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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE DORADO
AUDITORIA 2005-2006
30 DE JUNIO DE 2006

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2006

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2006

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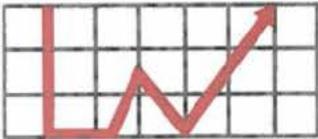
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MUNICIPALITY OF DORADO

BASIC FINANCIAL STATEMENTS
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YEAR ENDED JUNE 30, 2006

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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, 2006, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2006, 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)

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

López Vega, CPA, PSC.

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 3, 2006

Stamp No. 2195981 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2006

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, 2006. 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 decrease by \$2,982,453.
- In the fund financial statements, the governmental activities revenue decrease \$3,275,165 (or 10%) while governmental activities expenditures increase \$6,138,620 (or 19%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$410,932.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$1,720,797.
- The Municipality issued bonds and notes amounting to \$532,000 and \$580,000, respectively, to finance the acquisition of land, building and equipment.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

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, 2006

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, 2006

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

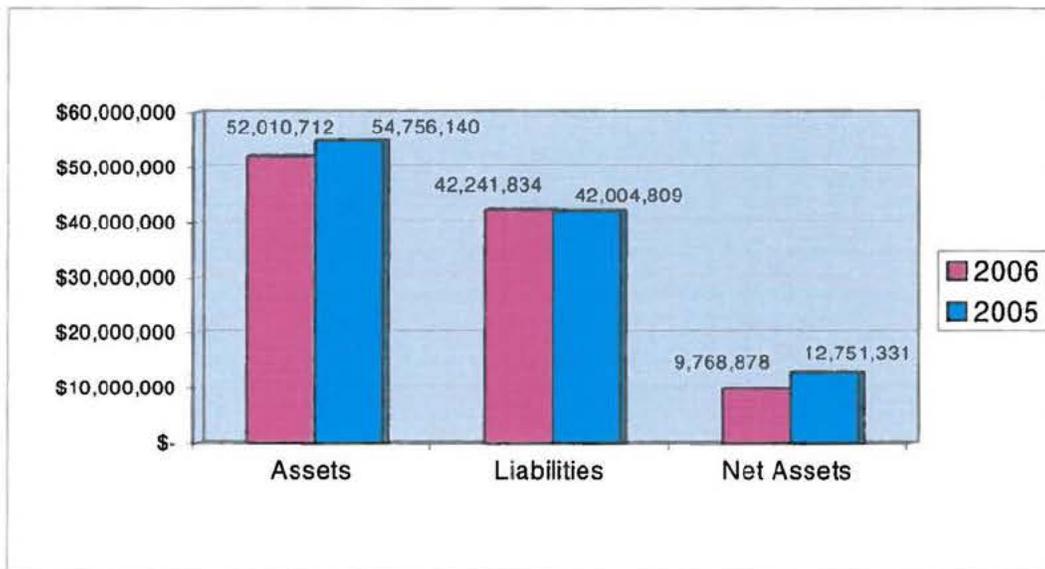
Net Assets

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 \$9,768,878 at the end of 2006, compared to \$12,751,331 at the end of the previous year.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets (Continued)

Condensed Statement of Net Assets	2006	2005	Change	%
Current assets	\$25,408,373	\$32,596,197	(\$7,187,824)	(22%)
Capital assets	26,602,339	22,159,943	4,442,396	20%
Total assets	52,010,712	54,756,140	(2,745,428)	(5%)
Current liabilities	7,977,693	7,232,188	745,505	10%
Noncurrent liabilities	34,264,141	34,772,621	(508,480)	(1%)
Total liabilities	42,241,834	42,004,809	237,025	1%
Invested in capital assets, net of related debt	133,971	(5,908,887)	6,042,858	(102%)
Restricted	14,386,134	21,359,552	(6,973,418)	(33%)
Unrestricted	(4,751,227)	(2,699,334)	(2,051,893)	76%
Total net assets	\$9,768,878	\$12,751,331	(\$2,982,453)	(23%)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

Changes in Net Assets

The Municipality's net assets decreased by \$2,982,453. Approximately 62 percent of the Municipality's total revenue came from taxes, while 33 percent resulted from grants and contributions, including federal aid. Charges for Services provided 2 percent of the total revenues. Interest earnings and miscellaneous provided 3 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.

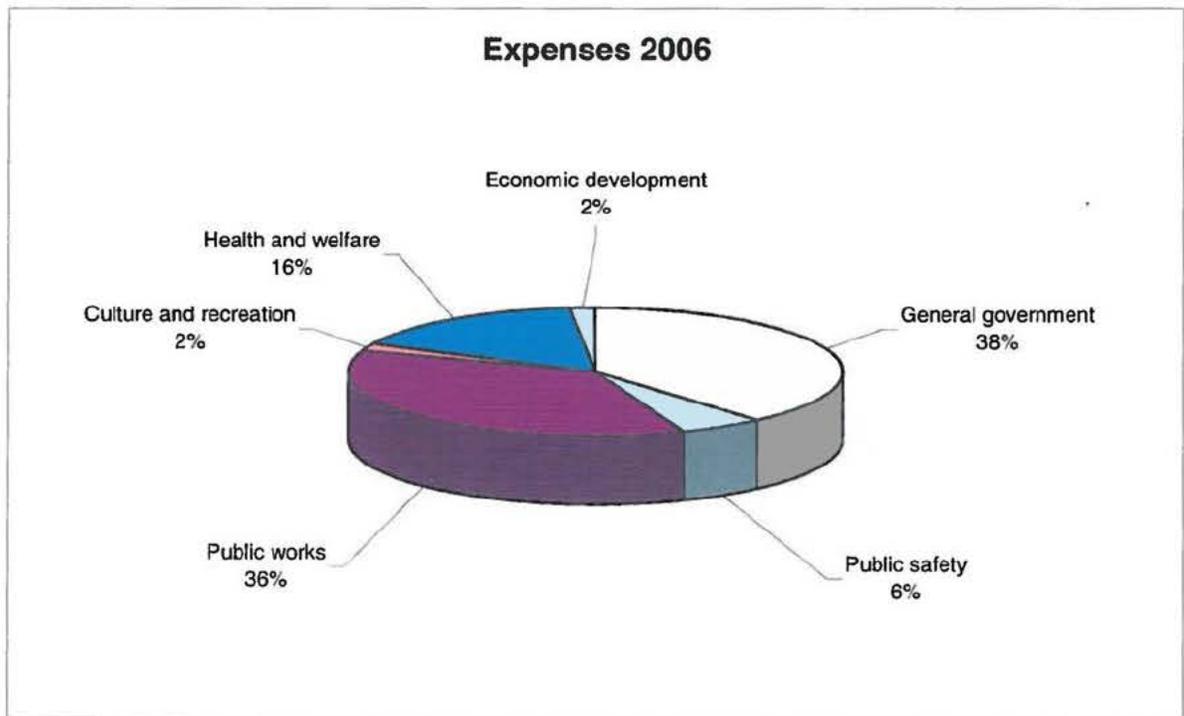
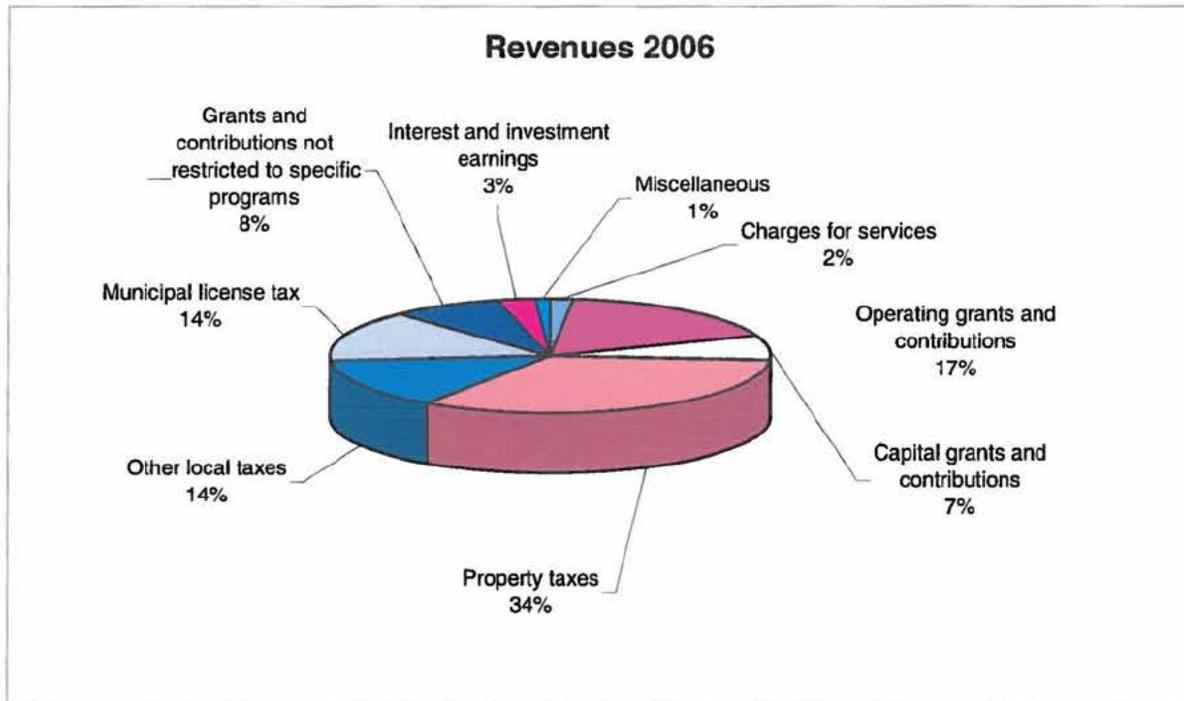
Condensed Statement of Activities	2006	2005	Change	%
Program revenues:				
Charges for services	\$495,512	\$591,229	(\$95,717)	(16%)
Operating grants and contributions	5,261,568	6,878,567	(1,616,999)	(24%)
Capital grants and contributions	2,111,101	5,051,778	(2,940,677)	(58%)
General revenues:				
Property taxes	10,047,646	10,638,721	(591,075)	(6%)
Other local taxes	4,290,391	4,175,514	114,877	3%
Municipal license tax	4,364,192	3,849,484	514,708	13%
Grants and contributions not restricted to specific programs	2,432,800	1,642,654	790,146	48%
Interest and investment earnings	808,034	507,814	300,220	59%
Gain (Loss) on retirement of Capital Assets	(1,331)	-	(1,331)	100%
Miscellaneous	321,405	829,081	(507,676)	(61%)
Total revenues	30,131,318	34,164,842	(4,033,524)	(12%)
Expenses:				
General government	11,980,834	10,281,126	1,699,708	17%
Public safety	1,726,798	1,870,264	(143,466)	(8%)
Public works	11,130,733	7,539,870	3,590,863	48%
Culture and recreation	671,266	314,565	356,701	113%
Health and welfare	4,908,966	5,101,347	(192,381)	(4%)
Economic development	556,909	1,614,932	(1,058,023)	(66%)
Community development	613,398	1,001,054	(387,656)	(39%)
Urban development	80,407	100,648	(20,241)	(20%)
Other	-	-	-	-
Interest on long-term debt	1,444,460	1,176,791	267,669	23%
Total expenses	33,113,771	29,000,597	4,113,174	14%
Change in net assets	(2,982,453)	5,164,245	(8,146,698)	(158%)
Net assets, beginning of year	12,751,331	7,587,086	5,164,245	68%
Net assets, end of year	\$9,768,878	\$12,751,331	(\$2,982,453)	(23%)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

Changes in Net Assets (Continued)



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

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 \$18,395,602, a decrease of \$7,278,297 in comparison with the prior year. There are reservations of fund balance amounting to \$15,962,025. 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 (\$950,992), 2) to pay debt service (\$4,307,678), 3) to pay for capital projects (\$10,420,536) and 4) for other purposes (\$282,819).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2006, the general fund has an undesignated fund balance of \$ 2,433,577.

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, 2006

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2006, amounts to \$34,937,370 net of accumulated depreciation of \$11,428,549, leaving a net book value of \$23,508,821. For Business - Type Activities investments in capital assets as of June 30, 2006, amounts to \$3,971,648, net of accumulated depreciation of \$878,130, leaving a net book value of \$3,093,518. 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 in the current fiscal year was about 20% in terms of net book value. Depreciation charges for the year totaled \$ 1,307,075.

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, 2006, the Municipality has \$9,462,622 of unexpended proceeds from bond issuances that are committed to future construction activities in governmental Activities and \$58,846 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, 2006

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 2005-2006 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, 2006

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 9,704,860	\$ 313,758	\$ 10,018,618
Cash with fiscal agent	13,689,475	58,846	13,748,321
Accounts receivable:			
Municipal license tax			-
Intergovernmental	560,176		560,176
Federal grants	721,772		721,772
Other	359,486		359,486
Capital assets			
Land, improvements, and construction in progress	11,655,581	388,790	12,044,371
Other capital assets, net of depreciation	11,853,240	2,704,728	14,557,968
Total capital assets	23,508,821	3,093,518	26,602,339
Total assets	48,544,590	3,466,122	52,010,712
Liabilities			
Accounts payable and accrued liabilities	2,917,475		2,917,475
Due to other governmental entities	205,483		205,483
Deferred revenues:			
Municipal license tax	3,527,230		3,527,230
Federal grant revenues	702,606		702,606
Interest payable	624,899		624,899
Noncurrent liabilities:			
Due within one year	4,175,220	103,280	4,278,500
Due in more than one year	28,793,085	1,192,556	29,985,641
Total liabilities	40,945,998	1,295,836	42,241,834
Net Assets			
Invested in capital assets, net of related debt	(1,663,711)	1,797,682	133,971
Restricted for:			
Capital projects	10,420,536		10,420,536
Debt service	3,682,779		3,682,779
Other purpose	282,819		282,819
Unrestricted (deficit)	(5,123,831)	372,604	(4,751,227)
Total net assets	\$ 7,598,592	\$ 2,170,286	\$ 9,768,878

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, 2006

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	\$ 11,845,000	\$ 222,245	\$ 263,653		\$ (11,359,102)	\$ -	\$ (11,359,102)
Public safety	1,726,798	8,885	3,432		(1,714,481)		(1,714,481)
Public works	11,130,733		22,824	466,494	(10,641,415)		(10,641,415)
Health and welfare	4,908,966		4,484,889		(424,077)		(424,077)
Culture and recreation	671,266		500	91,662	(579,104)		(579,104)
Economic development	556,909		405,870		(151,039)		(151,039)
Community development	613,398			1,552,945	939,547		939,547
Urban development	80,407		80,400		(7)		(7)
Interest on long-term debt	1,345,539				(1,345,539)		(1,345,539)
Total governmental activities	32,879,016	231,130	5,261,568	2,111,101	(25,275,217)	-	(25,275,217)
Business Type Activities:							
General government	135,834	264,382				128,548	128,548
Interest on long-term debt	98,921					(98,921)	(98,921)
Total business type activities	234,755	264,382	-	-	-	29,627	29,627
Total Primary Government	\$ 33,113,771	\$ 495,512	\$ 5,261,568	\$ 2,111,101	(25,275,217)	29,627	(25,245,590)
General revenues:							
Property taxes					10,047,646		10,047,646
Other local taxes					4,290,391		4,290,391
Municipal license tax					4,364,192		4,364,192
Grants and contributions not restricted to specific programs					2,432,800		2,432,800
Interest and investment earnings					808,034		808,034
Gain (loss) on sale/retirement of capital assets					(1,331)		(1,331)
Miscellaneous					321,405		321,405
Transfers					74,332	(74,332)	-
Total general revenues and transfers					22,337,469	(74,332)	22,263,137
Change in net assets					(2,937,748)	(44,705)	(2,982,453)
Net assets - beginning					10,536,340	2,214,991	12,751,331
Net assets - ending					\$ 7,598,592	\$ 2,170,286	\$ 9,768,878

Commonwealth of Puerto Rico
Municipality of Dorado
Balance Sheet
Governmental Funds
June 30, 2006

	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	\$ 6,863,669	\$ 341,240	\$ -	\$ 1,641,494	\$ 858,457	\$ 9,704,860
Cash with fiscal agent	9,561		4,217,292	9,462,622		13,689,475
Accounts receivable:						
Intergovernmental	423,540		115,157		21,479	560,176
Federal grants		610,817			110,955	721,772
Due from other funds	309,538	2,000				311,538
Other	346,282		13,204			359,486
Total assets	\$ 7,952,590	\$ 954,057	\$ 4,345,653	\$ 11,104,116	\$ 990,891	\$ 25,347,307
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 400,207	\$ 676,750	\$ -	\$ 666,580	\$ 37,771	\$ 1,781,308
Due to other governmental entities	205,483					205,483
Due to other funds	2,000	45,131	37,975	17,000	209,432	311,538
Deferred revenues:						
Municipal license tax	3,527,230					3,527,230
Intergovernmental	423,540					423,540
Federal grant revenues		232,176			470,430	702,606
Total liabilities	4,558,460	954,057	37,975	683,580	717,633	6,951,705
Fund balances:						
Reserved for:						
Encumbrances	950,992					950,992
Capital projects				10,420,536		10,420,536
Debt service fund			4,307,678			4,307,678
Reserved reported in nonmajor funds:						
Other Purposes					273,258	273,258
Unreserved:						
Designated for specific fund purpose	9,561					9,561
Undesignated	2,433,577					2,433,577
Total fund balances	3,394,130		4,307,678	10,420,536	273,258	18,395,602
Total liabilities and fund balances	\$ 7,952,590	\$ 954,057	\$ 4,345,653	\$ 11,104,116	\$ 990,891	

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	423,540
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	23,508,821
Long-term liabilities, accrue interest and account payables related to construction in progress are not due and payable in the current period, and therefore, are not reported in the funds	(34,729,371)
Net assets of governmental activities	\$ 7,598,592

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	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	\$ 7,237,264	\$ -	\$ 2,391,979	\$ -	\$ -	\$ 9,629,243
Municipal license taxes	4,378,943					4,378,943
Licenses, permits and other local taxes	4,302,647					4,302,647
Intergovernmental	2,696,452	26,839		467,696	471,170	3,662,157
Rent of property	222,245					222,245
Fines and forfeitures	8,885					8,885
Interest	808,034					808,034
Federal grants		1,837,313			4,266,937	6,104,250
Miscellaneous	230,387	1,615			66,316	298,318
Total revenues	19,884,857	1,865,767	2,391,979	467,696	4,804,423	29,414,722
Expenditures						
Current:						
General government	10,423,497			4,814	21,570	10,449,881
Public safety	1,712,413	3,432				1,715,845
Public works	6,821,868	74,223		6,235,967	2,227	13,134,285
Health and welfare		295,854			4,626,912	4,922,766
Culture and recreation	532,032			1,043,948	5,026	1,581,006
Economic development					556,909	556,909
Community development		1,553,657		235,000		1,788,657
Urban development		15,601			64,806	80,407
Debt service:						
Principal			2,394,000			2,394,000
Interest			1,255,595			1,255,595
Total expenditures	19,489,810	1,942,767	3,649,595	7,519,729	5,277,450	37,879,351
Excess (deficiency) of revenues over (under) expenditures	395,047	(77,000)	(1,257,616)	(7,052,033)	(473,027)	(8,464,629)
Other financing sources (uses)						
Transfers in		77,000	485,618	74,332	243,361	880,311
Transfers out	(805,979)					(805,979)
Long term debt issuance				1,112,000		1,112,000
Total other financing sources (uses)	(805,979)	77,000	485,618	1,186,332	243,361	1,186,332
Net change in fund balances	(410,932)	-	(771,998)	(5,865,701)	(229,666)	(7,278,297)
Fund balances, beginning	3,805,062		5,079,676	16,286,237	502,924	25,673,899
Fund balances, ending	\$ 3,394,130	\$ -	\$ 4,307,678	\$ 10,420,536	\$ 273,258	\$ 18,395,602

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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, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (7,278,297)

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

Prior Year Accounts Receivable reported in the Governmental Fund Financial Statements as revenues, but reversed in the Government-Wide Statement of Activities and Changes in Net Assets. (19,888)

Accounts Receivable 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. 423,540

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. 49,893

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. 5,700,909

Retirement of Capital Assets (1,331)

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. (1,217,503)

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. (89,944)

Accounts payable change is reported in the Government-Wide Statement of Activities and Change in Net Assets, but not reported as in the Governmental Funds, because they do not require the use of current financial resources. This is the amount reported in the current period. (854,956)

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. (1,360,317)

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 debt payments are not reported as expenditures in the Government-Wide Statement of Activities and Change in Net Assets. 130,308

Change in Landfill Accrual 297,838

Bonds proceeds provide 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 service principal payments exceed the debt proceeds 1,282,000

Change in Net Assets of Governmental Activities \$ (2,937,748)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30,2006

	<u>Business Type Activity Enterprise</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 313,758
Cash with fiscal agent	58,846
Accounts receivable:	
Other	<u>-</u>
Total current assets	<u>372,604</u>
Noncurrent Assets:	
Capital Assets:	
Property, plant and equipment:	
Land	388,790
Building	3,582,858
Accumulated depreciation	<u>(878,130)</u>
Total non-current assets	<u>3,093,518</u>
Total assets	<u>3,466,122</u>
Liabilities:	
Current Liabilities:	
Revenue Fund-Banco Santander Loan	<u>103,280</u>
Total current liabilities	<u>103,280</u>
Noncurrent Liabilities:	
Revenue Fund-Banco Santander Loan	<u>1,192,556</u>
Total noncurrent liabilities	<u>1,192,556</u>
Total liabilities	<u>1,295,836</u>
Net Assets	
Invested in Capital Assets, net of related debt	1,797,682
Unrestricted	<u>372,604</u>
Total Net Assets	<u><u>\$ 2,170,286</u></u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30, 2006

	Business - Type Activities Enterprise
Operating revenues:	
Charges for services	\$ 264,382
Total operating revenues	<u>264,382</u>
Operating expenses:	
Operations and maintenance	46,262
Depreciation and amortization	<u>89,572</u>
Total operating expenditures	<u>135,834</u>
Operating income (Loss)	128,548
Non-operating revenues (expenses):	
Interest expense	<u>(98,921)</u>
Total non-operating revenues (expenses)	<u>(98,921)</u>
Income (loss) before transfers	29,627
Transfers in (Out)	<u>(74,332)</u>
Change in Net Assets	(44,705)
Total net assets-beginning	<u>2,214,991</u>
Total net assets-ending	<u>\$ 2,170,286</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND- BUSINESS TYPE ACTIVITY- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2006

Cash Flows from Operating Activities:

Receipts from Customers	\$ 274,818
Payment to Suppliers	(46,262)
Interest paid	(151,188)
Transfer out to the Capital Projects Fund	(74,332)
	3,036
Net Cash Provided (Used) by Operating Activities	3,036

Cash Flows from Capital and Related Financing Activities:

Repayment of Revenue Bond	(158,651)
Net Cash Provided (Used) in Capital and Related Financing Activities	(158,651)
Net Decrease in Cash and Cash with Fiscal Agent, Restricted	(155,615)
Cash and Cash with Fiscal Agent at Beginning of Period, Restricted	528,219
Cash and Cash with Fiscal Agent at End of Period, Restricted	\$ 372,604

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

Operating Income	\$ (44,705)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	89,572
Rent Receivables	10,436
Accrued Interest	(52,267)
Total Adjustments	47,741
Net Cash Provided (Used) by Operating Activities	\$ 3,036
Noncash investing, capital and financing activities:	none

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

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, 2006

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. As amended by the GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government 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, 2006

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 Projects 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, 2006

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, 2006

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, 2006

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, 2006

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 receivable in the general fund represents the balance due from the Municipal Revenue Collection Center (CRIM) resulting from the final settlement; Intergovernmental receivables in the debt service fund represent the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Intergovernmental receivable in the capital projects fund and in other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs or state funded programs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

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, 2006

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, 2006

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, 2006 amounted to approximately \$302,326. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$431,377 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	\$23,508,821	
Deduct:		
Bonds Payable related to Capital Assets	(22,828,000)	
Notes Payables related to Capital Assets	(2,242,000)	
Lease Obligation - IBM	(4,518)	
Lease Obligation- Cross border	<u>(98,014)</u>	(\$1,663,711)
 <u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		10,420,536
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	4,307,678	
Deduct:		
Interest Payable	<u>(624,899)</u>	3,682,779
 <u>Net assets restricted for other purposes</u>		
Other governmental funds- fund balance restricted for other purposes		282,819

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

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

Net assets unrestricted (deficit)

General fund – total fund balance:	\$3,394,130	
Deduct:		
Designated for specific fund purpose	(9,561)	
Add:		
Accrual basis account receivables	423,540	
Deduct:		
Accrual basis accounts payable	(1,136,167)	
Bonds Payable related to Operational Debts	(925,000)	
Compensated absences debt	(2,227,113)	
Landfill Obligation	(1,786,862)	
LIMS repayment plan	(463,581)	
Labor Department repayment plan	(121,593)	
Claims and Judgments	(422,930)	
Property tax debt – CRIM Law 42	(255,041)	
Property tax debt – CRIM Law 146	(611,609)	
Property tax advances	<u>(982,044)</u>	<u>(5,123,831)</u>
Total net assets – governmental activities		<u>\$7,598,592</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 \$6,863,669 \$341,240 and \$1,641,494 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, 2006. In the other governmental funds there were deposits with commercial banks of approximately \$ 858,457 that were fully collateralized.

The deposits at GDB of approximately \$9,462,622 that is restricted principally for capital projects in the capital project fund – local and state grant, \$9,561 restricted for operational expenditures in the general fund and the \$4,217,292 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

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, 2006, the tax rates were as follows:

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, 2006, 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.

Intergovernmental Receivables- Intergovernmental receivable in the general fund represents the balance due from the Municipal Revenue Collection Center (CRIM) at June 30, 2006, as described in Note 6. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	<u>\$ 423,540</u>
Total	<u>\$ 423,540</u>

Intergovernmental receivable in debt service fund represents property tax receivable at June 30, 2006. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	<u>\$ 115,157</u>
Total	<u>\$ 115,157</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

3. RECEIVABLES (CONTINUED)

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

<u>Program Description</u>	<u>Amount</u>
Department of Labor	\$ 8,198
Section 8 Program Portable Vouchers	<u>13,281</u>
Total	<u>\$ 21,479</u>

Federal Grant 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>
Nutrition Program for the Elderly	\$ 4,111
Community Development Block Grants/ State's Program	595,893
Community Service Block Grant	<u>10,813</u>
Total	<u>\$ 610,817</u>

Federal Grant receivable in other governmental funds 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>
Head Start Program	<u>\$ 110,955</u>
Total	<u>\$ 110,955</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2006, and interfund transfers during the fiscal year ended at June 30, 2006, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund- Other Federal Grants-Community Service Block Grant	Payroll and related accruals paid and not reimbursed	\$ 32,811
General Fund	Special Revenue Fund - Other Federal Grants- Community Development Block Grant/ State's Program	Payroll and related accruals paid and not reimbursed	4,720
General Fund	Special Revenue Fund - Other Federal Grants- Special Programs for Aging - Title III	Payroll and related accruals paid and not reimbursed	7,600
General Fund	Debt Service Fund	Interest Revenue	37,975
General Fund	Other Governmental Funds- Law 52 Program	Payroll and related accruals paid and not reimbursed	59,333
General Fund	Other Governmental Funds- Law 82 Program	Payroll and related accruals paid and not reimbursed	150,099
General Fund	Capital Projects Fund- State Grants	Financing of operations	17,000
Special Revenue Fund - Other Federal Grants Special Programs for Aging - Title III	General Fund	Matching Contribution	<u>2,000</u>
Total			<u>\$ 311,538</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

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>
General Fund	Special Revenue Fund - Other Federal Grants - Title III	Matching Contribution	\$ 77,000
General Fund	Debt Service Fund	Debt retirement	485,618
Enterprise Fund	Capital Projects Fund- Local State and Federal Grants	Expenditure reclassification to the correct fund	74,332
General Fund	Other Governmental Funds - Head Start Program	Matching Contribution	232,018
General Fund	Other Governmental Funds	Transfer of funds for special purpose	<u>11,343</u>
Total			<u>\$ 880,311</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

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 2006, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital asset, not being depreciated:				
Land	\$ 5,379,187	\$ 49,893	\$ -	\$ 5,429,080
Construction in progress	<u>3,536,220</u>	<u>3,642,081</u>	<u>(951,800)</u>	<u>6,226,501</u>
Total capital assets not being depreciated	<u>8,915,407</u>	<u>3,691,974</u>	<u>(951,800)</u>	<u>11,655,581</u>
Capital assets, being depreciated:				
Buildings	8,119,659			8,119,659
Buildings improvements	1,728,482	433,467		2,161,949
Infrastructure	1,338,802	916,796		2,255,598
Infrastructure improvements	1,161,012			1,161,012
Equipment	2,176,295	367,915	(16,727)	2,527,483
Furnishing	266,999	23,924	(1,325)	289,598
Work of Arts	8,003	87,000		95,003
Computers	265,929	38,460	(9,559)	294,830
Vehicles	<u>5,233,591</u>	<u>1,143,066</u>	<u>-</u>	<u>6,376,657</u>
Total capital assets being depreciated	<u>20,298,772</u>	<u>3,010,628</u>	<u>(27,611)</u>	<u>23,281,789</u>
Less accumulated depreciation for:				
Buildings	(3,712,969)	(201,856)		(3,914,825)
Buildings improvements	(132,531)	(48,499)		(181,030)
Infrastructure	(50,499)	(40,583)		(91,082)
Infrastructure improvements	(44,148)	(77,401)		(121,549)
Equipment	(1,570,734)	(255,451)	15,484	(1,810,701)
Furnishing	(203,518)	(27,038)	1,237	(229,319)
Computers	(234,968)	(26,141)	9,559	(251,550)
Work of Arts	(8,005)	(2,900)		(10,905)
Vehicles	<u>(4,279,954)</u>	<u>(537,634)</u>	<u>-</u>	<u>(4,817,588)</u>
Total accumulated depreciation	<u>(10,237,326)</u>	<u>(1,217,503)</u>	<u>26,280</u>	<u>(11,428,549)</u>
Total capital assets being depreciated, net	<u>10,061,446</u>	<u>1,793,125</u>	<u>(1,331)</u>	<u>11,853,240</u>
Governmental activities capital assets, net	<u>\$ 18,976,853</u>	<u>\$ 5,485,099</u>	<u>\$ (953,131)</u>	<u>\$ 23,508,821</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 630,356
Public safety	94,578
Public works	287,421
Health and welfare	392
Culture and recreation	24,622
Community development	<u>180,134</u>

Total depreciation expense-governmental activities \$ 1,217,503

<u>Business - type activities</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>
Capital asset, not being depreciated:				
Land and construction in Progress	\$ 388,790	\$ -	-	\$ 388,790
Total capital assets not being depreciated	<u>388,790</u>	<u>-</u>	<u>-</u>	<u>388,790</u>
Capital assets, being depreciated:				
Building	3,537,458			3,537,458
Building improvements	<u>45,400</u>	<u>-</u>	<u>-</u>	<u>45,400</u>
Total capital assets being depreciated	<u>3,582,858</u>	<u>-</u>	<u>-</u>	<u>3,582,858</u>
Less accumulated depreciation for:				
Building	<u>(788,558)</u>	<u>(89,572)</u>	<u>-</u>	<u>(878,130)</u>
Total accumulated depreciation	<u>(788,558)</u>	<u>(89,572)</u>	<u>-</u>	<u>(878,130)</u>
Total capital assets being depreciated, net	<u>2,794,300</u>	<u>(89,572)</u>	<u>-</u>	<u>2,704,728</u>
Business - type Activities capital assets, net	<u>\$ 3,183,090</u>	<u>\$ (89,572)</u>	<u>-</u>	<u>\$ 3,093,518</u>

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

<u>Business -type Activities</u>	
General government	\$ 89,572
Total depreciation expense-governmental activities	<u>\$ 89,572</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

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. The CRIM issued the preliminary settlement noting that collections exceeded advances by \$423,540. In the Governmental funds, the entire receivable has been offset by deferred revenue since the excess was not available to pay liabilities of the current period. In the government-wide financial statement, the entire receivable is recognized as revenue. Also, the government-wide financial statements include an outstanding debt balance of \$982,044 corresponding to the 2005 CRIM final settlement.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

6. PROPERTY TAXES (CONTINUED)

Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

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

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 \$255,041 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

6. PROPERTY TAXES (CONTINUED)

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

7. 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>
Internal Revenue Service	\$ 205,483
Total	<u>\$ 205,483</u>

8. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$3,527,230 in the general fund relates to municipal license tax collected in fiscal year 2005-06 that will be earned in fiscal year 2006-07.

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>
Section 108 Loan Guarantee	\$ 105,504
Community Development Block Grants/State's Program	31,659
Emergency Management Performance Grants	18,395
Special Revenue Fund - Other Federal Grants - Title III	14,769
Housing Opportunities for Persons with AIDS	9,904
Child Care and Development Block Grant	4,947
Others	<u>46,998</u>
Total	<u>\$ 232,176</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

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 Program	\$ 423,236
Child Care Food Program	<u>47,194</u>
Total	<u>\$ 470,430</u>

C. Intergovernmental - The deferred revenues of approximately \$423,540 in the general fund relates to the balance due from the Municipal Revenue Collection Center (CRIM) at June 30, 2006, as described in Note 6.

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006, 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	\$ 25,035,000	\$ 532,000	\$ (1,814,000)	\$23,753,000	\$1,680,000
Notes Payable	2,242,000	580,000	(580,000)	2,242,000	622,000
Lease Obligation-Cross Border	142,825	-	(44,811)	98,014	47,552
Lease Obligation-IBM	4,518	-	-	4,518	4,518
Property Tax Debt-Law 146	611,609	-	-	611,609	-
Property Tax Debt - Law 42	207,359	51,426	(3,744)	255,041	3,979
Property Tax Advances	982,044	-	-	982,044	982,044
LIMS Repayment Plan	-	532,954	(69,373)	463,581	73,562
Compensated Absences	2,008,079	219,034	-	2,227,113	200,000
Claims and Judgments Labor Department	-	121,593	-	121,593	121,593
Repayment Plan	-	435,310	(12,380)	422,930	24,761
Landfill obligation	2,084,700	76,480	(374,318)	1,786,862	415,211
Total	<u>\$ 33,318,134</u>	<u>\$ 2,548,797</u>	<u>\$ 2,898,626</u>	<u>\$ 32,968,305</u>	<u>\$4,175,220</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

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 bond issuances for approximately \$532,000. Bonds payable outstanding at June 30, 2006 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, 2006</u>
1992-Series	7-1-2007	1,860,000	6.26% to 6.41%	\$ 410,000
1993-Series	7-1-2008	150,000	7.21% to 7.61%	20,000
1995-Series	7-1-2007	765,000	7.21% to 7.51%	170,000
1996-Series	7-1-2014	2,750,000	5.80% to 6.58%	1,845,000
1997-Series	7-1-2009	2,650,000	5.29% to 5.78%	1,105,000
1997-Series	7-1-2016	290,000	3.27% to 7.00%	190,000
1997-Series	7-1-2016	110,000	3.27% to 7.00%	60,000
1998-Series	7-1-2013	3,675,000	5.29% to 6.11%	2,440,000
1998-Series	7-1-2012	1,065,000	5.29% to 6.04%	650,000
2000-Series	7-1-2013	65,000	2.80% to 4.61%	40,000
2000-Series	7-1-2025	310,000	2.80% to 5.60%	285,000
2000-Series	7-1-2020	1,500,000	2.80% to 5.29%	1,305,000
2002-Series	7-1-2026	2,850,000	2.80% to 5.60%	2,675,000
2004-Series	7-1-2028	550,000	5.00% to 7.00%	530,000
2004-Series	7-1-2023	3,150,000	4.37% to 5.25%	2,965,000
2004-Series	7-1-2023	115,000	5.00% to 5.25%	105,000
2004-Series	7-1-2023	1,860,000	2.36% to 5.25%	1,745,000
2004-Series	7-1-2010	285,000	5.00% to 7.00%	180,000
2005 Series	7-1-2014	50,000	4.35% to 7.25%	45,000
2005 Series	7-1-2019	945,000	3.27% to 4.80%	905,000
2005 Series	7-1-2019	5,825,000	4.17% to 4.73%	5,560,000
2006 Series	7-1-2030	532,000	6.25% to 7.00%	523,000
Total general obligation bonds				\$ 23,753,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

9. LONG-TERM LIABILITIES (CONTINUED)

These bonds, except the 1997 Series bonds for \$110,000 and \$290,000, the 2004 Series bonds amounting to \$285,000, and the 2005 Series note amounting to \$252,000 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.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,680,000	\$ 1,192,239
2008	1,790,000	1,102,933
2009	1,586,000	1,013,965
2010	1,697,000	928,297
2011	1,427,000	844,645
2012-2016	7,095,000	3,033,874
2017-2021	5,427,000	1,501,115
2022-2026	2,536,000	474,780
2027-2031	515,000	46,585
Total	\$ 23,753,000	\$ 10,138,433

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 notes issuances for approximately \$580,000 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, 2006</u>
2002-Series	7-1-2006	885,000	2.80% to 3.21%	\$ 205,000
2004-Series	7-1-2010	370,000	4.23% to 4.50%	280,000
2005 Series	7-1-2009	45,000	4.37% to 4.38%	40,000
2005 Series	7-1-2011	1,190,000	4.37% to 4.62%	1,045,000
2005 Series	7-1-2007	252,000	5.00% to 7.00%	92,000
2005 Series	7-1-2012	345,000	4.23% to 4.73%	345,000
2006 Series	7-1-2008	235,000	6.25% to 7.00%	235,000
Total notes payable				\$ 2,242,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

9. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 622,000	\$ 87,692
2008	345,000	67,175
2009	365,000	49,939
2010	300,000	34,458
2011	300,000	21,138
2012-2016	310,000	10,032
Total	<u>\$ 2,242,000</u>	<u>\$ 270,434</u>

- 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 Activities</u>
2002 Ford Winnebago	\$ 231,845
Less:	
Accumulated Depreciation	<u>(173,884)</u>
Net value	<u>\$ 57,961</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

9. LONG-TERM LIABILITIES (CONTINUED)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Governmental</u> <u>Activities</u>
2007	\$ 52,754
2008	<u>52,754</u>
Total minimum lease payments	105,508
Less amount representing interest	<u>(7,494)</u>
Present value of minimum lease payments	<u>\$ 98,014</u>

During the fiscal year June 30, 1999, the Municipality acquired computer equipment under a capital lease. The capital lease to IBM Credit Corp. is payable in monthly installments of \$4,546 which includes interests at 7.48% through June 30, 2005. No principal payments were issued during the current year.

The assets acquired through the capital lease are as follows:

<u>Assets</u>	<u>Governmental</u> <u>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, 2006 amounts to \$4,518. The debt service requirements to maturity including \$28 of interest are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Governmental</u> <u>Activities</u>
2007	<u>\$4,546</u>

- 5. Property Tax Debt-** These amounts represent the balance owed to the Municipal Revenue Collection Center (CRIM) at June 30, 2006, as described in Note 6.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

9. LONG-TERM LIABILITIES (CONTINUED)

- 6. LIMS Repayment Plan-** During the fiscal year 2001-2002, the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System – LIMS, contracted by the CRIM. A total of \$746,092.78 is to be retained in a ten years period at an interest rate of 5.95%, until November 28, 2011. At June 30, 2006, the outstanding debt balance is \$463,581. This amount is presented in the government-wide financial statements.
- 7. Compensated absences-** The government-wide statement of net assets includes approximately \$1,170,252 of accrued sick leave benefits, and approximately \$1,056,861 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- 8. Claims and Judgments –** This amount represent the balance related to legal claims at June 30, 2006, as described in Note 12.
- 9. Labor Department Repayment Plan-** This amount relates to an Unemployment Insurance debt. The Municipality agrees to repay the total of \$435,310.46 including interests, by an agreement signed in December, 2005. In this agreement the Municipality accepted the debt for the total of \$212,856.67 and requests a payment plan to liquidate the debt in 210 monthly payments.
- 10. 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. During 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 cost of \$963,648. During the 2004-2005 fiscal year a change order was issued by \$11,500 and a total of \$185,618 were paid to the contractor related to closing costs. During the current year a total of \$374,319 were paid to the contractor for closing costs. Based on this, the Municipality has recognized \$415,211 as the Municipality's estimated current cost for landfill closure as of June 30, 2006. The preliminary annual estimate of post closure costs has been adjusted to approximately \$1,371,651 for a period of approximately 25 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2006, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$415,211 and \$1,371,651, respectively, are reported in the government-wide statement of net assets.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

9. LONG-TERM LIABILITIES (CONTINUED)

11. 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, 2006:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2007	\$ 298,949
2008	274,219
2009	215,234
2010	198,610
2011	<u>198,610</u>
Total minimum payments required	<u>\$1,185,622</u>

12. Revenue Bonds-Enterprise Funds - In 1994, the Municipality issued \$2,090,000 revenue bonds, in which the Municipality pledges rent income from the enterprise fund (completed construction by July 1996 of the "Commercial Pavilion Rafael Hernández Colón") to pay such debt. On January 18, 2000, the Municipality formalizes a revenue bond payable with Banco Santander Puerto Rico. This loan was used to refinance the outstanding loan with Governmental Development Bank at 9.00%.

The note will be paid by semi-yearly installments of \$103,280, which includes interest at 7.25% for the first ten years. After the first ten years, the Municipality can exercise the option to fully repay the outstanding balance of \$943,238 or refinance the debt at an interest rate determined by the lesser of 9.50% or 1.00% over the London Interbank Offered Rate (L.I.B.O.R.) +1%). Total principal payments during the current year amounted to \$158,651. The outstanding debt balance as of June 30, 2006 amounts to \$1,295,836. The debt service requirements to maturity including \$279,699 of interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 56,763	\$ 46,517
2008	119,774	86,786
2009	128,615	77,945
2010	990,684	68,451
Total	<u>\$ 1,295,836</u>	<u>\$ 279,699</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

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 plans sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

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

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

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

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2006 amounted to approximately \$497,695 and \$557,840 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

10. PENSION PLAN (CONTINUED)

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, 2006, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940-2003.

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. COMMITMENTS AND CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of \$121,593 for awarded or anticipated unfavorable judgments in the Government-Wide Financial Statements. This amounts results from a civil case transaction agreement with a supplier. This amount was included in the financial statements and represents the amounts estimated as a probable liability or a liability with a fix or expected due date, which will require future available financial resources for its payments.

It is the management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2006

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures finance by these programs are subject to financial and compliance audits by the appropriate grantor or grantee. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

13. SUBSEQUENT EVENTS

On October 23, 2006, the Municipality enters in an agreement with the Commonwealth of Puerto Rico Treasury Department, to approve an ordinance in compliance with the Section 6189 of the Internal Rent Code, as amended, establishing the sales tax of 1.5%, on a tax basis identical to prescribed in the BB subtitle of the code, subject to the same exemptions and limitations stated in the code.

On October 26, 2006, the Municipal Legislature authorize the major to impose a sale tax as authorized by the Law 117 from July 4, 2006 equivalent to the 1.5%. The net product of the sales tax will contribute to the increase of the Municipality of Dorado revenues to liquidates its current obligations and improve the services provided to the citizens.

For the month ended on November 30, 2006 and thereafter and to determine the amount of sales tax to be paid, each retailer should present a monthly tax return on the sale and use, and remit to the Finance Director the sales tax nor after the 20 days of the subsequent month of the collection of the tax, in the formulary approved by the Finance Director.

On June 28, 2006, the Municipal Legislature authorized the Mayor to accept and apply the funds derived from the donation provided to the Municipality by the Commonwealth of Puerto Rico of the 2006, Series A, Public Improvement Bond issuance of \$675,000,000. The Municipality of Dorado will receive approximately \$1,520,000 from the issuance during the fiscal year 2006-2007. Those funds will be use to pay the cost of the restoration of the "Casa del Rey" and for the construction improvements to a basketball court.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 7,236,994	\$ 7,236,994	\$ 7,237,264	\$ 270
Municipal license tax	3,912,213	4,319,803	4,362,533	42,730
Licenses, permits and other local taxes	1,620,000	2,027,590	3,941,615	1,914,025
Intergovernmental	2,465,665	2,465,665	2,696,453	230,788
Rent of property	284,178	284,178	222,245	(61,933)
Fines and forfeitures	6,000	6,000	8,885	2,885
Interest	375,000	375,000	770,060	395,060
Miscellaneous	1,505,100	1,505,100	230,387	(1,274,713)
Budgeted Carryover (1)	<u> </u>	<u>2,434,000</u>	<u>2,434,000</u>	<u>-</u>
Total revenues and budget carryover	<u>17,405,150</u>	<u>20,654,330</u>	<u>21,903,442</u>	<u>1,249,112</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	9,314,536	10,980,139	10,678,469	301,670
Public safety	1,840,043	1,781,012	1,704,861	76,151
Public works	5,226,633	6,530,168	6,457,956	72,212
Culture and recreation	568,787	557,032	535,380	21,652
Operating transfer to other fund	<u>455,151</u>	<u>805,979</u>	<u>805,979</u>	<u>-</u>
Total expenditures, encumbrances and other financing uses	<u>17,405,150</u>	<u>20,654,330</u>	<u>20,182,645</u>	<u>471,685</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,720,797</u>	<u>\$ 1,720,797</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$21,903,442
Differences-budget to GAAP:				
Budget carryover				(2,434,000)
Nonbudgeted revenues				<u>415,415</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 19,884,857</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 20,182,645
Differences-budget to GAAP:				
Nonbudgeted expenditures- Unrecorded account payables				121,593
Nonbudgeted expenditures- Operational Loan expenditures				14,689
Nonbudgeted expenditures- PREPA expenditures				349,329
Prior year encumbrances recorded as current year expenditures for GAAP basis				229,864
Current year encumbrances recorded as expenditures for budgetary purposes				(602,331)
Operating transfer to other fund				<u>(805,979)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 19,489,810</u>

(1) Represents fund balances carried over from prior years

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
YEAR ENDED JUNE 30, 2006

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

<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	\$178,991
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>30,220</u>
Total U.S. Department of Agriculture			<u>209,211</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		1,637,316
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State Program		01-FD-22 02-FC-22 02-AB-22 03-AB22 03-FC-22 04-AB-002 04-FC-002 04-FC-004	1,434,574
Community Development Block Grant - Section 108 Loan Guarantees	14.228		118,371
Community Development Block Grant - Section 108 Loan Guarantees	14.248	Not Available	118,371
Pass-trough the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>26,482</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 3,216,743</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the PR Highway Administration:			
Federal Transit Administration- Capital Investment Grants	20.500		<u>15,601</u>
			<u>15,601</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Public Assistance Grant	83.544		55,667
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Hazard Mitigation Grant	83.548		<u>216</u>
Total U.S. Department of Homeland Security			<u>55,883</u>
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	41,177
Special Programs for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	78,886

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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 Administration for Children and Families (ADFAN):			
Community Service Block Grant	93.569	Not Available	36,120
Head Start Program	93.600	02-CH-0483-39	<u>2,450,629</u>
Total U.S. Department of Health and Human Services			<u>2,606,813</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,104,250</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, 2006

a. 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*.

b. 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:

Description	Special Revenue Fund Other Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	1,837,314	4,266,936	6,104,250
Non federal programs Expenditures	105,453	1,010,514	1,115,967
Total expenditures in the fund financial statements	1,942,767	5,277,450	7,220,217



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico**, as of and for the year ended June 30, 2006, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 3, 2006, 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.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect Municipality of Dorado's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item **06-01**.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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 all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are not material weaknesses.

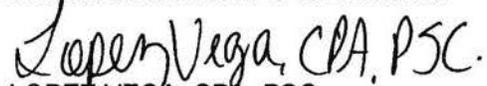
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the **Municipality of Dorado** in a separate letter dated November 3, 2006.

This report is intended solely for the information and use of 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
November 3, 2006

Stamp No. 2195982 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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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**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, 2006. The **Municipality of Dorado's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **06-02 through 06-04**.

**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 **06-02** through **06-04**.

A material weakness is a reportable 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 caused by error or fraud 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 in 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 reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe none of the reportable conditions described above is a material weakness.

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 15, 2007.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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.

López Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 15, 2007

Stamp No. 2195983 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Type of auditor’s 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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Section II – Financial Statements Findings

Finding Reference	06-01
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal Funds).
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should establish internal control procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response And Corrective Action	The Municipality's Management concurs with the finding. The Municipal Affairs Commissioner Office (OCAM) suspended the bid for the acquisition of the new accounting software during fiscal year 2005-2006; the Municipality expects a prompt decision by OCAM to resolve this situation.

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In addition, the Municipality acquired the services of an accountant in order to work with the Municipality's bank conciliations since year 1998. Also, it will train the Finance's Department personnel to realize the bank conciliations, and to maintain the General Ledger.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section II – Financial Statements Findings

Finding Reference **06-01 (Continued)**

**Management Response
And Corrective Action (Continued)**

Implementation date: Expecting decision by OCAM.

Responsible Person: Mr. Luis R. Sierra Salgado

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	06-02
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	Special Test - Housing Rehabilitation
Statement of Condition	<p>During our examination of ten (10) Housing Rehabilitation Activity Participant's files we noted the following conditions:</p> <ul style="list-style-type: none">a. In ten (10) participant files the birth certificates were not available for examination.b. In two (2) cases, the files did not include copy of the social security card of a member of the family.c. In two (2) cases, the files did not include the evidence of the disability.d. In one (1) case, the "Hoja de Tabulación de Ingresos" did not include the total evidence of income documented in the file.e. In five (5) participant files the photos of the initial inspection of the house were not available for examination.f. In two (2) participant files the photos of the final inspection of the house were not available for examination.g. In one (1) case, the photos of the initial inspection of the house were inconclusive.h. In three (3) cases, the photos of the final inspection of the house were inconclusive.i. In ten (10) cases, the Form OCAM-RMV-01-005-A "Resultado de la Evaluación" was not completed.j. In ten (10) cases, the Form OCAM-RMV-01-012 "Cumplimiento" was not completed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **06-02 (Continued)**

- k. In eight (8) cases, the Form OCAM-RMV-01-009-A “Visita Preliminar a la Obra, Verificación de Materiales y Comienzo de la Obra” was not completed in all their parts.
- l. In eight (8) cases, the Form OCAM-RMV-01-009-B “Visita Intermedia a la Obra” was not completed in all their parts.
- m. In one (1) case, the Form OCAM-RMV-01-009-A “Visita Preliminar a la Obra, Verificación de Materiales y Comienzo de la Obra” was not available for examination.

Criteria CFR 24, Section 570.506, states that when CDBG-Entitlement Grants funds are used for rehabilitation, the grantee must assure that the work is properly completed and appropriate documentation is maintained. The 2005-2006 approved Annual Action Plan main objective towards housing activities is to maintain the low income stock in a sound, sanitary and safe condition meeting the housing unit quality standards set forth by HUD.

Cause of Condition The Municipality internal control procedures failed to assure that rehabilitations are duly completed as required by regulations and appropriate documentation is maintained for each assisted participant.

Effect of Condition The Municipality is not in compliance with 24 CFR, Section 570.506.

Recommendation We recommend management to instruct program staff to follow procedures established through the Municipal Housing Regulation for the Housing Rehabilitation Section. Also, assure that all participant files include all required documentation duly approved and certified. In addition, we consider that additional staff must be contracted for this area in order to correct the situation in the future.

Questioned Costs None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 06-02 (Continued)

**Management Response
and Corrective Action**

The program staff was instructed to follow all of the internal control, procedures and documents established through the Municipal Housing Regulation for the Housing Rehabilitation Section prepared and used since October 2001. Also, we developed and implemented a monitoring system in order to detect and correct any condition observed.

Implementation Date: July 2006

Responsible Person: Mr. Mariano López - Federal Funds Department
Director

NO

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	06-03 N/A
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: <ul style="list-style-type: none">a. The program did not maintain proper documentation which permitted and adequate audit trail to reconcile the funds received from the pass-through grantor with the disbursements issued by the program.b. We noted as of June 30, 2006 the program maintained an average cash balance per month of \$187,203.
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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 06-03 (Continued)

Management Response

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

Implementation Date: 7/1/07

Responsible Person: Sarahí Meléndez – Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	06-04	N/A
Program	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families	
Requirement	Reporting	
Statement of Condition	In our Reporting Test we observed the following exceptions: a) The Monthly Financial Report, the Fund Liquidation Report, the Trial Balance and the Financial Report for the program year ended February 28, 2006 were submitted to the Commonwealth of Puerto Rico Administration for Children and Families after the due date. b) We found differences between the amounts reported as federal expenditures in the monthly financial reports (January and February 2006) and in the Closing Report for the Fiscal Year 2006 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	The grant agreement between the Administration for Children and Families states that final year reports should be submitted within the first twenty days after the ending of the program year. In addition, OMB Common Rules, Subpart C, Section 92.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.	
Cause of Condition	No adequate internal controls exist to assure the timely submission of closing reports to agencies as required by grant agreements. Also, the Municipality has not established adequate internal control procedures to assure the correctness of the reports.	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	06- 04 (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 accountant. 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 updated 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: 4/1/07

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2006

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
05-03	14.228	<p><u>The 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.</u></p> <p>Corrective action was taken.</p>
05-04	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>Corrective action was taken.</p>
05-05	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>Corrective action was taken.</p>
05-06	93.600	<p><u>Management should follow cash management system procedures developed by it in order to assure that funds requested are disbursed as required by the regulation.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 06-03.</p>
05-07	93.600	<p><u>The Municipality Management should 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.</u></p>

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		Corrective action was taken.
05-08	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>Corrective action was taken.</p>
05-09	93.600	<p><u>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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 06-04.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
05-10	93.600	<p><u>Management should follow monitoring system procedures developed, including interviewing contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.</u></p> <p>Corrective action was taken.</p>
04-04	14.228	<p><u>The Municipality 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.</u></p> <p>Corrective action was taken.</p>
04-08	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>Corrective action was taken.</p>
04-10	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>Corrective action was taken.</p>
04-13	93.600	<p><u>The Municipality should follow cash management system procedures developed by it in order to assure that funds requested are disbursed as required by the regulation.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 06-03.</p>

n/a

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
04-14	93.600	<p><u>The Municipality Management should follow regulations established through Code of Federal Regulations 45, Subpart C, Section 92.24. Also, the Municipality should 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 06-04.</p>
04-15	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>Corrective action was taken.</p>
04-17	93.600	<p><u>The required reports should 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.</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 06-04.
03-07	14.228	<p><u>The Municipality should strengthen its 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>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>
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>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>
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>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, 2006

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-17	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>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>
03-18	9 3.600	<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>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>
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>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>