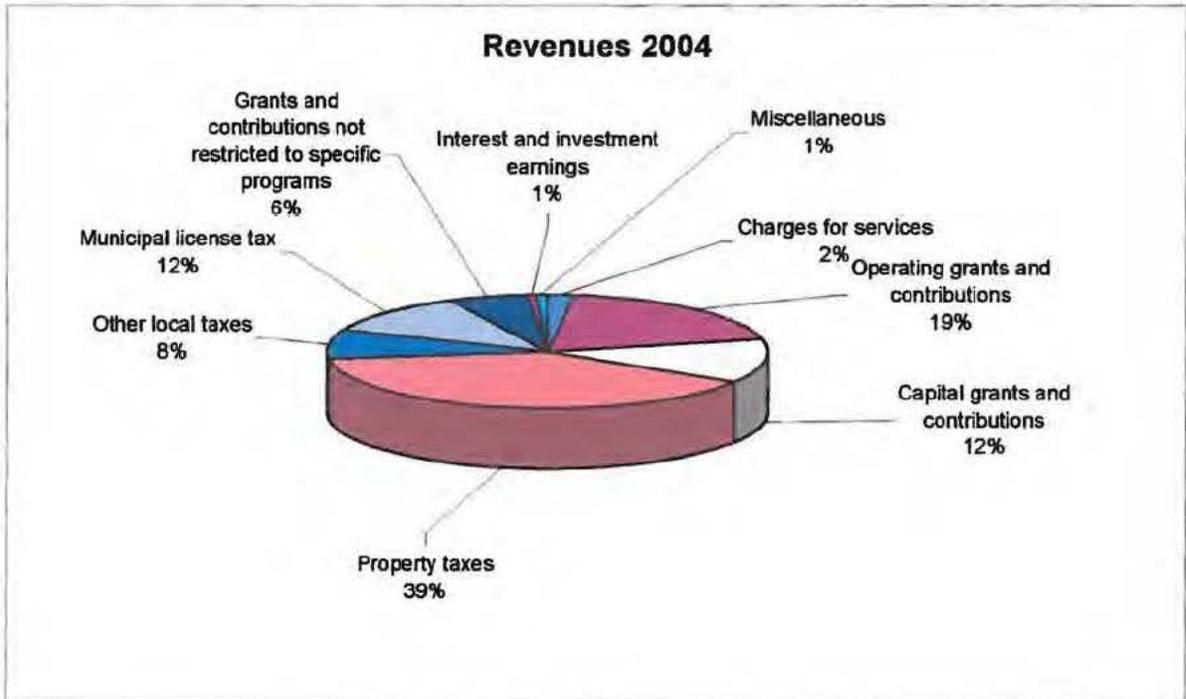
Condensed Statement of Activities	2004	2003	Change	%
Program revenues:				
Charges for services	\$617,444	\$530,549	\$86,895	16%
Operating grants and contributions	5,756,713	6,233,334	(476,621)	(8%)
Capital grants and contributions	3,715,261	1,326,563	2,388,698	180%
General revenues:				
Property taxes	11,649,792	9,747,286	1,902,506	20%
Other local taxes	2,364,343	3,813,748	(1,449,405)	(38%)
Municipal license tax	3,465,032	3,488,017	(22,985)	(1%)
Grants and contributions not restricted to specific programs	1,753,989	3,226,941	(1,472,952)	(46%)
Interest and investment earnings	194,363	306,304	(111,941)	(37%)
Gain (Loss) on retirement of Capital Assets	(710)		(710)	100%
Miscellaneous	213,032	133,628	79,404	59%
Total revenues	29,729,259	28,806,370	922,889	3%
Expenses:				
General government	9,611,856	8,319,809	1,292,047	16%
Public safety	1,601,679	1,431,360	170,319	12%
Public works	6,775,367	8,124,865	(1,349,498)	(17%)
Culture and recreation	745,667	695,492	50,175	7%
Health and welfare	4,721,072	4,785,521	(64,449)	(1%)
Economic development	1,007,311	2,269,856	(1,262,545)	(56%)
Community development	550,263	407,857	142,406	35%
Urban development	169,301		169,301	100%
Other		73,177	(73,177)	(100%)
Interest on long-term debt	1,048,989	1,054,548	(5,559)	(1%)
Total expenses	26,231,505	27,162,485	(930,980)	(3%)
Change in net assets	3,497,754	1,643,885	1,853,869	113%
Net assets, beginning of year	3,876,143	2,232,258	1,643,885	74%
Net assets, end of year	\$7,373,897	\$3,876,143	\$3,497,754	90%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Changes in Net Assets (Continued)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 \$15,933,563, a increase of \$4,871,518 in comparison with the prior year. There are reservations of fund balance amounting to \$14,896,542. 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 (\$979,558), 2) to pay debt service (\$4,627,930), 3) to pay for capital projects (\$8,875,039) and 4) for other purposes (\$ 414,015).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has a fund balance of \$ 1,037,111.

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'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2004, amounts to \$24,142,048, net of accumulated depreciation of \$9,172,177, leaving a net book value of \$14,969,871. For Business - Type Activities investments in capital assets as of June 30, 2004, amounts to \$3,971,648, net of accumulated depreciation of \$700,122, leaving a net book value of \$3,271,526. 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 Governmental Activities in the current fiscal year was about 23% in terms of net book value. Depreciation charges for the year totaled \$ 1,106,104.

The total increase in the Municipality's investment in capital assets for 'Business-Type Activities in the current fiscal year was about 1% in terms of net book value. Depreciation charges for the year totaled \$ 43,037.

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, 2004, the Municipality has \$7,898,501 of unexpended proceeds from bond issuances that are committed to future construction activities in governmental Activities and \$409,924 in Business-Type Activities.

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.

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".

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED):

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 very predictable with increases of approximately five percent. 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 2004-2005 fiscal years.

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 at P.O Box 588, Dorado, Puerto Rico 00646-0588, Telephone (787) 796-1230.

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Net Assets
June 30, 2004

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 8,314,414	\$ 345,789	\$ 8,660,203
Cash with fiscal agent	12,526,468	409,924	12,936,392
Accounts receivable:			
Municipal license tax	22,702		22,702
Intergovernmental	940,459		940,459
Federal grants	437,905		437,905
Other	511,093	26,293	537,386
Capital assets			
Land, improvements, and construction in process	5,688,669	434,190	6,122,859
Other capital assets, net of depreciation	9,281,202	2,837,336	12,118,538
Total capital assets	14,969,871	3,271,526	18,241,397
Total assets	37,722,912	4,053,532	41,776,444
Liabilities			
Accounts payable and accrued liabilities	1,876,229	7,295	1,883,524
Due to other governmental entities	894,983		894,983
Deferred revenues:			
Municipal license tax	3,083,636		3,083,636
Federal grant revenues	505,557		505,557
Interest payable	435,971	55,774	491,745
Noncurrent liabilities:			
Due within one year	2,928,327	206,560	3,134,887
Due in more than one year	23,066,986	1,341,229	24,408,215
Total liabilities	32,791,689	1,610,858	34,402,547
Net Assets			
Invested in capital assets, net of related debt	(5,149,699)	1,723,737	(3,425,962)
Restricted for:			
Capital projects	8,875,039		8,875,039
Debt service	4,191,959		4,191,959
Other purpose	414,015		414,015
Unrestricted (deficit)	(3,400,091)	718,937	(2,681,154)
Total net assets	\$ 4,931,223	\$ 2,442,674	\$ 7,373,897

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, 2004

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	\$ 9,509,004	\$ 310,214	\$ 162,193	\$ -	\$ (9,036,597)	\$ -	\$ (9,036,597)
Public safety	1,601,679	2,155	65,980	-	(1,533,564)	-	(1,533,564)
Public works	6,775,367	-	2,242	1,505,984	(5,287,141)	-	(5,287,141)
Health and welfare	4,721,072	-	4,592,413	-	(128,659)	-	(128,659)
Culture and recreation	745,667	-	867	-	(744,800)	-	(744,800)
Economic development	1,007,311	-	933,038	2,091	(72,182)	-	(72,182)
Community development	550,263	-	-	1,938,987	1,388,724	-	1,388,724
Urban Development	169,301	-	-	268,199	98,898	-	98,898
Interest on long-term debt	927,549	-	-	-	(927,549)	-	(927,549)
Total governmental activities	28,007,213	312,369	5,756,713	3,715,261	(16,222,870)	-	(16,222,870)
Business Type Activities:							
General Government	102,852	305,075	-	-	-	202,223	202,223
Interest on long-term debt	121,440	-	-	-	-	(121,440)	(121,440)
Total business type activities	224,292	305,075	-	-	-	80,783	80,783
Total Primary Government	\$ 28,231,505	\$ 617,444	\$ 5,756,713	\$ 3,715,261	(16,222,870)	80,783	(16,142,087)
General revenues:							
Property taxes					11,649,792		11,649,792
Other local taxes					2,364,343		2,364,343
Municipal license tax					3,465,032		3,465,032
Grants and contributions not restricted to specific programs					1,753,989		1,753,989
Interest and investment earnings					194,363		194,363
Gain (Loss) on Retirement of Capital Assets					(710)		(710)
Miscellaneous					213,032		213,032
Transfers					310,000	(310,000)	-
Total general revenues and transfers					19,949,841	(310,000)	19,639,841
Change in net assets					3,726,971	(229,217)	3,497,754
Net assets - beginning, as restated					1,204,252	2,671,891	3,876,143
Net assets - ending					\$ 4,931,223	\$ 2,442,674	\$ 7,373,897

Commonwealth of Puerto Rico
Municipality of Dorado
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Special Revenue Fund Other Federal Grants	Debt Service Fund	Capital Projects Fund - Local State and Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 5,476,760	\$ 351,761	\$ -	\$ 1,821,360	\$ 664,533	\$ 8,314,414
Cash with fiscal agent	103,960		4,524,007	7,898,501	-	12,526,468
Accounts receivable:						
Municipal license tax	7,045				-	7,045
Intergovernmental	248,848		109,105	101,700	480,806	940,459
Federal Grants		437,905			-	437,905
Due from other funds	666,647	39,785			-	706,432
Other	64,905		2,862		-	67,767
Total assets	\$ 6,568,165	\$ 829,451	\$4,635,974	\$ 9,821,561	\$ 1,145,339	\$ 23,000,490
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 429,131	\$ 411,719	\$ -	\$ 946,522	\$ 88,857	\$ 1,876,229
Due to other governmental entities	894,983				-	894,983
Due to other funds	39,785	59,478	8,044		599,125	706,432
Deferred revenues:						
Municipal license tax	3,083,636				-	3,083,636
Federal grant revenues		328,254			177,303	505,557
Total liabilities	4,447,535	799,451	8,044	946,522	865,285	7,066,837
Fund balances:						
Reserved for:						
Encumbrances	979,558				-	979,558
Capital projects				8,875,039	-	8,875,039
Other purposes		30,000			280,054	310,054
Debt service fund			4,627,930		-	4,627,930
Unreserved:						
Designated for specific fund purpose	103,961					103,961
Undesignated	1,037,111				-	1,037,111
Total fund balances	2,120,630	30,000	4,627,930	8,875,039	280,054	15,933,653
Total liabilities and fund balances	\$ 6,568,165	\$ 829,451	\$4,635,974	\$ 9,821,561	\$ 1,145,339	

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	458,983
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	14,969,871
Long-term liabilities and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds	(26,431,284)
Net assets of governmental activities	\$ 4,931,223

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General Fund	Special Revenue Fund Other Federal Grants	Debt Service Fund	Capit. Projects Fun- State. and Fede		
Revenues						
Property taxes	\$ 9,042,124		\$ 2,607,668			
Municipal license taxes	3,597,761					
Licenses, permits and other local taxes	2,189,616					
Intergovernmental	1,916,181	2,243			1,031,132	3,947,738
Rent of property	301,875					301,875
Fines and forfeitures	2,155					2,155
Interest	194,363					194,363
Federal grants		1,455,842			4,295,399	5,751,241
Miscellaneous	178,411	24,387			20,953	223,751
Total revenues	17,412,486	1,482,472	2,607,668		1,037,562	5,308,104
Expenditures						
Current:						
General government	9,327,928			8,031	6,315	9,342,274
Public safety	1,256,714	77,882			100,537	1,435,133
Public works	5,833,015	3,727		1,068,171	8,493	6,913,406
Health and welfare		273,119			4,449,233	4,722,352
Culture and recreation	535,771			2,006,023	21,594	2,563,388
Economic development		2,091			1,005,220	1,007,311
Community development		900,233				900,233
Urban development		268,199				268,199
Debt service:						
Principal	74,943		1,500,750			1,575,693
Interest	14,178		874,607			888,785
Total expenditures	17,042,549	1,525,251	2,375,357		3,082,225	5,591,392
Excess (deficiency) of revenues over (under) expenditures	369,937	(42,779)	232,311		(2,044,663)	(283,288)
Other financing sources (uses)						
Transfers in	310,000	72,779	360,824		126,216	869,819
Transfers out	(559,819)					(559,819)
Long term debt issuance	835,000				5,495,000	6,330,000
Total other financing sources (uses)	585,181	72,779	360,824		5,495,000	126,216
Net change in fund balances	955,118	30,000	593,135		3,450,337	(157,072)
Fund balance, beginning, as restated	1,165,512		4,034,795		5,424,702	437,126
Fund balance, ending	\$ 2,120,630	\$ 30,000	\$ 4,627,930		\$ 8,875,039	\$ 280,054
					\$ 280,054	\$ 15,933,653

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

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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 4,871,518

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

Prior Year Account Receivables reported in the Governmental Fund Financial Statements as revenues, but reversed in the Government-Wide Statement of Activities and Changes in Net Assets. (384,112)

Account Receivables reported in Government-Wide Statement of Net Assets collected after year end, but not available soon enough to pay current liabilities, and therefore are not reported in the Governmental Funds. 458,983

Donations of Capital Assets from outside parties, do not provide current financial resources in Governmental Funds, but the transaction must be reflected in the Government-Wide Statement of Net Assets based on the fair value of the donated property, 1,501,730

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. 3,111,679

Loss on Retirements of Capital Assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, Loss on Retirement of Capital Assets is not reported as expenditures in Governmental Funds Financial Statements. (710)

Depreciation Expense on Capital Assets is reported in the Government-Wide Statements of Activities and Change 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 Financial Statements. (1,106,104)

Interest Expense change is reported in the Government-Wide Statement of Activities and Change in Net Assets, but not require the use of current financial resources. Therefore, Interest expense change is not reported as expenditures in Governmental Funds Financial Statements. (38,763)

Long Term Debt issuances are reported in the Government-Wide Statement of Net Assets, but not require the use of current financial resources. Therefore Long Term debt issuances are not reported as expenditures in Governmental Funds Financial Statements. (154,024)

Long Term Debts payments are reported as expenditures in the Governmental Funds Financial Statements which require the use of current financial resources. Therefore Long Term debts payments are not reported as expenditures in the Government-Wide Statement of Activities and Change in Net Assets. 240,145

Change in Landfill Accrual 55,879

Bonds proceeds provides current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments. (4,829,250)

Change in Net Assets of Governmental Activities \$ 3,726,971

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30,2004

	Business Type Activity Enterprise	Total Business Type Activity Enterprise
Current Assets		
Cash and cash equivalents	\$ 345,789	\$ 345,789
Cash with fiscal agent	409,924	409,924
Accounts receivable:		
Internal balances	-	-
Other	26,293	26,293
Total current assets	<u>782,006</u>	<u>782,006</u>
Noncurrent Assets		
Capital Assets:		
Property, Plant and equipment:		
Land	388,790	388,790
Building	3,537,458	3,537,458
Construction in progress	45,400	45,400
Accumulated depreciation	(700,122)	(700,122)
Total non-current assets	<u>3,271,526</u>	<u>3,271,526</u>
Total assets	<u>4,053,532</u>	<u>4,053,532</u>
Current Liabilities		
Accounts Payables	7,295	7,295
Revenue Fund-Banco Santander Loan	206,560	206,560
Interest Payable-Banco Santander Loan	55,774	55,774
Total current liabilities	<u>269,629</u>	<u>269,629</u>
Noncurrent Liabilities		
Revenue Fund-Banco Santander Loan	1,341,229	1,341,229
Total current liabilities	<u>1,341,229</u>	<u>1,341,229</u>
Total liabilities	<u>1,610,858</u>	<u>1,610,858</u>
Net Assets		
Invested in Capital Assets, net of related debt	1,723,737	1,723,737
Unrestricted	718,937	718,937
Total Net Assets	<u>\$ 2,442,674</u>	<u>\$ 2,442,674</u>

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, 2004

	Business - Type Activities Enterprise	Total Business - Type Activities Enterprise
Operating Revenues:		
Charges for services	\$ 305,075	\$ 305,075
Total operating revenues	<u>305,075</u>	<u>305,075</u>
Operating Expenses:		
Operations and maintenance	4,435	4,435
Depreciation and Amortization	98,417	98,417
Total operating expenditures	<u>102,852</u>	<u>102,852</u>
Operating Income (Loss)	202,223	202,223
Non-operating revenues (expenses):		
Interest Expense	(121,440)	(121,440)
Total non-operating revenues (expenses)	<u>(121,440)</u>	<u>(121,440)</u>
Income (Loss) before transfers	80,783	80,783
Transfers (Out)	<u>(310,000)</u>	<u>(310,000)</u>
Change in Net Assets	(229,217)	(229,217)
Total net assets-beginning	2,671,891	2,671,891
Total net assets-ending	<u>\$ 2,442,674</u>	<u>\$ 2,442,674</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND- BUSINESS TYPE ACTIVITY- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2004

Cash Flows from Operating Activities:

Receipts from Customers	\$ 306,784
Payment to Suppliers	(7,120)
Interest paid	(124,708)
Transfers out to the General Fund-	(310,000)
Net Cash Provided (Used) by Operating Activities	<u>(135,044)</u>

Cash Flows from Capital and Related Financing Activities:

Construction in Progress	(45,400)
Repayment of Revenue Bond	<u>(87,016)</u>
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(132,416)</u>
Net Decrease in Cash and Cash with Fiscal Agent, Restricted	(267,460)
Cash and Cash with Fiscal Agent at Beginning of Period, Restricted	<u>1,023,173</u>
Cash and Cash with Fiscal Agent at End of Period, Restricted	<u>\$ 755,713</u>

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating Income	<u>\$ (229,217)</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	88,437
Interest Receivables	(3,266)
Other Receivables	(13,704)
Accrued Expenses	7,294
Related Company	<u>15,412</u>
Total Adjustments	<u>94,173</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (135,044)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year 2007. The Municipality has elected to delay the capitalization of infrastructure.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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, 2004

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 - Other Federal Grants- Is the accounting entity in which revenues derived from the federal grants, is accounted for. The use and limitations of each special revenue fund are specified by Municipality ordinances or federal statutes.

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 and State Grants - is the accounting entity in which revenues derived from local funds, state 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, 2004

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- Is the 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 - 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, 2004

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

C. Financial reporting presentation

Special Revenue Fund - Section 8 - Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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.

Special Revenue Fund - Other 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.

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.

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

D. Measurement focus, basis of accounting and financial presentation

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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"

- 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 (PREPA), which contribute As payment in lieu of taxes a twenty percent of its revenues after deductions of subsidies granted, or an amount equal to the cost of electric power consumed by each Municipality, or an average of the contribution in lieu of taxes paid to each Municipality in the last five fiscal years whichever is greater. The contribution in lieu of tax revenue and related receivable recorded in the General Fund for the current fiscal year was determined based on revenue estimates made by the PREPA and actual transactions during the current fiscal year, because the final contribution amount from the PREPA was not available at the date of release of the basic financial statements. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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:
 - 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2004 amounted to approximately \$285,606. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$378,330 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	\$14,969,871	
Deduct:		
Bonds Payable related to Capital Assets	(18,780,000)	
Notes Payables related to Capital Assets	(1,150,000)	
Lease Obligation – IBM	(4,518)	
Lease Obligation- Crossborder	<u>(185,052)</u>	\$(5,149,699)
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		8,875,039
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	4,627,930	
Deduct:		
Interest Payable	<u>(435,971)</u>	4,191,959
<u>Net assets restricted for other purposes</u>		
Other governmental funds- fund balance restricted for other purposes		414,015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

Net assets unrestricted (deficit)

General fund - total fund balance:	\$2,016,669	
Add:		
Accrual basis Account Receivables	458,983	
Deduct:		
Bonds Payable related to Operational Debts	(805,000)	
Compensated absences debt	(1,857,908)	
Landfill Obligation	(2,374,168)	
Property tax debt - CRIM Law 42	(227,058)	
Property tax debt - CRIM Law 146	(611,609)	
		<u>(3,400,091)</u>
Total net assets - governmental activities		<u>\$4,931,223</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 \$5,476,760, \$351,761 and \$1,821,360 in the general fund, special revenue fund - other federal grants, and capital projects fund - local and state grants, respectively, were fully collateralized at June 30, 2004. In the other governmental funds there were deposits with commercial banks of approximately \$ 664,533 that were fully collateralized.

The deposits at GDB of approximately \$7,898,501 that is restricted principally for capital projects in the capital project fund - local and state grant, \$103,960 restricted for operational expenditures in the general fund, and the \$4,524,007 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, 2004, the tax rates were as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004, net of allowance for uncollectible.

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 estimated 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 property tax collections related to the amnesty granted through the Public Law 74, enacted in March 1, 2004, The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$107,357
Municipal Revenue Collection Center ("CRIM")	<u>141,491</u>
Total	<u>\$248,848</u>

The contribution in lieu of tax receivable from the Puerto Rico Electric Power Authority reported above represent an estimated amount as described in the Note 1 (E) (2), because the final contribution amount from the PREPA for the fiscal year 2003-2004 was not available. Also, as described in Note 14, there is a formula to determine the contribution on lieu of taxes to be distributed to the municipalities.

Intergovernmental receivable in debt service fund represents property tax receivable at June 20, 2004. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	<u>\$109,105</u>
Total	<u>\$109,105</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in capital project funds local and state grants represent funds assignments by state government to the municipality at year end. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Department of Treasury	\$101,700
Total	<u>\$101,700</u>

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 Labor	\$480,806
Total	<u>\$480,806</u>

Intergovernmental receivable in special revenue fund – other federal grants represent expenditures incurred not yet reimbursed by federal government or the pass-through grantor. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Service Block Grant	\$ 15,015
Highway Planning and Construction	4,391
Local Law Enforcement Block Grants Program	53,158
Nutrition Program for the Elderly	3,120
Community Development Block Grants/ State's Program	288,450
Special Programs for Aging – Title III	<u>73,771</u>
Total	<u>\$437,905</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2004, and interfund transfers during the fiscal year ended at June 30, 2004, are summarized as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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	Debt Service Fund	Interest Revenue	\$ 8,044
General Fund	Special Revenue Fund – Federal Grants–Community Service Block Grant	Payroll and related accruals paid and not reimbursed	14,956
General Fund	Special Revenue Fund – Local Grants–Law 52 Program	Payroll and related accruals paid and not reimbursed	41,645
General Fund	Special Revenue Fund – Local Grants – Law 82 Program	Payroll and related accruals paid and not reimbursed	557,480
General Fund	Special Revenue Fund – Other Federal Grants– Community Development Block Grant/ State’s Program	Payroll and related accruals paid and not reimbursed	29,022
General Fund	Special Revenue Fund – Other Federal Grants– Special Programs for Aging – Title III	Payroll and related accruals paid and not reimbursed	3,500
General Fund	Special Revenue Fund – Other Federal Grants– Nutrition Program for the Elderly	Payroll and related accruals paid and not reimbursed	12,000
Community Development Block Grants– Section 108 Loan Guarantees	General Fund	Program Income Revenue	9,785
Special Programs for Aging – Title III	General Fund	Matching Contribution	<u>30,000</u>
Total			<u>\$706,432</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

4. INTERFUND TRANSACTIONS (CONTINUED)

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Enterprise Fund	General Fund	Transfer of funds for operating purposes	\$310,000
General Fund	Special Revenue Fund – Other Federal Grants	Matching Contribution	177,116
General Fund	Special Revenue Fund – Local and State Grants	Creation of a New Fund	21,879
General Fund	Debt Service Fund	Debt retirement	<u>360,824</u>
Total			<u>\$869,819</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 2004, 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 July 1, 2003 as Restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Capital asset, not being depreciated:				
Land	\$ 2,923,521	\$ 1,038,754	\$ -	\$ 3,962,275
Construction in progress	<u>330,832</u>	<u>1,677,415</u>	<u>(281,853)</u>	<u>1,726,394</u>
Total capital assets not being depreciated	<u>3,254,353</u>	<u>2,716,169</u>	<u>(281,853)</u>	<u>5,688,669</u>
Capital assets, being depreciated:				
Buildings	8,064,917	-	-	8,064,917
Buildings improvements	723,563	625,255	-	1,348,818
Infrastructure	515,091	575,432	-	1,090,523
Infrastructure improvements	-	206,170	-	206,170
Equipment	1,664,910	457,832	(33,080)	2,089,662
Furnishing	241,486	26,542	(17,749)	250,279
Work of Arts	8,003	-	-	8,003
Computers	228,352	19,827	(1,254)	246,925
Vehicles	<u>4,890,258</u>	<u>268,035</u>	<u>(10,211)</u>	<u>5,148,082</u>
Total capital assets being depreciated	<u>16,336,580</u>	<u>2,179,093</u>	<u>(62,294)</u>	<u>18,453,379</u>
Less accumulated depreciation for:				
Buildings	(3,308,521)	(201,622)	-	(3,510,143)
Buildings improvements	(65,763)	(27,557)	-	(93,320)
Infrastructure	(4,280)	(18,956)	-	(23,236)
Infrastructure improvements	-	(4,216)	-	(4,216)
Equipment	(1,198,784)	(188,964)	32,501	(1,355,247)
Furnishing	(170,587)	(25,169)	17,678	(178,078)
Computers	(132,859)	(54,160)	1,194	(185,825)
Work of Arts	(6,670)	(800)	-	(7,470)
Vehicles	<u>(3,240,193)</u>	<u>(584,660)</u>	<u>10,211</u>	<u>(3,814,642)</u>
Total accumulated depreciation	<u>(8,127,657)</u>	<u>(1,106,104)</u>	<u>(61,584)</u>	<u>(9,172,177)</u>
Total capital assets being depreciated, net	<u>8,208,923</u>	<u>1,072,989</u>	<u>(710)</u>	<u>9,281,202</u>
Governmental activities capital assets, net	<u>\$ 11,463,276</u>	<u>\$ 3,789,158</u>	<u>\$ (282,563)</u>	<u>\$ 14,969,871</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 513,277
Public safety	178,760
Public works	318,067
Culture and recreation	74,261
Urban Development	13,062
Community Development	<u>8,677</u>
Total depreciation expense-governmental activities	<u>\$1,106,104</u>

<u>Business - type Activities</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Capital asset, not being depreciated:				
Land and Construction in Progress	\$ 388,790	\$ 45,400	\$ -	\$ 434,190
Total capital assets not being depreciated	<u>388,790</u>	<u>45,400</u>	<u>-</u>	<u>434,190</u>
Capital assets, being depreciated:				
Building	<u>3,537,458</u>	<u>-</u>	<u>-</u>	<u>3,537,458</u>
Total capital assets being depreciated	<u>3,537,458</u>	<u>-</u>	<u>-</u>	<u>3,537,458</u>
Less accumulated depreciation for:				
Building	<u>(611,685)</u>	<u>(88,437)</u>	<u>-</u>	<u>(700,122)</u>
Total accumulated depreciation	<u>(611,685)</u>	<u>(88,437)</u>	<u>-</u>	<u>(700,122)</u>
Total capital assets being depreciated, net	<u>2,925,773</u>	<u>(88,437)</u>	<u>-</u>	<u>2,837,336</u>
Business Type Activities capital assets, net	<u>\$ 3,314,563</u>	<u>\$ (43,037)</u>	<u>\$ -</u>	<u>\$ 3,271,526</u>

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

Business -Type Activities

General government	<u>\$ 88,437</u>
Total depreciation expense-governmental activities	<u>\$ 88,437</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

6. PROPERTY TAXES (CONTINUED)

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.

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 \$227,058 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

7. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM) – Property Taxes	\$ 739,848
Retirement System Administration	91,675
Internal Revenue Service	2,708
Department of Treasury	2,010
General Services Administration	1,649
Department of Labor – Unemployment	18,688
Puerto Rico Aqueduct and Sewer Authority	38,405
Total	<u>\$ 894,983</u>

8. DEFERRED REVENUES

A Municipal License Tax- The deferred revenues of approximately \$3,083,636 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

B Federal Government- The deferred revenues presented in special revenue fund- other federal grants 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>
Emergency Management Performance Grants	\$ 25,257
Housing Opportunities for Persons with AIDS	27,256
Section 108 Loan Guarantee	151,965
Community Development Block Grants/State's Program	54,543
Child Care and Development Block Grant	57,227
Others	<u>12,006</u>
Total	<u>\$328,254</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

8. DEFERRED REVENUES (CONTINUED)

The deferred revenues presented in other governmental funds represent 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	\$135,179
Child and Adult Care Food Program	40,857
Head Start	<u>1,267</u>
Total	<u>\$177,303</u>

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, 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	\$ 14,035,000	\$ 6,685,750	\$(1,135,750)	\$ 19,585,000	\$ 1,370,000
Notes Payable	1,870,750	370,000	(1,090,750)	1,150,000	320,000
Lease Obligation-Cross Border	224,845		(39,793)	185,052	52,754
Lease Obligation-IBM	39,668		(35,150)	4,518	4,518
Property Tax Debt- Law 42 & Law 146	859,074		(20,407)	838,667	20,407
Compensated Absences	1,762,904	95,004		1,857,908	150,000
Landfill obligation	3,270,010		(895,842)	2,374,168	1,010,648
Puerto Rico Electric Power Authority		59,020	(59,020)		
Department of Labor	<u>85,775</u>		<u>(85,775)</u>		
Total	<u>\$ 22,148,026</u>	<u>\$ 7,209,774</u>	<u>\$(3,362,487)</u>	<u>\$ 25,995,313</u>	<u>\$ 2,928,327</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. 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. During the current year the municipal legislature authorized a bond issuances for approximately \$5,960,000 Bonds payable outstanding at June 30, 2004 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, 2004</u>
1986-Series	7-1-2006	500,000	8.00%	\$ 50,000
1987-Series	7-1-2006	810,000	9.00%	155,000
1987-Series	7-1-2006	1,545,000	9.00%	295,000
1992-Series	7-1-2007	\$1,860,000	6.26% to 6.41%	755,000
1993-Series	7-1-2008	150,000	7.21% to 7.61%	30,000
1995-Series	7-1-2007	765,000	7.21% to 7.51%	310,000
1996-Series	7-1-2014	2,750,000	5.80% to 6.58%	2,095,000
1997-Series	7-1-2009	2,650,000	5.29% to 5.78%	1,545,000
1997-Series	7-1-2016	290,000	6.00%	215,000
1997-Series	7-1-2016	110,000	6.00%	70,000
1998-Series	7-1-2013	3,675,000	5.29% to 6.11%	2,855,000
1998-Series	7-1-2012	1,065,000	5.29% to 6.04%	775,000
2000-Series	7-1-2013	65,000	2.80% to 4.61%	50,000
2000-Series	7-1-2025	310,000	2.80% to 5.60%	295,000
2000-Series	7-1-2020	1,500,000	2.80% to 5.29%	1,390,000
2002-Series	7-1-2026	2,850,000	2.80% to 5.60%	2,770,000
2004-Series	7-1-2028	550,000	5.00% to 6.00%	550,000
2004-Series	7-1-2023	3,150,000	2.40% to 5.00%	3,150,000
2004-Series	7-1-2023	115,000	5.00% to 6.00%	115,000
2004-Series	7-1-2023	1,860,000	2.36% to 5.00%	1,860,000
2004-Series	7-1-2010	285,000	5.00% to 6.00%	<u>255,000</u>
Total general obligation bonds				<u>\$19,585,000</u>

These bonds, except the 1986 Series bonds amounting to \$500,000, the 1997 Series bonds for \$110,000 and \$290,000, the 1987 Series bonds for \$1,545,000 and \$810,000 and the 2004 Series bonds amounting to \$285,000, 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, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,370,000	\$ 914,384
2006	1,495,000	960,108
2007	1,335,000	877,115
2008	1,425,000	799,498
2009	1,210,000	725,160
2010-2014	5,665,000	2,645,530
2015-2019	3,005,000	1,450,688
2020-2024	3,150,000	673,365
2025-2029	930,000	92,070
2030-2034		
Total	<u>\$ 19,585,000</u>	<u>\$ 9,137,918</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. During the current year the municipal legislature authorized a notes issuances for approximately \$370,000 The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2004</u>
2000-Series	7-1-2005	230,000	2.80% to 2.89%	\$ 105,000
2001-Series	7-1-2005	235,000	2.80% to 2.89%	105,000
2002-Series	7-1-2006	885,000	2.80% to 3.21%	570,000
2004-Series	7-1-2010	370,000	5.00% to 6.00%	<u>370,000</u>
Total notes payable				<u>\$1,150,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 320,000	\$ 36,475
2006	345,000	29,066
2007	255,000	18,590
2008	50,000	12,300
2009	55,000	9,150
2010-2014	125,000	7,650
Total	<u>\$ 1,150,000</u>	<u>\$113,231</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

- 4. Lease Obligations-** 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 Activites</u>
2002 Ford Winnebago	\$231,845
Less:	
Accumulated Depreciation	<u>(81,146)</u>
Net value	<u>\$150,699</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

<u>Year ending June 30,</u>	<u>Governmental Activites</u>
2005	\$ 52,754
2006	52,754
2007	52,754
2008	<u>52,754</u>
Total minimum lease payments	211,016
Less amount representing interest	<u>(25,964)</u>
Present value of minimum lease payments	<u>\$185,052</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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 \$35,150.

The assets acquired through the capital lease are as follows:

<u>Assets</u>	<u>Governmental Activities</u>
1999 Ford Winnebago	\$ 227,000
Less:	
Accumulated Depreciation	<u>(227,000)</u>
Net value	<u>\$ _____</u>

The outstanding debt balance as of June 30, 2004 amounts to \$4,518. The debt service requirements to maturity including \$28 of interest are as follows:

<u>Year ending June 30, 2005</u>	<u>Governmental Activities \$4,546</u>

5. **Property Tax Debt-** These amounts represent the balance owned to the Municipal Revenue Collection Center (CRIM) at June 30, 2004, as described in Note 6.
6. **Compensated absences-** The government-wide statement of net assets includes approximately \$1,081,265 of accrued sick leave benefits, and approximately \$776,643 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
7. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

As of June 30, 2004 the Municipality entered in an agreement with a contractor to complete the final cover of the landfill for a total cost of \$873,569 and additional inspection, monitoring, and supervision costs amounting to \$90,079 for a total costs of \$963,648. The annual estimate of closure costs presented in the prior year financial statement was restated as a result of the decrease in final cover costs. Based on this, the Municipality has recognized \$963,648 as the Municipality's estimated current cost for landfill closure as of June 30, 2004. The preliminary annual estimate of post closure costs has been assessed approximately to be \$1,410,520 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, 2004, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$963,648 and \$1,410,520, respectively, are reported in the government-wide statement of net assets.

8. Operating leases-The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality's 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, 2004:

<u>Year Ending</u> <u>June 30,</u>	<u>Governmental</u> <u>Activites</u>
2005	\$ 75,820
2006	64,858
2007	16,234
2008	8,218
2009	<u>8,218</u>
Total minimum payments required	<u>\$173,348</u>

9. 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%.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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 \$87,018. The outstanding debt balance as of June 30, 2004 amounts to \$1,547,789. The debt service requirements to maturity including \$540,714 of interest are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$96,733	\$109,827
2006	103,874	102,686
2007	111,541	95,019
2008	119,774	86,786
2009	128,615	77,945
Thereafter	<u>987,252</u>	<u>68,451</u>
Total	<u>\$ 1,547,789</u>	<u>\$540,714</u>

10. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

10 PENSION PLAN (CONTINUED)

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, 2004 amounted to approximately \$427,249 and \$478,880, respectively.

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, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940-2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

11. 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.

12. 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.

13. BEGINNING FUND BALANCES AND NET ASSETS RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$30,456 to properly presents the previously reported fund balance at June 30, 2003. The restatement is mainly due to the reclassification of cash balance from the General Fund to the Capital Projects Fund, to recognize a Debt Service Fund interest receivable, reclassification of cash balance from special revenue fund-federal grant related to reimbursements of costs financed by the General Fund, and due to a condoned Treasury Department interest and penalties debt as of June 30, 2003.

The beginning Fund Balance for Debt Service Fund has been restated by approximately \$1,080,607 to properly presents the previously reported fund balances at June 30, 2003. The restatement is mainly due to the recognition of the amount due from CRIM related to the Final Liquidation of the fiscal year 2002-2003.

The beginning Fund Balance for Capital Projects Fund has been restated by \$140,892 to properly presents the previously reported fund balances at June 30, 2003. The restatement is mainly due to the reclassification of cash balance from the General Fund to the Capital Projects Fund.

The beginning Fund Balance for the Special Revenue Fund-State and Local grants in the Other Governmental Funds section has been restated by approximately \$5,139 to properly present the previously reported fund balance at June 30, 2003. The restatement is mainly due to the reclassification of cash balance to Special Revenue Fund- Other Federal Grants and to the General Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

13. BEGINNING FUND BALANCES AND NET ASSETS RESTATEMENT (CONTINUED):

The beginning Net Assets for Governmental Activities has been restated by approximately \$585,148 to properly present the previously reported Net Assets at June 30, 2003. The restatement is mainly due to the decrease in landfill closing and post closing obligation resulting from the final cover process, to recognize interest payable of long term debts and to adjust capital assets beginning balance.

14. SUBSEQUENT EVENTS

On August 27, 2004, the Municipality of Dorado authorized the issuance of a general obligation bond for the amount of \$50,000, for Housing Rehabilitation. Repayment of the bond is scheduled from July 2005 through July 2014.

On August 27, 2004, the Municipality of Dorado authorized the issuance of a general obligation bond for the amount of \$945,000, for Housing Rehabilitation. Repayment of the bond is scheduled from July 2005 through July 2019.

On September 7, 2004, Public Law 255 was enacted to amend Section 22 of the Public Law 83 of May 2, 1941, know as the Puerto Rico Electric Power Authority ("PREPA") Act. This Law stipule a new formula to determine the contribution in lieu of taxes to be distributed to the Municipalities of the Commonwealth of Puerto Rico. From fiscal year 2002-2003 the PREPA is required by law to distribute as contribution in lieu of taxes a twenty percent of its net revenues, after deduction of subsidies granted, or an amount equal to the actual cost of electric power consumed by each Municipality, or an average of the contribution in lieu of taxes paid to each Municipality in the last five fiscal years, whichever is greater.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)
YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 7,354,719	\$ 9,042,013	\$ 8,900,632	\$ (141,381)
Municipal license tax	3,194,485	3,194,485	3,580,716	386,231
Licenses, permits and other local taxes	1,520,000	1,520,000	2,161,314	641,314
Charges for service	13,800	13,800	17,503	3,703
Intergovernmental	1,215,685	1,215,685	1,912,885	697,200
Rent of property	275,316	275,316	270,805	(4,511)
Fines and forfeitures	10,000	10,000	2,205	(7,795)
Interest	550,000	550,000	188,830	(361,170)
Miscellaneous	1,500,000	1,525,580	164,155	(1,361,425)
Transfer in from other fund		310,000	310,000	
Budgeted Carryover		<u>400,000</u>	<u>400,000</u>	
Total revenues other financing sources and budget carryover	<u>15,634,005</u>	<u>18,056,879</u>	<u>17,909,045</u>	<u>(147,834)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	7,733,603	9,817,292	9,725,964	91,328
Public safety	1,479,898	1,290,686	1,270,741	19,945
Public works	5,279,676	5,877,762	5,886,039	(8,277)
Culture and recreation	583,960	553,353	550,039	3,314
Operating transfer to other fund	<u>556,868</u>	<u>517,786</u>	<u>559,819</u>	<u>(42,033)</u>
Total expenditures, encumbrances and other financing uses	<u>15,634,005</u>	<u>18,056,879</u>	<u>17,992,602</u>	<u>64,277</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (83,557)</u>	<u>\$ (83,557)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (CONTINUED)
AND NOTES TO BUDGETARY COMPARISON
YEAR ENDED JUNE 30, 2004**

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	\$ 17,909,045
Differences-budget to GAAP:	
Interest Receivable collected during 2004-2005	5,533
Construction Excise Tax Receivable collected during 2004-2005	28,302
Municipal License Tax receivable collected during 2004-2005	7,045
Rent Receivable collected during 2004-2005	31,070
CRIM receivables collected during 2004-2005 and readjusted in 2004-2005 budget	141,491
Transfer In from other fund	(310,000)
Budgeted Carryover	<u>(400,000)</u>

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances \$ 17,412,486

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 17,992,602
Differences-budget to GAAP:	
Adjustment to Expenditures-Operational Loans	53,773
Prior year encumbrances recorded as current year expenditures for GAAP basis	119,004
Current year encumbrances recorded as expenditures for budgetary purposes	(563,011)
Operating transfer to other fund	<u>(559,819)</u>

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances \$ 17,042,549

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
NOTES TO BUDGETARY COMPARISON - (CONTINUED)**

YEAR ENDED JUNE 30, 2004

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

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, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico Department of Education: Child and Adult Care Food Program	10.558	Not Available	\$166,173
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>53,081</u>
Total U.S. Department of Agriculture			<u>219,254</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Section 8 Housing Choice Voucher Program	14.871		1,697,179
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 01-FD-22 02-FC-22 02-AB-22 03-AB22 03-FC-22	803,124
	14.228		
Community Development Block Grant - Section 108 Loan Guarantees	14.248	Not Available	99,200
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan: Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>30,198</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 2,629,701</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF JUSTICE:			
Pass-through the Puerto Rico Department of Justice:			
Local Law Enforcement Block Grant	16.592		<u>65,604</u>
Total U.S. Department of Justice			<u>65,604</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the PR Highway Administration:			
Federal Transit Administration- Capital Investment Grants	20.500		<u>268,199</u>
			<u>268,199</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Hazard Mitigation Grant	83.548		3,727
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Emergency Management Performance Grant	83.552		<u>356</u>
Total U.S. Department of Homeland Security			<u>4,083</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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	38,662
Special Programs for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	73,158
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ADFAN):			
Child Care and Development Block Grant	93.575	Not Available	5,835
Community Service Block Grant	93.569	Not Available	14,698
Head Start Program	93.600	02-CH-0483-37 02-CH-0483-38	2,432,047
Total U.S. Department of Health and Human Services			<u>2,564,400</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,751,241</u>

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, 2004

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- Other Federal grants 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:

<u>Description</u>	<u>Special Revenue Fund Other Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	1,455,842	4,295,399	5,751,241
Non federal programs Expenditures	<u>69,409</u>	<u>1,295,993</u>	<u>1,365,402</u>
Total expenditures in the fund financial statements	<u>1,525,251</u>	<u>5,591,392</u>	<u>7,116,643</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

We have audited the basic financial statements of the **Municipality of Dorado** as of and for the year ended June 30, 2004, and have issued our report thereon dated December 6, 2004, 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 **04-01** through **04-03**.

**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 are not material weaknesses. 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 6, 2004.

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 6, 2004

Stamp No. 2019425 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

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**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, 2004. 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.

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.

In our opinion, 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, 2004. 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, **04-04** through **04-05** and **04-07** through **04-12** and **04-14** through **04-18**.

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)

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 04-04 through 04-18.

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 04-07 through 04-12, 04-14, and 04-17 through 04-18 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 1, 2005.



**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.



LOPEZVEGA, CPA, PSC

San Juan, Puerto Rico

March 1, 2005

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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, 2004

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Type of auditors’ report issued on compliance for major programs:	Unqualified	
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>
Auditee qualified as low-risk auditee?	Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference	04-01
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	To correct the situation, the Municipality contracted a company to implement OCAM accounting system and to offers adequate training to the staff.

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

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference	04-02
Requirement	Cash Receipts- Revenues (Excise Taxes and Municipal License Tax), Receivables and Collections
Statement of Condition	<p>We performed a cash receipt test and examined a sample of twenty five (25) cash collections. We found that no adequate monitoring procedures exist to assure the proper correctness and reconciliation of daily collection reports. The following summarize the exceptions found:</p> <ul style="list-style-type: none">a. The "Collections Reconciliation Report" of March 31, 2004 duly revised and approved by the Official Treasurer was not available for examination.b. The Official Treasurer did not documented adequately in the "Collections Reconciliation Report" of March 31, 2004, April 7, 2004, April 15, 2004, April 16, 2004 and April 23, 2004 the differences between the daily deposits with the amounts collected and not deposited the same day collected.c. In March 31, 2004 the Municipality collected \$1,400 which belongs to HUD Section 108 account. We noted that \$20 of those collections were deposited in the Municipality general account instead the HUD Section 108 account.d. In April 7, 2004 a bank deposit of \$261.82 was made after twenty four days of been collected.e. In April 14, 2004 we found collections receipts amounting to \$373.16 which did not agree with the amounts deposited and credited in the bank. That situation occurred due to the receipt 31882, related to an ATH payment realized in April 15, 2004, was accounted twice by the Official Treasurer, with the receipt 115335 in April 14, 2004 and the Receipt 115347 in April 15, 2004.f. In April 16, 2004 we did not obtain evidence supporting that cash collections amounting to \$10 were deposited in the bank.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference 04-02 (Continued)

- g. A deposit slip which belongs to April 16, 2004 amounting to \$21,685.90 was not available for examination.
- h. In April 20, 2004 the Official Treasurer did not issue an Official Receipt for the collections realized by an "Auxiliar Treasurer" amounting to \$68,118.28.
- i. In April 20, 2004 the "Auxiliar Treasurer" Receipt 31948 was issued by \$160.65 in change the Municipality collected \$152.62 by check.
- j. In April 20, 2004 the Municipality collected \$1,275 which belongs to HUD Section 108 account. We noted that \$600 of those collections were deposited in the Municipality general account instead the HUD Section 108 account.
- k. The "Collections Reconciliation Report" duly revised and approved by the Official Treasurer which belongs to April 20, 2004, April 23, 2004, April 28, 2004, May 3, 2004 and May 25, 2004 were not issued the same day of the collections. Those reports were issued on May 20, 2004, May 21, 2004 and May 25, 2004, respectively.
- l. In April 21, 2004 the Municipality collected \$214.14 by check which was not deposited until April 23, 2004.
- m. In April 22, 2004 the Municipality deposited \$463.64, and the Treasurer receipt for the collection was not issued the same day. The receipt was issued on April 23, 2004.
- n. The deposits slips which belong to April 28, 2004 were not available for examination. In addition, the Municipality deposited \$106 collected with receipt 31481 which belong to Head Start Program in the Municipal general account.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference 04-02 (Continued)

- o. In May 3, 2004 we found \$648.96 deposited in bank exceeding the collection receipts issued. We couldn't determine where the difference arose from.
- p. In May 20, 2004 the "Collections Reconciliation Report" did not account for the receipt 31578 amounting to \$27,400.
- q. The Municipality Computed excise tax for a construction project using a tax rate of 3% instead 5% as established by ordinance. That result in an underpayment by the contractor by \$26,609.

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

Cause of Condition Internal controls failed to assure that daily collections were duly accounted for and deposited in a reasonable time and to assure that taxpayer excise tax payments are duly computed. The Official Treasurer did not maintain adequate monitoring procedures to assure the proper reconciliation of daily reports with the collections realized each day.

Effect of Condition 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference 04-02 (Continued)

Recommendation The Municipality should establish the following procedures in order to avoid these situations in a future:

- a. Strengthen the filing 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

Management Response

And Corrective Action We changed the personnel in charge of the Treasury Department. Adequate internal controls were established to assure that internal control works effectively.

Implementation date: Corrective action taken immediately.

Responsible Person: Mr. Luis R. Sierra Salgado – Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference 04-03

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

Statement of Condition We performed a cash disbursement test and examined thirty (30) disbursement vouchers which belonged to Head Start Program, thirty (30) disbursement vouchers belonged to SBGP Program, and twelve (12) disbursement vouchers belonged to Section 8 Voucher program. The following will summarize the exceptions noted:

- a. The original disbursement vouchers 400382, 400682 and 4002727 of Head Start Program amounting to \$5,070.70 related to the acquisition of goods or service and rent payments were not available for examination. We examined the copy of the disbursement voucher 4002727 and 400682 maintained in the Head Start program office.

- b. The Municipality signed a contract with a supplier and paid \$5,082.40 with the disbursement voucher 4001269 for the acquisition of cleaning products for the Head Start Program. The program staff documented in the disbursement voucher that the supplier was the only one who offer the exclusive trademark of "Mightly Sparkle Toilet Bowl Cleaner, Mightly Sparkle Disinfectant and "Mightly Sparkle Essence Lotion Skin Cleaner". The Municipality did not obtain quotations from other companies in order to promote adequate competence for the acquisition of Bowl, Cleaner, Disinfectants and Skin Cleaner. We consider that these products are not exclusive. These products can be obtained from different suppliers.

- c. The Municipality did not obtain quotations to promote adequate competence for the acquisition of dental materials for the Head Start Program. The program staff documented in the disbursement voucher 4003656 for \$2,380.05 that the supplier is the only one who offer the exclusive line of dental paste of the trademark Oral-B available in different flavors including toothpaste with the pictures of Mickey Mouse, Buzz Light year etc. In addition, the toothbrush for children's from two to twenty four months of age. We consider that toothpaste and toothbrush are not exclusives. These products can be obtained from different suppliers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section II - Financial Statements Findings

Finding Reference 04-03 (Continued)

- d. The Municipality acquired catering services from a supplier for different activities of the Head Start Program. For each activity the program staff states in the purchase orders the total persons which will participate on the activities. The supplier invoiced the Municipality for the total persons detailed in the purchase order. Nevertheless, not all persons assisted to the activities. As result the Municipality paid to the supplier approximately \$809 for breakfast and lunch not consumed.
- e. We did not obtain documental evidence of a newspaper announcement or proposal request to different consultants in order to promote adequate competence for the acquisition of mental and health services for the Head Start employees.
- f. The cancelled checks 28074, 28089 and 30479 amounting to \$1,074.15, \$256.80 and \$350 respectively, which belong to Section 8 Housing Choice Voucher Program, were not available for examination.
- g. The Disbursement vouchers 4000122 and 4000297 amounting to \$1,074.15 and \$256.80 respectively which belong to Section 8 Housing Choice Voucher Program were not available for examination.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference **04-03 (Continued)**

The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in the Chapter Eight (8) Part II, Section III and Part III, Section I the procurement process for the acquisition of goods or services. The Chapter Eight (8) Part IV, Section IV states the informal bid procedures to be followed by the Municipalities of Puerto Rico.

The 24CFR, Part 85.36, Uniform Administrative Requirement for Grants and Cooperative Agreements to State, Local and Federally Indian Tribal Governments, States that the Municipality must promote adequate competence for the acquisition of professional services with federal funds.

Cause of Condition The Municipality internal control failed to assure that all transactions realized by the Municipality are supported by all the required documentation and comply with procurement process required by Laws and Regulations.

Effect of Condition The Municipality did not comply in these cases with Chapter Four (4) and Chapter eight (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico and the 24CFR, Part 85.36.

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.

Instructions were given to not accept exclusive distribution letters from suppliers for the Head Start Program and to adequately document the quotation process for each applicable case.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference 04-03 (Continued)

Instructions were given to improve the documentation of the competence requirements when contracted providers to offers the Head Start Program Professional Services. The program will document in the applicable cases documentation as Resumes, request for proposal letters or announcements.

Related to the Catering Services for the Head Start Program activities, the program staff developed a procedure to assure the persons invited for each activity confirm their assistance.

Implementation date: 3/8/05

Responsible Person: Mr. Luis R. Sierra Salgado - Finance Director and Mrs. Saraí Meléndez - Program Director.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-04
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">a. The program deposited \$50,820.20 in March 4, 2004 which belongs to requisition number 34, related to SBGP Program 02-FC-22-003. In March 4, 2004 the program disbursed \$47,262.79 of the total funds received. As result the program maintained an available balance in bank of \$3,557.41 which was not disbursed in a reasonable time.b. The program deposited \$30,724.53 in March 16, 2004 with requisition number 37 for SBGP Program 02-FC-22-003. In March 19, 2004 the program disbursed \$28,573.81 of the total funds received. As result the program maintained an available balance in bank of \$2,150.72 which was not disbursed in a reasonable time.c. The program deposited \$39,536.92 in March 29, 2004 with requisition number 38 for SBGP Program 02-FC-22-003. In the same day the program disbursed \$36,769.34 of the total funds received. As result the program maintained an available balance in bank of \$2,767.58 which was not disbursed in a reasonable time.d. The program deposited \$28,470 in May 18, 2004 with requisition number 43 for SBGP Program 02-FC-22-001. In the same day the program disbursed \$26,477.10 of the total funds received. As result the program maintained an available balance in bank of \$1,992.90 which was not disbursed in a reasonable time.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-04 (Continued)
	<p>e. The program deposited \$51,703 in April 23, 2004 with requisition number 41 for SBGP Program 02-FC-22-001. In the same week the program disbursed \$45,801.14 of the total funds received. As result the program maintained an available balance in bank of \$5,901.86 which was not disbursed in a reasonable time.</p> <p>f. We noted as of June 30, 2004 the program maintained an average cash balance per month of approximately \$25,500.</p>
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	Income tax withholdings realized to consultants or employees are disbursed by the finance department at the end of each of each month and not when funds are received.
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.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-04 (Continued)

Management Response
And Corrective Action

The program maintains adequate control procedures related to the cash management. The available balance not disbursed in a reasonable time of the total federal grants received from the pass-through agency correspond to salaries, benefits and retentions of Income Taxes retained to suppliers or employees which are paid by the finance department at the end of each month.

Implementation Date: 4/1/04

Responsible Person: Roberto Vera Molina – Program Accountant

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-05
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	Procurement and Suspension and Debarment
Statement of Condition	<p>During our contract provision test of Six (6) contracts amounting to \$679,295. We noted the following situations:</p> <ul style="list-style-type: none">a. Four (4) contracts did not include a provision for granting access to GAO or other federally agency, to books, documents, etc.b. Two (2) contracts did not include provisions for retention of all required records for three years.c. One (1) contract did not include provisions for compliance with Clean Air Act and Water Act.d. Two (2) contracts did not include provisions for compliance with Energy Policy and Conservation Act.
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 strengthen 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

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-05 (Continued)

Management Response
And Corrective Action

The contract office was informed to complete with this requirement and a contract model was submitted to them including the clauses required by federal regulations.

Implementation Date: 3/8/05

Responsible Person: Mariano Lopez, Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 04-06

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 04-03.-

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-07
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 twenty five (25) 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 Housing Assistance Payment was not in accordance with the actualized Family Report (Form 50058) calculation. As result the program realized an underpayment of \$40.b. In five (5) cases we found errors in the Utility Allowance used to calculate the Housing Assistance Payment. As result the program realized an incorrect payment of \$856.50.c. In one (1) case the program did not used the minimum rent payment of \$25 as stated in the annual plan to calculate the Housing Assistance Payment. As result the program realized an underpayment of \$75.d. No quality control samples of applicants were documented with the SEMAP Report by the program staff necessary to verify the compliance with the determination of adjusted income requirement.
Criteria	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.
Cause of Condition	The Municipality internal control and procedures failed to assure that the HAP calculation for these participants were calculated using the correct utility allowance as stated in the HAP Contract.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-07 (Continued)
Effect of Condition	In these cases the Municipality was not in compliance with Code of Federal Regulations 24, 982.505.
Recommendation	We recommend the Municipality to improve its monitoring procedures in order to assure that HAP's are duly calculated.
Questioned Costs	None
Management Response Corrective Action	PHA will establish internal controls and procedures to assure that the participant files include all documentation required by federal agencies and the HAP's are duly calculated. The PHA will state procedures as follows: a. We will train the staff related to Income and Rent Calculation documentation and procedures. b. We will conduct a Reasonable Rent Study and update the Utility Allowance Schedule. c. We will conduct quality control procedures to assure that PHA compliance with the complete documentation in files and the correct rent calculation.

Implementation Date: 03/8/2005

Responsible Person: Arlyn Velez, Technician and Maria I. Molina, Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-08
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 twenty five (25) participant files. The following will summarize the exceptions noted:</p> <ul style="list-style-type: none">a. The Municipality did not document in the participant files why third party verification of the value of assets was not obtained during the eligibility determination.b. In two (2) participant files the family composition photo was not available.c. In four (4) participant files the application form did not detail the date which was fulfilled.d. In two (2) participant files the Privacy Act Notice was not signed by participants of eighteen years or older.e. There was no evidence of the Labor Department Certification of one (1) participant in the annual reexamination.f. There was no evidence of the Family Department "Asume" Certification of two (2) participants in the annual reexamination.g. There was no evidence of the Social Security Copy of two (2) participants in the files.h. There was no evidence of the Family Department Verification in one (1) participant file.i. In twenty two (22) participant files the program did not documented the student certification of children under eighteen years old.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-08 (Continued)
	<p>j. In one (1) participant file the Housing Assistance Payment Voucher was not duly documented and signed by the participant and the Program Director.</p> <p>k. In one (1) participant file the birth certificate was not available for examination.</p>
Criteria	<p>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.</p> <p>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.</p>
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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-08 (Continued)

Management Response
And Corrective Action

PHA will establish internal controls and procedures to assure that the participant files include all documentation required by federal agencies and the HAP's are duly calculated. The PHA will state procedures as follows:

- d. We will document the value of assets verification for each participant.
- e. We will request student certification to applicable cases.
- f. We will train the staff regarding Income and Rent Calculation documentation and procedures.
- g. We will conduct a Reasonable Rent Study and update the Utility Allowance Schedule.
- h. We will conduct quality control procedures to assure that PHA compliance with the complete documentation in files and the correct rent calculation.

Implementation Date: 03/ 8/05

Responsible Person: Arlyn Velez, Technician and Maria I. Molina, Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-09
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 permitted us determine how participants were selected from the top of the waiting list. The program staff did not document adequately the status of each case in the waiting list, detailing if a voucher was assigned to the participant or if the participant was dismissed from the waiting list or if the opportunity letter was returned by the post office.b. During fiscal year 2003-2004 the program staff did not considered the federal or local preferences detailed in the annual plan to assign the vouchers to the participants.c. No quality control samples of applicants were documented with the SEMAP Report by the program staff to verify the compliance with the requirement.
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.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-09 (Continued)

Questioned Costs None

Management Response
And Corrective Action

PHA will purge, organize, and document the waiting list as required. Preference and alternate method to alternate the preferences will be duly documented in the waiting list as established in the administrative plan. PHA will guarantee that the staff understands the regulations regarding the waiting list through training.

Implementation Date: The corrective actions were made and we have taken preventive procedures for future cases.

Responsible Person: María I. Molina, Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-10
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 applicants were documented with the SEMAP Report 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 in the participant files 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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-10 (Continued)

Management Response
And Corrective Action

PHA will establish a unit to work on all tasks concerning the rent reasonableness. The PHA will appoint the necessary resources and appoint additional staff regarding rent reasonableness and program policies. The program will collect and evaluate newspapers, internet and neighborhoods communities in the Municipalities of Toa Alta, Vega Alta, and the Toa Baja the rent market of unassisted units to establish a database for reasonable rent determination.

Implementation Date: June, 2005

Responsible Person: Carmen Vazquez, Housing Inspector

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-11
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, 2004. 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	PHA will review the Utility Allowance Schedule and adjust the allowances where there was a change of 10% or more. The PHA will obtain from AAA and AEE the payment histories of assisted units in order to create an up to date utility allowance schedule and use it to calculate the correct utility allowance for each reexamination and new cases.

Implementation Date: June, 2005

Responsible Person: Technicians- : Sarah Villanueva,
Accountant and Lydia Kuilan, Administrative Assistance

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 04-12

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 04-03.

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YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	04-13
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	During our Cash Management Test we found the following exceptions: a. The program did not maintain proper documentation which permitted an adequate audit trail to reconcile the funds received from the pass-through grantor with the disbursements issued by the program. a. As of May 31, 2004 the outstanding checklist includes a check of \$825 issued in December 23, 2004 for income tax or social security retentions. We could not determine if the check was paid by the bank at the end of our field work date.
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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 04-13 (Continued)

Management Response

And corrective Action The program follows “ACUDEN” procedures for the request and disbursement of federal funds.

Implementation Date: 7/1/03

Responsible Person: Saraí Meléndez – Program Director

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YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-14

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 - Matching

Statement of Condition During our matching requirements test we noted that the matching contributions for the program year ended February 28, 2004 as per monthly reports submitted to the pass-through Agency did not agree with the accounting records because the monthly reports are prepared based in estimated amounts. In addition, we found the following exceptions:

- a. In kind contribution supporting documents which belong to February, 2004 were not accounted (footed) by the program staff. As result, we could not determine the mathematical correction of the amounts detailed in the general ledger.
- b. In kind contributions recorded in the accounting records "Cash Register" which belong to February, 2004 did not agree with the amounts recorded in the general ledger.
- c. Adjustments posted in the general ledger are not duly documented by the program accountant.

Criteria Code of Federal Regulations 45, Subpart C, Section 1301.20 states that the Municipality is required to contribute at least twenty percent (20%) of the cost of the program through cash or in kind contribution. Also, Code of Federal Regulations 45, Subpart C, Section 92.24 (b) (6) states that costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and sub-grantees or cost-type contractors. Those records must show how the value placed on third party in-kind contributions was derived.

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YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-14 (Continued)

Cause of Condition The Municipality did not maintain appropriate internal control procedures to assure that monthly reports submitted to the pass through agency are in accordance with expenditures recorded in the accounting records as matching contribution.

Effect of Condition Such condition may cause Municipality's non-compliance with certain compliance requirements like allowable costs and matching share.

Recommendation We recommend to the Municipality Management to follow regulations established through Code of Federal Regulations 45, Subpart C, Section 92.24. Also, we recommend the Municipality to maintain actualized accounting records in order to prepare the monthly reports submitted to the pass-through agency based in actual expenditures and not in estimated expenditures.

Questioned Costs None

Management Response Instructions were given to the program accountant to establish the adequate control and procedures to assure that cash register books and the general ledger are actualized in a timely basis to assure that monthly reports submitted to the pass-through agency includes actual costs and not estimates in order to avoid this situation in the future.

Implementation Date: 3/8/05

Responsible Person: Saraí Meléndez, Program Director and Teresa Acevedo, Program Accountant.

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YEAR ENDED JUNE 30, 2004

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	04-15
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 – 15% Administrative Cost Limits
Statement of Condition	The Accounting System kept by the Head Start Program did not provide for the classification of financial transactions between administration and programmatic costs. Alternate procedures were used by the program staff to compute compliance with the fifteen percentage (15%) administrative cost limit.
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

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YEAR ENDED JUNE 30, 2004

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 04-15 (Continued)

Management Response
And Corrective Action

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.

Implementation Date: 7/1/02

Responsible person: Mrs. Teresa Acevedo

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-16
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	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. The Municipality did not formalize a contract with a consultant to provide training services for three (3) days to fifty nine (59) employees.b. The Municipality did not formalize a contract with a consultant to provide training services for forty (40) hours to eight (8) employees.c. One (1) contract 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.d. One (1) contract did not include provisions for retention of all required records for a three years period.
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 assure that all contracts include all required 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

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YEAR ENDED JUNE 30, 2004

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 04-16(Continued)

Management Response
And Corrective Action

The program Director sent a letter to Ms. Sonia Arroyo, Director of the Municipality's Secretary Office, requesting information of the clauses required 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 - Program Director

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YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-17
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, 2004 were submitted to the Commonwealth of Puerto Rico Administration for Children and Families after the deadline.b) We found differences between the amounts reported as federal expenditures in the monthly financial reports submitted to the pass-through agency and the amounts detailed in the cash register and the general ledger.c) The expenditures detailed in the monthly financial reports are based in estimates. As result the financial reports are not in accordance with the program accounting records. Differences are not adjusted in the closing reports. In addition, we noted that no adequate procedures exist to adequately document the adjustments realized to the general ledger accounts.
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>

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YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-17 (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. The program accountant must establish adequate communication channels with the finance department in order to obtain documental evidence related to cash receipt and disbursements in a daily manner, in order to be posted in the cash register maintained by the program. This control will assure that accounting records are actualized at the end of each month in order to prepare accurate monthly reports to the pass-through agency. In addition, the accountant must assure that the cash register and the general ledger are duly reconciliated and journal entries posted in the general ledger are duly documented and explained. We consider that the program director must evaluate the implementation of a computer accounting software to maintain the program books due to a volume of transactions manual books are considered inefficient.
Questioned Costs	None
Management Response And Corrective Action	Instructions were given to the program accountant to establish the adequate control procedures to assure that cash register books and the general ledger are actualized in a timely basis to assure that monthly reports submitted to the pass-through agency includes actual costs and not estimates in order to avoid this situation in the future. Implementation date: 3/8/05 Responsible Person: Mrs. Sarahí Meléndez, Program Director and Teresa Acevedo, Program Accountant.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III – Federal Award Findings and Questioned Costs

Finding Reference	04-18
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	Period of Availability of Funds
Statement of Condition	<p>During our test we noted the following exceptions related to period of availability of funds:</p> <ul style="list-style-type: none">a. The Municipality paid \$5,082.40 to a supplier with the disbursement voucher 4001269 in December 16, 2003 after the expiration of the waiver approved by the pass-through agency.b. The Municipality paid \$2,000 to a supplier with the disbursement voucher 4000619 in March 4, 2004 after the expiration of the waiver approved by the pass-through agency.
Criteria	The grant agreement stated in clause number nine (9), point number twelve (12) that the Federal regulation states a term of ninety days for the liquidation of obligations pending to be paid at the year closing. After that date the program is not authorized to perform additional payments with federal funds and the Municipality will be responsible to liquidate the obligations with local funds except if a waiver is obtained from the pass-through agency.
Cause of Condition	The Municipality did not establish adequate monitoring procedures to assure that obligations are liquidated as required by grant agreement.
Effect of Condition	The Municipality is not in compliance with the Grant Agreement and 45 CFR, Subpart C, Section 92.23 (b).
Recommendation	We recommend the Municipality to establish adequate internal controls to avoid this situation occurred in the future.
Questioned Costs	none

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section III - Federal Award Findings and Questioned Costs

Finding Reference 04-18 (Continued)

Management Response In these cases the Head Start program submits the vouchers for payment to the finance department. Those payments were stopped in the finance department until the suppliers submit required documentation, causing a payment delay of ninety (90) days.

Implementation date: 3/8/05

Responsible Person: Mrs. Saraí Meléndez, Program Director and Teresa Acevedo, Program Accountant.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-05	14.228	<p><u>The Municipality should strengthen its procedures to assure that at least two visits per month are realized to participant housing unit in order to ensure the quality of services related to the Housekeeper Assistance Project</u></p> <p>Full corrective action was taken.</p>
03-06	14.228	<p><u>The Municipality should improve its internal control and procedures in order to assure that adequate competence is promoted for the acquisition of professional services with federal funds.</u></p> <p>Full corrective action was taken.</p>
03-07	14.228	<p><u>The Municipality should strengthen it's Cash Management 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 strengthen its accounting procedures in order to assure a clear trace of transactions to the accounting records.</u></p> <p>Partial Corrective Action was taken. The auditors reissued the finding for the current year. Finding Reference 04-04.</p>
03-08	14.228	<p><u>the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 04-05.</p>
03-09	14.871	<p><u>The Municipality should 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.</u></p> <p>Partial corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 04-06.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS- (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-10	14.871	<p><u>The Municipality should improve it's monitoring controls in order to assure that HAP's are duly computed.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 04-07.</p>
03-11	14.871	<p><u>The Municipality 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 04-08.</p>
03-12	14.871	<p><u>The Municipality should strengthen its procedures to verify and evaluate 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 future fund advances.</u></p> <p>Full corrective action was taken.</p>
03-13	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 04-09.</p>
03-14	14.871	<p><u>The Municipality 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 04-10.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS- (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-15	14-871	<p><u>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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 04-11.</p>
03-16	93.600	<p><u>The Municipality should improve its internal control and procedures in order to assure that disbursement voucher include all the required supporting documents before the issuance of any payment.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 04-12.</p>
03-17	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>Partial corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 04-13.</p>
03-18	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>Partial corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 04-14.</p>
03-19	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 04-16.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS- (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-20	93.600	<p><u>The Municipality must assure 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 04-17.</p>
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>Partial corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 04-13.</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>Partial corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 04-14.</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 04-16.</p>
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</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS- (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		the current year. Finding Reference 04-17.
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 04-07.</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 04-08.</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>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 04-09.</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 04-10.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS- (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-19	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 04-11.</p>
01-05	93.600	<p><u>Deficiencies in disbursement test</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding.</p>
01-06	93.600	<p><u>No adequate cash management procedures.</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding.</p>
01-11	93.600	<p><u>Deficiencies in procurement process</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding.</p>
01-13	93.600	<p><u>Reporting</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS- (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-16	14.855 14.857	<p><u>Deficiencies in Housing Assistance payments calculation</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding.</p>
01-17	14.855 14.857	<p><u>No adequate cash management procedures.</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding.</p>
01-18	14.855 14.857	<p><u>Deficiencies in eligibility test</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding.</p>
01-20	14.855 14.857	<p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding.</p>
00-2	93.600	<p><u>Lack of proper documentation on participants files</u></p> <p>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS- (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		not giving follow up to the finding and has not issued a final decision respect to the finding.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

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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**

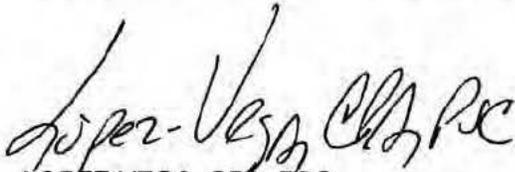
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico**, as of and for the year ended June 30, 2004, which collectively comprise the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico**, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (Continued)

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule-General Fund on page 50 through 51 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.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 6, 2004

Stamp No. 1942328 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'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2004

Management's Discussion and Analysis

As management of the Municipality of Dorado, we offer readers of the Municipality's basic financial statements this narrative overview and analysis of the financial activities of the Municipality as of and for the fiscal year ended June 30, 2004. This Management's Discussion and Analysis (MD&A) include comparative data, and it has been designed accordingly with the following goals:

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

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 \$3,497,754.
- In the fund financial statements, the governmental activities revenue increased \$1,067,130 (or 4%) while governmental activities expenditures increase \$477,187 (or 2%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$955,118.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$(83,557).
- The Municipality issued bonds amounting to \$5,125,000 to finance the acquisition of land and building, public works, capital improvements and constructions of different projects.
- The Municipality issued a note payable amounting to \$370,000 to acquire equipments.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Fund Financial Statements (Continued)

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.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

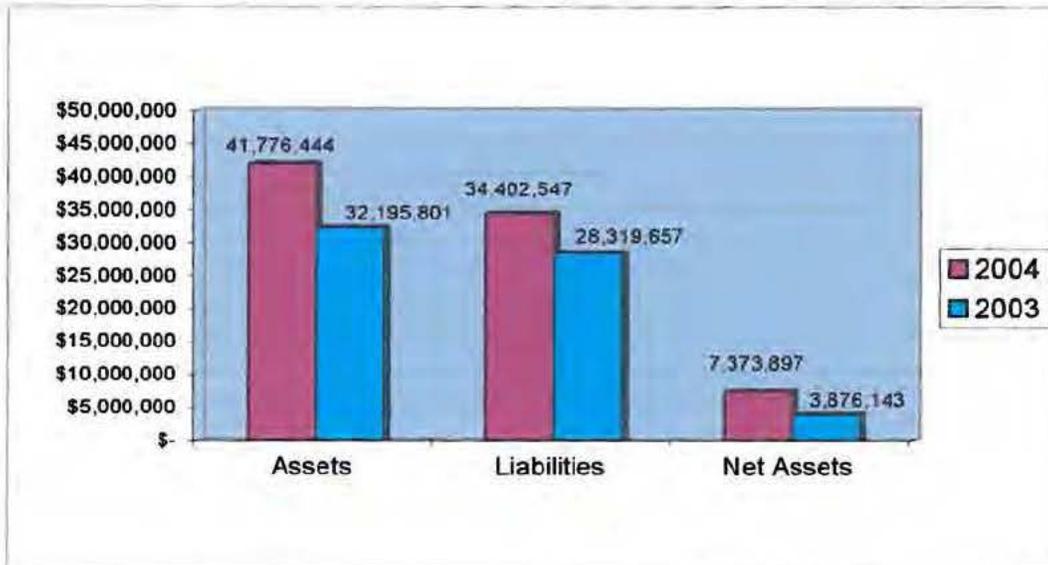
Net Assets

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 \$7,373,897 at the end of 2004, compared to \$3,876,143 at the end of the previous year, as restated.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets (Continued)

Condensed Statement of Net Assets	2004	2003	Change	%
Current assets	\$23,535,047	\$17,417,962	\$6,117,085	35%
Capital assets	18,241,397	14,777,839	3,463,558	23%
Total assets	41,776,444	32,195,801	9,580,643	30%
Current liabilities	6,859,445	5,376,787	1,482,658	28%
Noncurrent liabilities	27,543,102	22,942,870	4,600,232	20%
Total liabilities	34,402,547	28,319,657	6,082,890	21%
Invested in capital assets, net of related debt	(3,425,962)	(2,975,521)	(450,441)	15%
Restricted	13,481,013	9,499,414	3,981,599	42%
Unrestricted	(2,681,154)	(2,647,750)	(33,404)	1%
Total net assets	\$7,373,897	\$3,876,143	\$3,497,754	90%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Changes in Net Assets

The Municipality's net assets increased by \$3,497,754. Approximately 59 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 2 percent of the total revenues. Interest earnings and miscellaneous provided 1 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and health and welfare. As follow, is presented a comparative analysis of government-wide data. In this analysis was determined the percentage change in revenues and expenditures from prior year to current year.

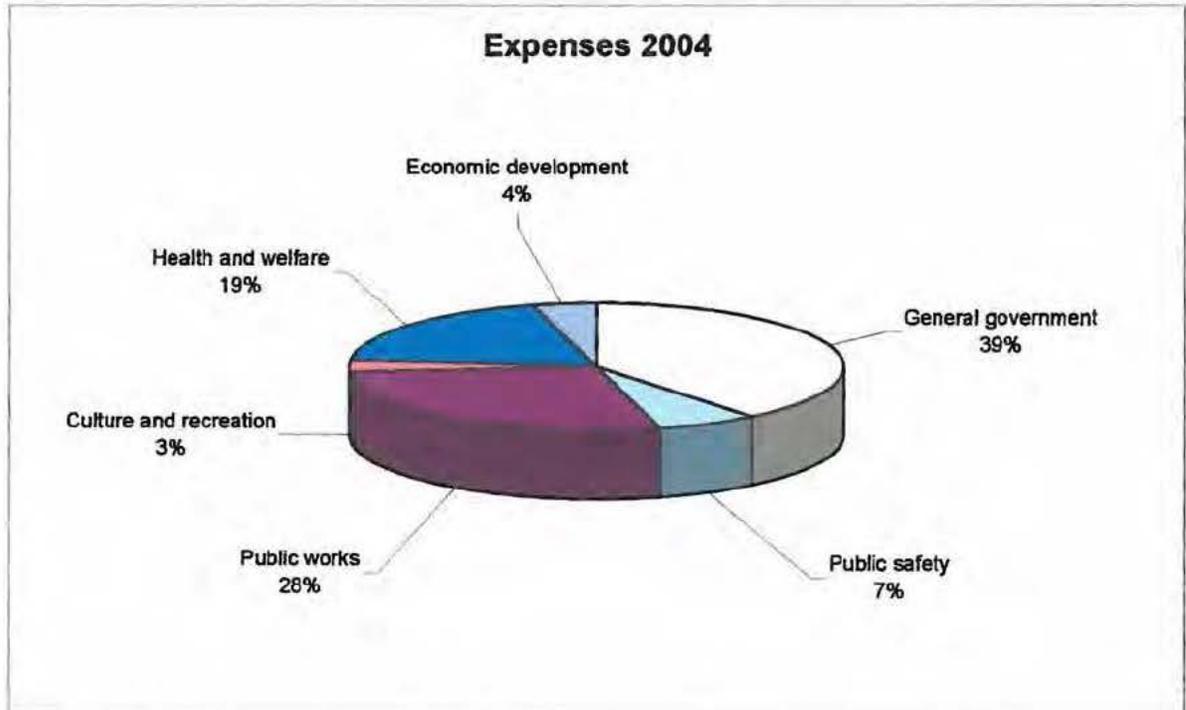
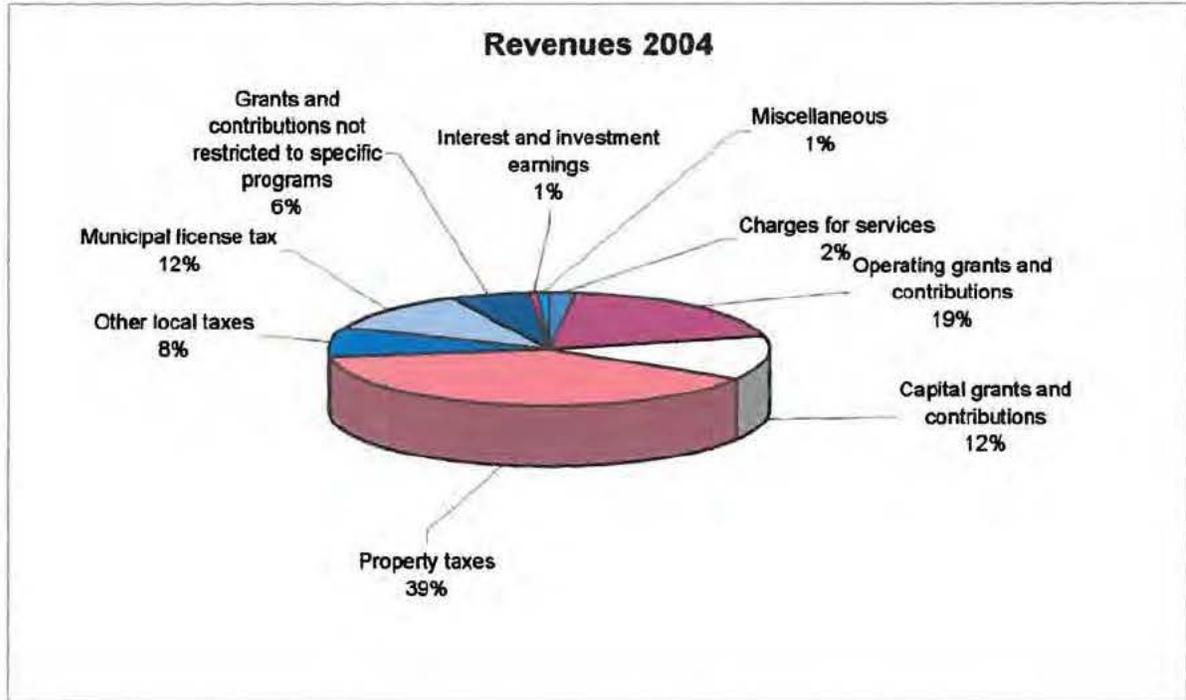
Condensed Statement of Activities	2004	2003	Change	%
Program revenues:				
Charges for services	\$617,444	\$530,549	\$86,895	16%
Operating grants and contributions	5,756,713	6,233,334	(476,621)	(8%)
Capital grants and contributions	3,715,261	1,326,563	2,388,698	180%
General revenues:				
Property taxes	11,649,792	9,747,286	1,902,506	20%
Other local taxes	2,364,343	3,813,748	(1,449,405)	(38%)
Municipal license tax	3,465,032	3,488,017	(22,985)	(1%)
Grants and contributions not restricted to specific programs	1,753,989	3,226,941	(1,472,952)	(46%)
Interest and investment earnings	194,363	306,304	(111,941)	(37%)
Gain (Loss) on retirement of Capital Assets	(710)		(710)	100%
Miscellaneous	213,032	133,628	79,404	59%
Total revenues	29,729,259	28,806,370	922,889	3%
Expenses:				
General government	9,611,856	8,319,809	1,292,047	16%
Public safety	1,601,679	1,431,360	170,319	12%
Public works	6,775,367	8,124,865	(1,349,498)	(17%)
Culture and recreation	745,667	695,492	50,175	7%
Health and welfare	4,721,072	4,785,521	(64,449)	(1%)
Economic development	1,007,311	2,269,856	(1,262,545)	(56%)
Community development	550,263	407,857	142,406	35%
Urban development	169,301		169,301	100%
Other		73,177	(73,177)	(100%)
Interest on long-term debt	1,048,989	1,054,548	(5,559)	(1%)
Total expenses	26,231,505	27,162,485	(930,980)	(3%)
Change in net assets	3,497,754	1,643,885	1,853,869	113%
Net assets, beginning of year	3,876,143	2,232,258	1,643,885	74%
Net assets, end of year	\$7,373,897	\$3,876,143	\$3,497,754	90%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Changes in Net Assets (Continued)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 \$15,933,563, a increase of \$4,871,518 in comparison with the prior year. There are reservations of fund balance amounting to \$14,896,542. 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 (\$979,558), 2) to pay debt service (\$4,627,930), 3) to pay for capital projects (\$8,875,039) and 4) for other purposes (\$ 414,015).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has a fund balance of \$ 1,037,111.

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'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2004, amounts to \$24,142,048, net of accumulated depreciation of \$9,172,177, leaving a net book value of \$14,969,871. For Business - Type Activities investments in capital assets as of June 30, 2004, amounts to \$3,971,648, net of accumulated depreciation of \$700,122, leaving a net book value of \$3,271,526. 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 Governmental Activities in the current fiscal year was about 23% in terms of net book value. Depreciation charges for the year totaled \$ 1,106,104.

The total increase in the Municipality's investment in capital assets for 'Business-Type Activities in the current fiscal year was about 1% in terms of net book value. Depreciation charges for the year totaled \$ 43,037.

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, 2004, the Municipality has \$7,898,501 of unexpended proceeds from bond issuances that are committed to future construction activities in governmental Activities and \$409,924 in Business-Type Activities.

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.

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".

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED):

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 very predictable with increases of approximately five percent. 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 2004-2005 fiscal years.

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 at P.O Box 588, Dorado, Puerto Rico 00646-0588, Telephone (787) 796-1230.

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Net Assets
June 30, 2004

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 8,314,414	\$ 345,789	\$ 8,660,203
Cash with fiscal agent	12,526,468	409,924	12,936,392
Accounts receivable:			
Municipal license tax	22,702		22,702
Intergovernmental	940,459		940,459
Federal grants	437,905		437,905
Other	511,093	26,293	537,386
Capital assets			
Land, improvements, and construction in process	5,688,669	434,190	6,122,859
Other capital assets, net of depreciation	9,281,202	2,837,336	12,118,538
Total capital assets	<u>14,969,871</u>	<u>3,271,526</u>	<u>18,241,397</u>
Total assets	<u>37,722,912</u>	<u>4,053,532</u>	<u>41,776,444</u>
Liabilities			
Accounts payable and accrued liabilities	1,876,229	7,295	1,883,524
Due to other governmental entities	894,983		894,983
Deferred revenues:			
Municipal license tax	3,083,636		3,083,636
Federal grant revenues	505,557		505,557
Interest payable	435,971	55,774	491,745
Noncurrent liabilities:			
Due within one year	2,928,327	206,560	3,134,887
Due in more than one year	23,066,986	1,341,229	24,408,215
Total liabilities	<u>32,791,689</u>	<u>1,610,858</u>	<u>34,402,547</u>
Net Assets			
Invested in capital assets, net of related debt	(5,149,699)	1,723,737	(3,425,962)
Restricted for:			
Capital projects	8,875,039		8,875,039
Debt service	4,191,959		4,191,959
Other purpose	414,015		414,015
Unrestricted (deficit)	<u>(3,400,091)</u>	<u>718,937</u>	<u>(2,681,154)</u>
Total net assets	<u>\$ 4,931,223</u>	<u>\$ 2,442,674</u>	<u>\$ 7,373,897</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, 2004

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	\$ 9,509,004	\$ 310,214	\$ 162,193	\$ -	\$ (9,036,597)	\$ -	\$ (9,036,597)
Public safety	1,601,679	2,155	65,960	-	(1,533,564)	-	(1,533,564)
Public works	6,775,367	-	2,242	1,505,984	(5,267,141)	-	(5,267,141)
Health and welfare	4,721,072	-	4,592,413	-	(128,659)	-	(128,659)
Culture and recreation	745,667	-	867	-	(744,800)	-	(744,800)
Economic development	1,007,311	-	933,038	2,091	(72,182)	-	(72,182)
Community development	550,263	-	-	1,938,987	1,388,724	-	1,388,724
Urban Development	169,301	-	-	268,199	98,898	-	98,898
Interest on long-term debt	927,549	-	-	-	(927,549)	-	(927,549)
Total governmental activities	26,007,213	312,369	5,756,713	3,715,261	(16,222,870)	-	(16,222,870)
Business Type Activities:							
General Government	102,852	305,075	-	-	-	202,223	202,223
Interest on long-term debt	121,440	-	-	-	-	(121,440)	(121,440)
Total business type activities	224,292	305,075	-	-	-	80,783	80,783
Total Primary Government	\$ 26,231,505	\$ 617,444	\$ 5,756,713	\$ 3,715,261	(16,222,870)	80,783	(16,142,087)
General revenues:							
Property taxes					11,649,792		11,649,792
Other local taxes					2,364,343		2,364,343
Municipal license tax					3,465,032		3,465,032
Grants and contributions not restricted to specific programs					1,753,989		1,753,989
Interest and investment earnings					194,363		194,363
Gain (Loss) on Retirement of Capital Assets					(710)		(710)
Miscellaneous					213,032		213,032
Transfers					310,000	(310,000)	-
Total general revenues and transfers					19,949,841	(310,000)	19,639,841
Change in net assets					3,726,971	(229,217)	3,497,754
Net assets - beginning, as restated					1,204,252	2,671,891	3,876,143
Net assets - ending					\$ 4,931,223	\$ 2,442,674	\$ 7,373,897

Commonwealth of Puerto Rico
Municipality of Dorado
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Special Revenue Fund Other Federal Grants	Debt Service Fund	Capital Projects Fund - Local State and Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 5,476,760	\$ 351,761	\$ -	\$ 1,821,360	\$ 664,533	\$ 8,314,414
Cash with fiscal agent	103,960		4,524,007	7,898,501	-	12,526,468
Accounts receivable:						
Municipal license tax	7,045				-	7,045
Intergovernmental	248,848		109,105	101,700	480,806	940,459
Federal Grants		437,905			-	437,905
Due from other funds	666,647	39,785			-	706,432
Other	64,905		2,862		-	67,767
Total assets	\$ 6,568,165	\$ 829,451	\$4,635,974	\$ 9,821,561	\$ 1,145,339	\$ 23,000,490
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 429,131	\$ 411,719	\$ -	\$ 946,522	\$ 88,857	\$ 1,876,229
Due to other governmental entities	894,983				-	894,983
Due to other funds	39,785	59,478	8,044		599,125	706,432
Deferred revenues:						
Municipal license tax	3,083,636					3,083,636
Federal grant revenues		328,254			177,303	505,557
Total liabilities	4,447,535	799,451	8,044	946,522	865,285	7,066,837
Fund balances:						
Reserved for:						
Encumbrances	979,558				-	979,558
Capital projects				8,875,039	-	8,875,039
Other purposes		30,000			280,054	310,054
Debt service fund			4,627,930		-	4,627,930
Unreserved:						
Designated for specific fund purpose	103,961					103,961
Undesigned	1,037,111				-	1,037,111
Total fund balances	2,120,630	30,000	4,627,930	8,875,039	280,054	15,933,653
Total liabilities and fund balances	\$ 6,568,165	\$ 829,451	\$4,635,974	\$ 9,821,561	\$ 1,145,339	

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	458,983
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	14,969,871
Long-term liabilities and accrue interest are not due and payable in the current period, and therefore, are not reported in the funds	(26,431,284)
Net assets of governmental activities	\$ 4,931,223

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General Fund	Special Revenue Fund Other Federal Grants	Debt Service Fund	Capital Projects Fund - Local State, and Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 9,042,124	\$ -	\$ 2,607,668	\$ -	\$ -	\$ 11,649,792
Municipal license taxes	3,587,761				-	3,587,761
Licenses, permits and other local taxes	2,189,616				-	2,189,616
Intergovernmental	1,916,181	2,243		1,037,562	991,752	3,947,738
Rent of property	301,875				-	301,875
Fines and forfeitures	2,155				-	2,155
Interest	194,363				-	194,363
Federal grants		1,455,842			4,295,399	5,751,241
Miscellaneous	178,411	24,387			20,953	223,751
Total revenues	17,412,486	1,482,472	2,607,668	1,037,562	5,308,104	27,848,292
Expenditures						
Current:						
General government	9,327,928			8,031	6,315	9,342,274
Public safety	1,256,714	77,882			100,537	1,435,133
Public works	5,833,015	3,727		1,068,171	8,493	6,913,406
Health and welfare		273,119			4,449,233	4,722,352
Culture and recreation	535,771			2,006,023	21,594	2,563,388
Economic development		2,091			1,005,220	1,007,311
Community development		900,233			-	900,233
Urban development		268,199			-	268,199
Debt service:						
Principal	74,943		1,500,750		-	1,575,693
Interest	14,178		874,607		-	888,785
Total expenditures	17,042,549	1,525,251	2,375,357	3,082,225	5,591,392	29,616,774
Excess (deficiency) of revenues over (under) expenditures	369,937	(42,779)	232,311	(2,044,663)	(283,288)	(1,768,482)
Other financing sources (uses)						
Transfers in	310,000	72,779	360,824		126,216	869,819
Transfers out	(559,819)				-	(559,819)
Long term debt issuance	835,000			5,495,000	-	6,330,000
Total other financing sources (uses)	585,181	72,779	360,824	5,495,000	126,216	6,640,000
Net change in fund balances	955,118	30,000	593,135	3,450,337	(157,072)	4,871,518
Fund balance, beginning, as restated	1,165,512		4,034,795	5,424,702	437,126	11,062,135
Fund balance, ending	\$ 2,120,630	\$ 30,000	\$ 4,627,930	\$ 8,875,039	\$ 280,054	\$ 15,933,653

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

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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 4,871,518

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

Prior Year Account Receivables reported in the Governmental Fund Financial Statements as revenues, but reversed in the Government-Wide Statement of Activities and Changes in Net Assets. (384,112)

Account Receivables reported in Government-Wide Statement of Net Assets collected after year end, but not available soon enough to pay current liabilities, and therefore are not reported in the Governmental Funds. 458,983

Donations of Capital Assets from outside parties, do not provide current financial resources in Governmental Funds, but the transaction must be reflected in the Government-Wide Statement of Net Assets based on the fair value of the donated property. 1,501,730

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. 3,111,679

Loss on Retirements of Capital Assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, Loss on Retirement of Capital Assets is not reported as expenditures in Governmental Funds Financial Statements. (710)

Depreciation Expense on Capital Assets is reported in the Government-Wide Statements of Activities and Change 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 Financial Statements. (1,106,104)

Interest Expense change is reported in the Government-Wide Statement of Activities and Change in Net Assets, but not require the use of current financial resources. Therefore, Interest expense change is not reported as expenditures in Governmental Funds Financial Statements. (38,763)

Long Term Debt issuances are reported in the Government-Wide Statement of Net Assets, but not require the use of current financial resources. Therefore Long Term debt issuances are not reported as expenditures in Governmental Funds Financial Statements. (154,024)

Long Term Debts payments are reported as expenditures in the Governmental Funds Financial Statements which require the use of current financial resources. Therefore Long Term debts payments are not reported as expenditures in the Government-Wide Statement of Activities and Change in Net Assets. 240,145

Change in Landfill Accrual 55,879

Bonds proceeds provides current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments. (4,829,250)

Change in Net Assets of Governmental Activities \$ 3,726,971

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30, 2004

	Business Type Activity Enterprise	Total Business Type Activity Enterprise
Current Assets		
Cash and cash equivalents	\$ 345,789	\$ 345,789
Cash with fiscal agent	409,924	409,924
Accounts receivable:		
Internal balances	-	-
Other	26,293	26,293
Total current assets	782,006	782,006
Noncurrent Assets		
Capital Assets:		
Property, Plant and equipment:		
Land	388,790	388,790
Building	3,537,458	3,537,458
Construction in progress	45,400	45,400
Accumulated depreciation	(700,122)	(700,122)
Total non-current assets	3,271,526	3,271,526
Total assets	4,053,532	4,053,532
Current Liabilities		
Accounts Payables	7,295	7,295
Revenue Fund-Banco Santander Loan	206,560	206,560
Interest Payable-Banco Santander Loan	55,774	55,774
Total current liabilities	269,629	269,629
Noncurrent Liabilities		
Revenue Fund-Banco Santander Loan	1,341,229	1,341,229
Total current liabilities	1,341,229	1,341,229
Total liabilities	1,610,858	1,610,858
Net Assets		
Invested in Capital Assets, net of related debt	1,723,737	1,723,737
Unrestricted	718,937	718,937
Total Net Assets	\$ 2,442,674	\$ 2,442,674

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, 2004

	Business - Type Activites Enterprise	Total Business - Type Activites Enterprise
Operating Revenues:		
Charges for services	\$ 305,075	\$ 305,075
Total operating revenues	<u>305,075</u>	<u>305,075</u>
Operating Expenses:		
Operations and maintenance	4,435	4,435
Depreciation and Amortization	98,417	98,417
Total operating expenditures	<u>102,852</u>	<u>102,852</u>
Operating Income (Loss)	202,223	202,223
Non-operating revenues (expenses):		
Interest Expense	(121,440)	(121,440)
Total non-operating revenues (expenses)	<u>(121,440)</u>	<u>(121,440)</u>
Income (Loss) before transfers	80,783	80,783
Transfers (Out)	<u>(310,000)</u>	<u>(310,000)</u>
Change in Net Assets	(229,217)	(229,217)
Total net assets-beginning	2,671,891	2,671,891
Total net assets-ending	<u>\$ 2,442,674</u>	<u>\$ 2,442,674</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND- BUSINESS TYPE ACTIVITY- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2004

Cash Flows from Operating Activities:

Receipts from Customers	\$ 306,784
Payment to Suppliers	(7,120)
Interest paid	(124,708)
Transfers out to the General Fund-	(310,000)
Net Cash Provided (Used) by Operating Activities	<u>(135,044)</u>

Cash Flows from Capital and Related Financing Activities:

Construction in Progress	(45,400)
Repayment of Revenue Bond	<u>(87,016)</u>
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(132,416)</u>
Net Decrease in Cash and Cash with Fiscal Agent, Restricted	(267,460)
Cash and Cash with Fiscal Agent at Beginning of Period, Restricted	<u>1,023,173</u>
Cash and Cash with Fiscal Agent at End of Period, Restricted	<u>\$ 755,713</u>

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating Income	<u>\$ (229,217)</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	88,437
Interest Receivables	(3,266)
Other Receivables	(13,704)
Accrued Expenses	7,294
Related Company	<u>15,412</u>
Total Adjustments	<u>94,173</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (135,044)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year 2007. The Municipality has elected to delay the capitalization of infrastructure.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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, 2004

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 – Other Federal Grants- Is the accounting entity in which revenues derived from the federal grants, is accounted for. The use and limitations of each special revenue fund are specified by Municipality ordinances or federal statutes.

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 and State Grants - is the accounting entity in which revenues derived from local funds, state 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, 2004

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- Is the 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 - 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, 2004

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

C. Financial reporting presentation

Special Revenue Fund - Section 8 - Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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.

Special Revenue Fund - Other 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.

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.

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

D. Measurement focus, basis of accounting and financial presentation

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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"

- 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 (PREPA), which contribute As payment in lieu of taxes a twenty percent of its revenues after deductions of subsidies granted, or an amount equal to the cost of electric power consumed by each Municipality, or an average of the contribution in lieu of taxes paid to each Municipality in the last five fiscal years whichever is greater. The contribution in lieu of tax revenue and related receivable recorded in the General Fund for the current fiscal year was determined based on revenue estimates made by the PREPA and actual transactions during the current fiscal year, because the final contribution amount from the PREPA was not available at the date of release of the basic financial statements. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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:
 - 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2004 amounted to approximately \$285,606. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$378,330 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	\$14,969,871
Deduct:	
Bonds Payable related to Capital Assets	(18,780,000)
Notes Payables related to Capital Assets	(1,150,000)
Lease Obligation - IBM	(4,518)
Lease Obligation- Crossborder	<u>(185,052)</u>
	\$(5,149,699)
<u>Net assets restricted for capital projects</u>	
Fund balance restricted for capital projects	8,875,039
<u>Net assets restricted for debt service</u>	
Fund balance restricted for debt service	4,627,930
Deduct:	
Interest Payable	<u>(435,971)</u>
	4,191,959
<u>Net assets restricted for other purposes</u>	
Other governmental funds- fund balance restricted for other purposes	414,015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	\$2,016,669	
Add:		
Accrual basis Account Receivables	458,983	
Deduct:		
Bonds Payable related to Operational Debts	(805,000)	
Compensated absences debt	(1,857,908)	
Landfill Obligation	(2,374,168)	
Property tax debt - CRIM Law 42	(227,058)	
Property tax debt - CRIM Law 146	(611,609)	
		<u>(3,400,091)</u>
 Total net assets - governmental activities		 <u>\$4,931,223</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 \$5,476,760, \$351,761 and \$1,821,360 in the general fund, special revenue fund - other federal grants, and capital projects fund - local and state grants, respectively, were fully collateralized at June 30, 2004. In the other governmental funds there were deposits with commercial banks of approximately \$ 664,533 that were fully collateralized.

The deposits at GDB of approximately \$7,898,501 that is restricted principally for capital projects in the capital project fund - local and state grant, \$103,960 restricted for operational expenditures in the general fund, and the \$4,524,007 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, 2004, the tax rates were as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004, net of allowance for uncollectible.

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 estimated 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 property tax collections related to the amnesty granted through the Public Law 74, enacted in March 1, 2004. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$107,357
Municipal Revenue Collection Center ("CRIM")	<u>141,491</u>
Total	<u>\$248,848</u>

The contribution in lieu of tax receivable from the Puerto Rico Electric Power Authority reported above represent an estimated amount as described in the Note 1 (E) (2), because the final contribution amount from the PREPA for the fiscal year 2003-2004 was not available. Also, as described in Note 14, there is a formula to determine the contribution on lieu of taxes to be distributed to the municipalities.

Intergovernmental receivable in debt service fund represents property tax receivable at June 20, 2004. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$109,105
Total	<u>\$109,105</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in capital project funds local and state grants represent funds assignments by state government to the municipality at year end. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Department of Treasury	<u>\$101,700</u>
Total	<u>\$101,700</u>

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 Labor	<u>\$480,806</u>
Total	<u>\$480,806</u>

Intergovernmental receivable in special revenue fund - other federal grants represent expenditures incurred not yet reimbursed by federal government or the pass-through grantor. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Service Block Grant	\$ 15,015
Highway Planning and Construction	4,391
Local Law Enforcement Block Grants Program	53,158
Nutrition Program for the Elderly	3,120
Community Development Block Grants/ State's Program	288,450
Special Programs for Aging - Title III	<u>73,771</u>
Total	<u>\$437,905</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2004, and interfund transfers during the fiscal year ended at June 30, 2004, are summarized as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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	Debt Service Fund	Interest Revenue	\$ 8,044
General Fund	Special Revenue Fund- Federal Grants-Community Service Block Grant	Payroll and related accruals paid and not reimbursed	14,956
General Fund	Special Revenue Fund - Local Grants-Law 52 Program	Payroll and related accruals paid and not reimbursed	41,645
General Fund	Special Revenue Fund - Local Grants - Law 82 Program	Payroll and related accruals paid and not reimbursed	557,480
General Fund	Special Revenue Fund - Other Federal Grants- Community Development Block Grant/ State's Program	Payroll and related accruals paid and not reimbursed	29,022
General Fund	Special Revenue Fund - Other Federal Grants- Special Programs for Aging - Title III	Payroll and related accruals paid and not reimbursed	3,500
General Fund	Special Revenue Fund - Other Federal Grants- Nutrition Program for the Elderly	Payroll and related accruals paid and not reimbursed	12,000
Community Development Block Grants- Section 108 Loan Guarantees	General Fund	Program Income Revenue	9,785
Special Programs for Aging - Title III	General Fund	Matching Contribution	<u>30,000</u>
Total			<u>\$706,432</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

4. INTERFUND TRANSACTIONS (CONTINUED)

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Enterprise Fund	General Fund	Transfer of funds for operating purposes	\$310,000
General Fund	Special Revenue Fund - Other Federal Grants	Matching Contribution	177,116
General Fund	Special Revenue Fund - Local and State Grants	Creation of a New Fund	21,879
General Fund	Debt Service Fund	Debt retirement	<u>360,824</u>
Total			<u>\$869,819</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 2004, 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 July 1, 2003 as Restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Capital asset, not being depreciated:				
Land	\$ 2,923,521	\$ 1,038,754	\$ -	\$ 3,962,275
Construction in progress	<u>330,832</u>	<u>1,677,415</u>	<u>(281,853)</u>	<u>1,726,394</u>
Total capital assets not being depreciated	<u>3,254,353</u>	<u>2,716,169</u>	<u>(281,853)</u>	<u>5,688,669</u>
Capital assets, being depreciated:				
Buildings	8,064,917	-	-	8,064,917
Buildings improvements	723,563	625,255		1,348,818
Infrastructure	515,091	575,432		1,090,523
Infrastructure improvements		206,170		206,170
Equipment	1,664,910	457,832	(33,080)	2,089,662
Furnishing	241,486	26,542	(17,749)	250,279
Work of Arts	8,003			8,003
Computers	228,352	19,827	(1,254)	246,925
Vehicles	<u>4,890,258</u>	<u>268,035</u>	<u>(10,211)</u>	<u>5,148,082</u>
Total capital assets being depreciated	<u>16,336,580</u>	<u>2,179,093</u>	<u>(62,294)</u>	<u>18,453,379</u>
Less accumulated depreciation for:				
Buildings	(3,308,521)	(201,622)	-	(3,510,143)
Buildings improvements	(65,763)	(27,557)		(93,320)
Infrastructure	(4,280)	(18,956)		(23,236)
Infrastructure improvements		(4,216)		(4,216)
Equipment	(1,198,784)	(188,964)	32,501	(1,355,247)
Furnishing	(170,587)	(25,169)	17,678	(178,078)
Computers	(132,859)	(54,160)	1,194	(185,825)
Work of Arts	(6,670)	(800)		(7,470)
Vehicles	<u>(3,240,193)</u>	<u>(584,660)</u>	<u>10,211</u>	<u>(3,814,642)</u>
Total accumulated depreciation	<u>(8,127,657)</u>	<u>(1,106,104)</u>	<u>(61,584)</u>	<u>(9,172,177)</u>
Total capital assets being depreciated, net	<u>8,208,923</u>	<u>1,072,989</u>	<u>(710)</u>	<u>9,281,202</u>
Governmental activities capital assets, net	<u>\$ 11,463,276</u>	<u>\$ 3,789,158</u>	<u>\$ (282,563)</u>	<u>\$ 14,969,871</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 513,277
Public safety	178,760
Public works	318,067
Culture and recreation	74,261
Urban Development	13,062
Community Development	<u>8,677</u>
Total depreciation expense-governmental activities	<u>\$1,106,104</u>

<u>Business - type Activities</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Capital asset, not being depreciated:				
Land and Construction in Progress	\$ 388,790	\$ 45,400	\$ -	\$ 434,190
Total capital assets not being depreciated	<u>388,790</u>	<u>45,400</u>	<u>-</u>	<u>434,190</u>
Capital assets, being depreciated:				
Building	3,537,458	-	-	3,537,458
Total capital assets being depreciated	<u>3,537,458</u>	<u>-</u>	<u>-</u>	<u>3,537,458</u>
Less accumulated depreciation for:				
Building	(611,685)	(88,437)	-	(700,122)
Total accumulated depreciation	<u>(611,685)</u>	<u>(88,437)</u>	<u>-</u>	<u>(700,122)</u>
Total capital assets being depreciated, net	<u>2,925,773</u>	<u>(88,437)</u>	<u>-</u>	<u>2,837,336</u>
Business Type Activities capital assets, net	<u>\$ 3,314,563</u>	<u>\$ (43,037)</u>	<u>\$ -</u>	<u>\$ 3,271,526</u>

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

Business -Type Activities

General government	\$ 88,437
Total depreciation expense-governmental activities	<u>\$ 88,437</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

6. PROPERTY TAXES (CONTINUED)

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.

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 \$227,058 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

7. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM) - Property Taxes	\$ 739,848
Retirement System Administration	91,675
Internal Revenue Service	2,708
Department of Treasury	2,010
General Services Administration	1,649
Department of Labor - Unemployment	18,688
Puerto Rico Aqueduct and Sewer Authority	<u>38,405</u>
Total	<u>\$ 894,983</u>

8. DEFERRED REVENUES

A Municipal License Tax- The deferred revenues of approximately \$3,083,636 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

B Federal Government- The deferred revenues presented in special revenue fund- other federal grants 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>
Emergency Management Performance Grants	\$ 25,257
Housing Opportunities for Persons with AIDS	27,256
Section 108 Loan Guarantee	151,965
Community Development Block Grants/State's Program	54,543
Child Care and Development Block Grant	57,227
Others	<u>12,006</u>
Total	<u>\$328,254</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

8. DEFERRED REVENUES (CONTINUED)

The deferred revenues presented in other governmental funds represent 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	\$135,179
Child and Adult Care Food Program	40,857
Head Start	<u>1,267</u>
Total	<u>\$177,303</u>

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, 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	\$ 14,035,000	\$ 6,685,750	\$(1,135,750)	\$ 19,585,000	\$ 1,370,000
Notes Payable	1,870,750	370,000	(1,090,750)	1,150,000	320,000
Lease Obligation-Cross Border	224,845		(39,793)	185,052	52,754
Lease Obligation-IBM	39,668		(35,150)	4,518	4,518
Property Tax Debt- Law 42 & Law 146	859,074		(20,407)	838,667	20,407
Compensated Absences	1,762,904	95,004		1,857,908	150,000
Landfill obligation	3,270,010		(895,842)	2,374,168	1,010,648
Puerto Rico Electric Power Authority		59,020	(59,020)		
Department of Labor	<u>85,775</u>		<u>(85,775)</u>		
Total	<u>\$ 22,148,026</u>	<u>\$ 7,209,774</u>	<u>\$(3,362,487)</u>	<u>\$ 25,995,313</u>	<u>\$ 2,928,327</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. 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. During the current year the municipal legislature authorized a bond issuances for approximately \$5,960,000. Bonds payable outstanding at June 30, 2004 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, 2004</u>
1986-Series	7-1-2006	500,000	8.00%	\$ 50,000
1987-Series	7-1-2006	810,000	9.00%	155,000
1987-Series	7-1-2006	1,545,000	9.00%	295,000
1992-Series	7-1-2007	\$1,860,000	6.26% to 6.41%	755,000
1993-Series	7-1-2008	150,000	7.21% to 7.61%	30,000
1995-Series	7-1-2007	765,000	7.21% to 7.51%	310,000
1996-Series	7-1-2014	2,750,000	5.80% to 6.58%	2,095,000
1997-Series	7-1-2009	2,650,000	5.29% to 5.78%	1,545,000
1997-Series	7-1-2016	290,000	6.00%	215,000
1997-Series	7-1-2016	110,000	6.00%	70,000
1998-Series	7-1-2013	3,675,000	5.29% to 6.11%	2,855,000
1998-Series	7-1-2012	1,065,000	5.29% to 6.04%	775,000
2000-Series	7-1-2013	65,000	2.80% to 4.61%	50,000
2000-Series	7-1-2025	310,000	2.80% to 5.60%	295,000
2000-Series	7-1-2020	1,500,000	2.80% to 5.29%	1,390,000
2002-Series	7-1-2026	2,850,000	2.80% to 5.60%	2,770,000
2004-Series	7-1-2028	550,000	5.00% to 6.00%	550,000
2004-Series	7-1-2023	3,150,000	2.40% to 5.00%	3,150,000
2004-Series	7-1-2023	115,000	5.00% to 6.00%	115,000
2004-Series	7-1-2023	1,860,000	2.36% to 5.00%	1,860,000
2004-Series	7-1-2010	285,000	5.00% to 6.00%	<u>255,000</u>
Total general obligation bonds				<u>\$19,585,000</u>

These bonds, except the 1986 Series bonds amounting to \$500,000, the 1997 Series bonds for \$110,000 and \$290,000, the 1987 Series bonds for \$1,545,000 and \$810,000 and the 2004 Series bonds amounting to \$285,000, 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, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,370,000	\$ 914,384
2006	1,495,000	960,108
2007	1,335,000	877,115
2008	1,425,000	799,498
2009	1,210,000	725,160
2010-2014	5,665,000	2,645,530
2015-2019	3,005,000	1,450,688
2020-2024	3,150,000	673,365
2025-2029	930,000	92,070
2030-2034		
Total	<u>\$ 19,585,000</u>	<u>\$ 9,137,918</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. During the current year the municipal legislature authorized a notes issuances for approximately \$370,000. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2004</u>
2000-Series	7-1-2005	230,000	2.80% to 2.89%	\$ 105,000
2001-Series	7-1-2005	235,000	2.80% to 2.89%	105,000
2002-Series	7-1-2006	885,000	2.80% to 3.21%	570,000
2004-Series	7-1-2010	370,000	5.00% to 6.00%	<u>370,000</u>
Total notes payable				<u>\$1,150,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 320,000	\$ 36,475
2006	345,000	29,066
2007	255,000	18,590
2008	50,000	12,300
2009	55,000	9,150
2010-2014	<u>125,000</u>	<u>7,650</u>
Total	<u>\$ 1,150,000</u>	<u>\$113,231</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

4. **Lease Obligations-** 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 Activites</u>
2002 Ford Winnebago	\$231,845
Less:	
Accumulated Depreciation	<u>(81,146)</u>
Net value	<u>\$150,699</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

<u>Year ending June 30,</u>	<u>Governmental Activites</u>
2005	\$ 52,754
2006	52,754
2007	52,754
2008	<u>52,754</u>
Total minimum lease payments	211,016
Less amount representing interest	<u>(25,964)</u>
Present value of minimum lease payments	<u>\$185,052</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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 \$35,150.

The assets acquired through the capital lease are as follows:

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

The outstanding debt balance as of June 30, 2004 amounts to \$4,518. The debt service requirements to maturity including \$28 of interest are as follows:

<u>Year ending June 30, 2005</u>	<u>Governmental Activites \$4,546</u>

5. **Property Tax Debt-** These amounts represent the balance owned to the Municipal Revenue Collection Center (CRIM) at June 30, 2004, as described in Note 6.
6. **Compensated absences-** The government-wide statement of net assets includes approximately \$1,081,265 of accrued sick leave benefits, and approximately \$776,643 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
7. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal regulations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

As of June 30, 2004 the Municipality entered in an agreement with a contractor to complete the final cover of the landfill for a total cost of \$873,569 and additional inspection, monitoring, and supervision costs amounting to \$90,079 for a total costs of \$963,648. The annual estimate of closure costs presented in the prior year financial statement was restated as a result of the decrease in final cover costs. Based on this, the Municipality has recognized \$963,648 as the Municipality's estimated current cost for landfill closure as of June 30, 2004. The preliminary annual estimate of post closure costs has been assessed approximately to be \$1,410,520 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, 2004, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$963,648 and \$1,410,520, respectively, are reported in the government-wide statement of net assets.

8. Operating leases-The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality's 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, 2004:

<u>Year Ending</u> <u>June 30,</u>	<u>Governmental</u> <u>Activites</u>
2005	\$ 75,820
2006	64,858
2007	16,234
2008	8,218
2009	<u>8,218</u>
Total minimum payments required	<u>\$173,348</u>

9. 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%.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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 \$87,018. The outstanding debt balance as of June 30, 2004 amounts to \$1,547,789. The debt service requirements to maturity including \$540,714 of interest are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$96,733	\$109,827
2006	103,874	102,686
2007	111,541	95,019
2008	119,774	86,786
2009	128,615	77,945
Thereafter	<u>987,252</u>	<u>68,451</u>
Total	<u>\$ 1,547,789</u>	<u>\$540,714</u>

10. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS -- (CONTINUED)

YEAR ENDED JUNE 30, 2004

10 PENSION PLAN (CONTINUED)

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, 2004 amounted to approximately \$427,249 and \$478,880, respectively.

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, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940-2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

11. 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.

12. 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.

13. BEGINNING FUND BALANCES AND NET ASSETS RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$30,456 to properly presents the previously reported fund balance at June 30, 2003. The restatement is mainly due to the reclassification of cash balance from the General Fund to the Capital Projects Fund, to recognize a Debt Service Fund interest receivable, reclassification of cash balance from special revenue fund-federal grant related to reimbursements of costs financed by the General Fund, and due to a condoned Treasury Department interest and penalties debt as of June 30, 2003.

The beginning Fund Balance for Debt Service Fund has been restated by approximately \$1,080,607 to properly presents the previously reported fund balances at June 30, 2003. The restatement is mainly due to the recognition of the amount due from CRIM related to the Final Liquidation of the fiscal year 2002-2003.

The beginning Fund Balance for Capital Projects Fund has been restated by \$140,892 to properly presents the previously reported fund balances at June 30, 2003. The restatement is mainly due to the reclassification of cash balance from the General Fund to the Capital Projects Fund.

The beginning Fund Balance for the Special Revenue Fund-State and Local grants in the Other Governmental Funds section has been restated by approximately \$5,139 to properly present the previously reported fund balance at June 30, 2003. The restatement is mainly due to the reclassification of cash balance to Special Revenue Fund- Other Federal Grants and to the General Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

13. BEGINNING FUND BALANCES AND NET ASSETS RESTATEMENT (CONTINUED):

The beginning Net Assets for Governmental Activities has been restated by approximately \$585,148 to properly present the previously reported Net Assets at June 30, 2003. The restatement is mainly due to the decrease in landfill closing and post closing obligation resulting from the final cover process, to recognize interest payable of long term debts and to adjust capital assets beginning balance.

14. SUBSEQUENT EVENTS

On August 27, 2004, the Municipality of Dorado authorized the issuance of a general obligation bond for the amount of \$50,000, for Housing Rehabilitation. Repayment of the bond is scheduled from July 2005 through July 2014.

On August 27, 2004, the Municipality of Dorado authorized the issuance of a general obligation bond for the amount of \$945,000, for Housing Rehabilitation. Repayment of the bond is scheduled from July 2005 through July 2019.

On September 7, 2004, Public Law 255 was enacted to amend Section 22 of the Public Law 83 of May 2, 1941, know as the Puerto Rico Electric Power Authority ("PREPA") Act. This Law stipule a new formula to determine the contribution in lieu of taxes to be distributed to the Municipalities of the Commonwealth of Puerto Rico. From fiscal year 2002-2003 the PREPA is required by law to distribute as contribution in lieu of taxes a twenty percent of its net revenues, after deduction of subsidies granted, or an amount equal to the actual cost of electric power consumed by each Municipality, or an average of the contribution in lieu of taxes paid to each Municipality in the last five fiscal years, whichever is greater.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 7,354,719	\$ 9,042,013	\$ 8,900,632	\$ (141,381)
Municipal license tax	3,194,485	3,194,485	3,580,716	386,231
Licenses, permits and other local taxes	1,520,000	1,520,000	2,161,314	641,314
Charges for service	13,800	13,800	17,503	3,703
Intergovernmental	1,215,685	1,215,685	1,912,885	697,200
Rent of property	275,316	275,316	270,805	(4,511)
Fines and forfeitures	10,000	10,000	2,205	(7,795)
Interest	550,000	550,000	188,830	(361,170)
Miscellaneous	1,500,000	1,525,580	164,155	(1,361,425)
Transfer in from other fund		310,000	310,000	
Budgeted Carryover		400,000	400,000	
Total revenues other financing sources and budget carryover	<u>15,634,005</u>	<u>18,056,879</u>	<u>17,909,045</u>	<u>(147,834)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	7,733,603	9,817,292	9,725,964	91,328
Public safety	1,479,898	1,290,686	1,270,741	19,945
Public works	5,279,676	5,877,762	5,886,039	(8,277)
Culture and recreation	583,960	553,353	550,039	3,314
Operating transfer to other fund	<u>556,868</u>	<u>517,786</u>	<u>559,819</u>	<u>(42,033)</u>
Total expenditures, encumbrances and other financing uses	<u>15,634,005</u>	<u>18,056,879</u>	<u>17,992,602</u>	<u>64,277</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (83,557)</u>	<u>\$ (83,557)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (CONTINUED)
AND NOTES TO BUDGETARY COMPARISON
YEAR ENDED JUNE 30, 2004**

Explanation of Differences.

Sources/inflows of resources:

Actual amounts (budgetary basis)*available for appropriation* from the budgetary comparison schedule	\$ 17,909,045
Differences-budget to GAAP:	
Interest Receivable collected during 2004-2005	5,533
Construction Excise Tax Receivable collected during 2004-2005	28,302
Municipal License Tax receivable collected during 2004-2005	7,045
Rent Receivable collected during 2004-2005	31,070
CRIM receivables collected during 2004-2005 and readjusted in 2004-2005 budget	141,491
Transfer in from other fund	(310,000)
Budgeted Carryover	<u>(400,000)</u>

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances \$ 17,412,486

Uses/outflows of resources

Actual amounts (budgetary basis)*total charges to appropriations* from the budgetary comparison schedule \$ 17,992,602

Differences-budget to GAAP:

Adjustment to Expenditures-Operational Loans	53,773
Prior year encumbrances recorded as current year expenditures for GAAP basis	119,004
Current year encumbrances recorded as expenditures for budgetary purposes	(563,011)
Operating transfer to other fund	<u>(559,819)</u>

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances \$ 17,042,549

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
NOTES TO BUDGETARY COMPARISON - (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

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, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

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DIVISION DE REGISTRO
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