

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL

MUNICIPIO DE DORADO
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES

10 MAR 31 AM 11:43

RECIBIDO
UNIDAD DE CORREO

10/07/09 94

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, 2009

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, 2009

CONTENTS

	Page
<u>BASIC FINANCIAL STATEMENTS</u>	
Independent Auditors' Report	1-2
Required Supplementary Information (Part 1) Management's Discussion and Analysis	3-12
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenues, Expenses and Changes in Net Assets	19
Statement of Cash Flow	20
Notes to Basic Financial Statements	21-50
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	51
Notes to Budgetary Comparison Schedule-General Fund	52
Schedule of expenditures of federal awards	53-55
Notes to the schedule of expenditures of federal awards	56
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	57-58

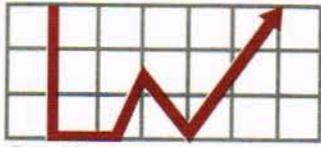
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

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

YEAR ENDED JUNE 30, 2009

CONTENTS

	Page
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u> <u>(CONTINUED)</u>	
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	59-61
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of findings and questioned costs	62-68
Summary schedule of prior year audit findings	69-71



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 (Municipality)**, as of and for the year ended June 30, 2009, 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 an opinion 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 opinion.

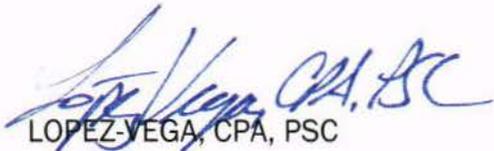
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the **Municipality of Dorado, Puerto Rico**, as of June 30, 2009, 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 December 18, 2009, 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages **3** through **12** and the Budgetary Comparison Schedule-General Fund on page **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. Such information 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.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2009

Stamp No. 2407026 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, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Municipality of Dorado (Municipality)**, 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, 2009. This Management's Discussion and Analysis (MD&A) includes 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 increase by \$1,396,009. Such increase is due mainly to increase in current and capital assets during the year.
- In the fund financial statements, the governmental activities revenues increased \$3,808,168 (or 11%) and governmental activities expenditures increased \$2,864,453 (or 7%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$69,633.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$2,037,168.
- The Municipality issued bonds and notes amounting to \$4,325,000 and \$1,266,000, respectively, to finance the acquisition of properties and construction and improvement of municipal facilities and roads.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

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, 2009

FINANCIAL HIGHLIGHTS (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 significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets, and reported historical costs for such assets in the fiscal year ending June 30, 2007.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management design to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Dorado**, primary government assets exceeded total liabilities by \$81,786,078 at the end of 2009, as compared with \$80,390,069, as restated, which reflect an increase of \$1,396,009 over previous fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$1,396,009 increase reflected in the Net Assets figure.

<u>Condensed Statement of Net Assets</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 38,520,757	\$ 36,527,602	\$ 1,993,155	5%
Capital Assets	109,075,291	98,980,519	10,094,772	10%
Total Assets	147,596,048	135,508,121	12,087,927	9%
Current and other liabilities	14,242,052	6,929,267	7,312,785	106%
Long-term liabilities	51,567,918	48,188,785	3,379,133	7%
Total liabilities	65,809,970	55,118,052	10,691,918	19%
Invested in capital assets, net of related debt	63,709,303	56,803,712	6,905,591	12%
Restricted	28,711,098	27,277,266	1,433,832	5%
Unrestricted deficit	(10,634,323)	(3,690,909)	(6,943,414)	(188)%
Total net assets	\$ 81,786,078	\$ 80,390,069	\$ 1,396,009	2%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Municipality's net assets increased by \$1,396,009. Approximately fifty three percent (53%) of the Municipality's total revenue came from taxes, while thirty four percent (34%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%) of the total revenues. Interest earnings two percent (2%) and miscellaneous provided ten percent (10%) 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	2009	2008	Change	%
Program revenues:				
Charges for services	\$ 359,439	\$ 483,189	\$ (123,750)	(26%)
Operating grants and contributions	6,708,211	6,299,070	409,141	6%
Capital grants and contributions	4,653,814	417,500	4,236,314	1015%
General revenues:				
Property taxes	11,803,851	12,167,963	(364,112)	(3%)
Municipal license tax	3,939,039	4,599,335	(660,296)	(14%)
Municipal sales and use tax	2,024,941	1,884,053	140,888	7%
Grants and contributions not restricted to specific programs	2,010,582	2,482,124	(471,542)	(19%)
Other local taxes	3,470,040	3,145,318	324,722	10%
Interest and investment earnings	778,916	827,206	(48,290)	(6%)
Miscellaneous	3,957,706	4,870,851	(913,145)	(19%)
Total revenues	<u>39,706,539</u>	<u>37,176,609</u>	<u>2,529,930</u>	7%
Expenses:				
General government	13,365,965	13,909,300	(543,335)	(4%)
Public safety	1,455,448	2,158,963	(703,515)	(33%)
Public works	14,776,622	8,428,626	6,347,996	75%
Health and welfare	5,341,971	5,065,223	276,748	5%
Culture and recreation	531,314	267,449	263,865	99%
Economic development	335,261	539,114	(203,853)	(38%)
Community development	717,027	701,114	15,913	2%
Urban development	1,761	46,054	(44,293)	(96%)
Education	3,086	2,916	170	6%
Interest on long-term debt	1,782,075	1,650,484	131,591	8%
Total expenses	<u>38,310,530</u>	<u>32,769,243</u>	<u>5,541,287</u>	17%
Change in net assets	1,396,009	4,407,366	(3,011,357)	(68%)
Net assets, beginning as restated	<u>80,390,069</u>	<u>75,982,703</u>	<u>4,407,366</u>	6%
Net assets, end of year	<u>\$ 81,786,078</u>	<u>\$ 80,390,069</u>	<u>\$ 1,396,009</u>	2%

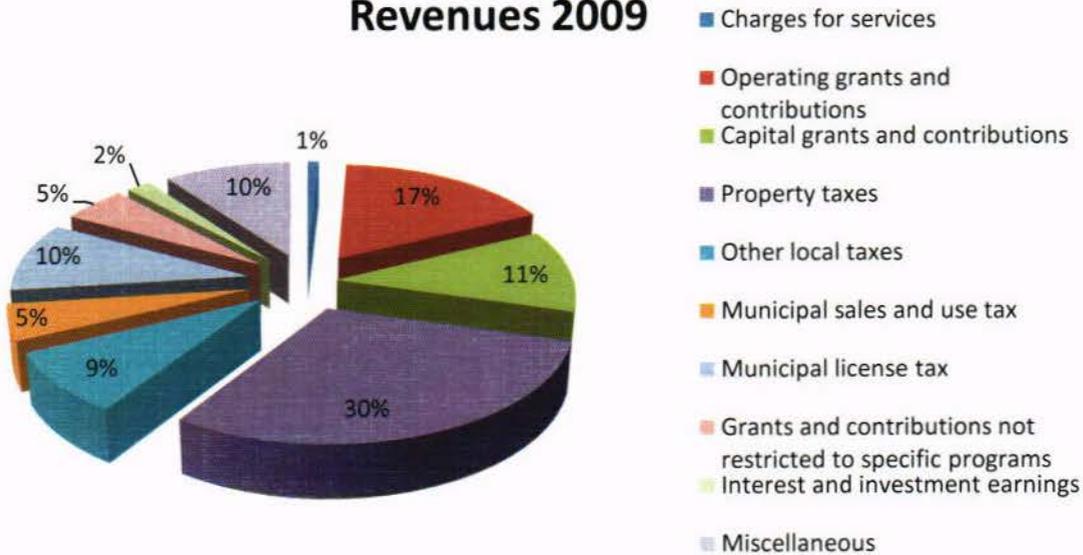
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

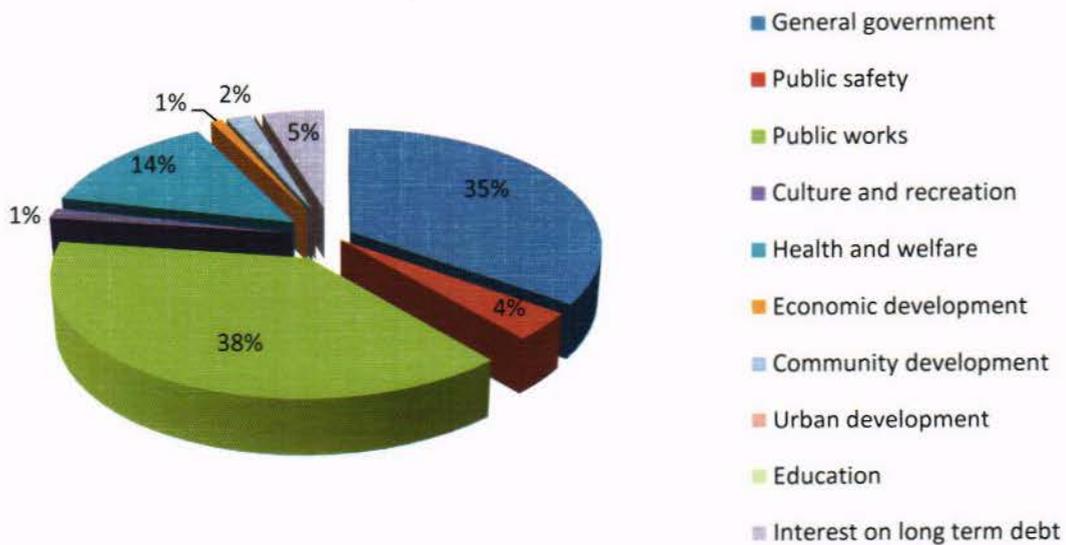
YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2009



Expenses 2009



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

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 \$32,037,221, an increase of \$1,448,034 in comparison with the prior year, as restated. There are reservations of fund balance amounting to \$30,558,039. 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 (\$1,130,564), 2) to pay debt service (\$4,800,675), 3) to pay for capital projects (\$24,214,417) and 4) for other purposes (\$412,383).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2009 the general fund has an unreserved undesignated fund balance of \$1,378,325, and designated for a specific fund purpose, fund balance of \$100,857.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Legislature 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, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2009 amounts to \$125,535,341 with an accumulated depreciation of \$19,284,854, leaving a net book value of \$106,250,487. For Business - Type Activities investments in capital assets as of June 30, 2009 amounts to \$3,971,648, with an accumulated depreciation of \$1,146,844, leaving a net book value of \$2,824,804. 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 10% in terms of net book value. Depreciation charges for the year totaled \$1,751,772.

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, 2009, the Municipality has \$16,706,354 of unexpended proceeds from bond issuances that are committed to future construction activities in governmental Activities and \$25,997 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".

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").

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED):

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 Municipality's budget for the fiscal year 2009-2010.

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 million in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Dorado** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objective of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Net Assets
June 30, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 15,806,399	\$ 422,158	\$ 16,228,557
Cash with fiscal agent	21,029,657	25,997	21,055,654
Accounts receivable:			
Municipal sales and use taxes	123,392		123,392
Intergovernmental	503,520		503,520
Interest	29,535		29,535
Federal grants	304,952		304,952
Others	275,147		275,147
Capital assets			
Land, improvements, and construction in progress	78,585,386	388,790	78,974,176
Other capital assets, net of depreciation	27,665,101	2,436,014	30,101,115
Total capital assets	<u>106,250,487</u>	<u>2,824,804</u>	<u>109,075,291</u>
Total assets	<u>144,323,089</u>	<u>3,272,959</u>	<u>147,596,048</u>
Liabilities			
Accounts payable and accrued liabilities	8,717,982		8,717,982
Due to other governmental entities	142,274		142,274
Deferred revenues:			
Municipal license tax	4,136,746		4,136,746
Federal grant revenues	376,249		376,249
Interest payable	817,234	51,567	868,801
Noncurrent liabilities:			
Due within one year	3,039,004		3,039,004
Due in more than one year	<u>47,567,011</u>	<u>961,903</u>	<u>48,528,914</u>
Total liabilities	<u>64,796,500</u>	<u>1,013,470</u>	<u>65,809,970</u>
Net Assets			
Invested in capital assets, net of related debt	61,897,969	1,811,334	63,709,303
Restricted for:			
Capital projects	24,214,417		24,214,417
Debt service	3,983,441		3,983,441
Other purposes	513,240		513,240
Unrestricted (deficit)	<u>(11,082,478)</u>	<u>448,155</u>	<u>(10,634,323)</u>
Total net assets	<u>\$ 79,526,589</u>	<u>\$ 2,259,489</u>	<u>\$ 81,786,078</u>

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Activities
For the Year Ended June 30, 2009

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	
General government	\$ 13,245,957	\$ 153,060	\$ 283,555	\$ -	\$ (12,809,342)	\$ -	\$ (12,809,342)
Public safety	1,455,448	39,797	60,833	-	(1,354,818)	-	(1,354,818)
Public works	14,776,622	-	15,442	3,055,741	(11,705,439)	-	(11,705,439)
Health and welfare	5,341,971	-	4,599,610	-	(742,361)	-	(742,361)
Culture and recreation	531,314	-	450	1,500,201	969,337	-	969,337
Economic development	335,261	-	137,074	-	(198,187)	-	(198,187)
Community development	717,027	-	1,574,809	97,872	955,654	-	955,654
Urban development	1,761	-	36,438	-	34,677	-	34,677
Education	3,086	-	-	-	(3,086)	-	(3,086)
Interest on long-term debt	1,680,334	-	-	-	(1,680,334)	-	(1,680,334)
Total governmental activities	\$ 38,088,781	\$ 192,857	\$ 6,708,211	\$ 4,653,814	(26,533,899)	-	(26,533,899)
Business type activities:							
General Government	120,008	166,582	-	-	-	46,574	46,574
Interest on long term debt	101,741	-	-	-	-	(101,741)	(101,741)
Total business type activities	221,749	166,582	-	-	-	(55,167)	(55,167)
Total primary government	\$ 38,310,530	359,439	6,708,211	4,653,814	(26,533,899)	(55,167)	(26,589,066)
General revenues:							
Property taxes					11,803,851		11,803,851
Municipal license tax					3,939,039		3,939,039
Municipal sales and use tax					2,024,941		2,024,941
Other local taxes					3,470,040		3,470,040
Grants and contributions not restricted to specific programs					2,010,582		2,010,582
Interest and investment earnings					778,916		778,916
Miscellaneous					3,957,706		3,957,706
Total general revenues and transfers					27,985,075		27,985,075
Change in net assets					1,451,176	(55,167)	1,396,009
Net assets - beginning, as restated					78,075,413	2,314,656	80,390,069
Net assets - ending					\$ 79,526,589	\$ 2,259,489	\$ 81,786,078

Commonwealth of Puerto Rico
Municipality of Dorado
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 6,230,761	\$ 3,482,100	\$ 4,559,460	\$ -	\$ 1,534,078	\$ 15,806,399
Cash with fiscal agent	26,148	16,706,354		4,297,155		21,029,657
Accounts receivable:						
Municipal sales tax	123,392					123,392
Intergovernmental				503,520		503,520
Interest	29,535					29,535
Federal grants					304,952	304,952
Others	116,647					116,647
Due from other funds	907,869				2,000	909,869
Total assets	\$ 7,434,352	\$ 20,188,454	\$ 4,559,460	\$ 4,800,675	\$ 1,841,030	\$ 38,823,971
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 543,586	\$ 385,844	\$ -	\$ -	\$ 292,182	\$ 1,221,612
Due to other governmental entities	142,274					142,274
Due to other funds	2,000	147,653			760,216	909,869
Deferred revenues:						
Municipal license tax	4,136,746					4,136,746
Federal grant revenues					376,249	376,249
Total liabilities	4,824,606	533,497	-	-	1,428,647	6,786,750
Fund balances:						
Reserved for:						
Encumbrances	1,130,564					1,130,564
Capital projects		19,654,957	4,559,460			24,214,417
Debt service fund				4,800,675		4,800,675
Other purposes					412,383	412,383
Unreserved:						
Designated for specific fund purpose	100,857					100,857
Undesignated	1,378,325					1,378,325
Total fund balances	2,609,746	19,654,957	4,559,460	4,800,675	412,383	32,037,221
Total liabilities and fund balances	\$ 7,434,352	\$ 20,188,454	\$ 4,559,460	\$ 4,800,675	\$ 1,841,030	

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

Accrual basis of accounting accounts receivable recognized in government-wide financial statements	158,500
Accrual basis of accounting accounts payable recognized in government-wide financial statements	(7,496,370)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	106,250,487
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds	(51,423,249)
Net assets of governmental activities	\$ 79,526,589

Commonwealth of Puerto Rico
Municipality of Dorado
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 9,940,664	\$ -	\$ -	\$ 2,711,944	\$ -	\$ 12,652,608
Municipal license taxes	3,939,039					3,939,039
Municipal sales and use tax	1,491,685			533,256		2,024,941
Licenses, permits and other local taxes	3,405,480					3,405,480
Charges for services					1,976	1,976
Intergovernmental	2,294,137	4,555,942			171,751	7,021,830
Fines and forfeitures	39,797					39,797
Rent of property	151,084					151,084
Interest	778,916					778,916
Federal grants					6,227,559	6,227,559
Miscellaneous	1,337,986		97,872		45,030	1,480,888
Total revenues	23,378,788	4,555,942	97,872	3,245,200	6,446,316	37,724,118
Expenditures						
Current:						
General government	12,850,478	867			89,685	12,941,030
Public safety	1,833,900				88,410	1,922,310
Public works	7,294,241	4,762,486			2,941	12,059,668
Health and welfare					5,379,769	5,379,769
Culture and recreation	631,010	2,985,880			4,576	3,621,466
Economic development					335,261	335,261
Community development		15,441	42,283		1,443,726	1,501,450
Urban development					1,761	1,761
Debt service:						
Principal				2,361,000		2,361,000
Interest				1,743,369		1,743,369
Total expenditures	22,609,629	7,764,674	42,283	4,104,369	7,346,129	41,867,084
Excess (deficiency) of revenues over (under) expenditures	769,159	(3,208,732)	55,589	(859,169)	(899,813)	(4,142,966)
Other financing sources (uses)						
Transfers in	351,258	166,687	1,514	283,641	763,325	1,566,425
Transfers out	(1,050,784)	(157,143)	(80,215)		(278,283)	(1,566,425)
Long-term debt issued		5,591,000				5,591,000
Total other financing sources (uses)	(699,526)	5,600,544	(78,701)	283,641	485,042	5,591,000
Net change in fund balances	69,633	2,391,812	(23,112)	(575,528)	(414,771)	1,448,034
Fund balance, beginning as restated	2,540,113	17,263,145	4,582,572	5,376,203	827,154	30,589,187
Fund balance, ending	<u>\$ 2,609,746</u>	<u>\$ 19,654,957</u>	<u>\$ 4,559,460</u>	<u>\$ 4,800,675</u>	<u>\$ 412,383</u>	<u>\$ 32,037,221</u>

**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, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$	1,448,034
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.		(848,756)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. The following amount represents the change in this revenue from prior year.		83,500
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.		2,581,096
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.		9,355,835
Retirement of Capital Assets		(816)
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.		(1,751,772)
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.		63,035
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.		(5,987,577)
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.		(1,160,441)
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.		833,290
Change in Landfill Accrual		65,748
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		(3,230,000)
Change in Net Assets of Governmental Activities	\$	<u>1,451,176</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009

	Business Type Activitiy Enterprise
Assets	
Current Assets:	
Cash and cash equivalents	\$ 422,158
Cash with fiscal agent	25,997
Total current assets	448,155
Noncurrent Assets:	
Capital Assets:	
Property, and equipment:	
Land	388,790
Building	3,582,858
Accumulated depreciation	(1,146,844)
Total non-current assets	2,824,804
Total assets	3,272,959
Liabilities:	
Current Liabilities:	
Revenue Fund-Banco Santander Loan	961,903
Interest Payable-Banco Santander Loan	51,567
Total current liabilities	1,013,470
Total liabilities	1,013,470
Net Assets	
Invested in Capital Assets, net of related debt	1,811,334
Unrestricted	448,155
Total Net Assets	\$ 2,259,489

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, 2009

	<u>Business - Type Activities Enterprise</u>
Operating revenues:	
Charges for services	\$ 166,582
Total operating revenues	<u>166,582</u>
Operating expenses:	
Operations and maintenance	30,437
Depreciation and amortization	<u>89,571</u>
Total operating expenditures	<u>120,008</u>
Operating income (Loss)	46,574
Non-operating revenues (expenses):	
Interest expense	<u>(101,741)</u>
Total non-operating revenues (expenses)	<u>(101,741)</u>
Income (loss) before transfers	(55,167)
Change in Net Assets	(55,167)
Total net assets-beginning	<u>2,314,656</u>
Total net assets-ending	<u><u>\$ 2,259,489</u></u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND- BUSINESS TYPE ACTIVITY- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009

Cash Flows from Operating Activities:

Receipts from Customers	\$ 166,582
Payment to Suppliers	(30,437)
Interest paid	<u>(90,291)</u>
Net Cash Provided (Used) by Operating Activities	<u>45,854</u>

Cash Flows from Capital and Related Financing Activities:

Repayment of Revenue Bond	<u>(112,269)</u>
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(112,269)</u>
Net Decrease in Cash and Cash with Fiscal Agent, Restricted	(66,415)
Cash and Cash with Fiscal Agent at Beginning of Period, Restricted	<u>514,570</u>
Cash and Cash with Fiscal Agent at End of Period, Restricted	<u>\$ 448,155</u>

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

Operating Income (Loss)	<u>\$ (55,167)</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	89,571
Accrued Interest	<u>51,567</u>
Total Adjustments	<u>141,138</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 85,971</u>
Noncash investing, capital and financing activities:	none

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

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 ("USGAAP") 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 implemented the capitalization of infrastructure since July 1, 2006.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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. 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. Based on the above criteria the Municipality does not have component units to include within its reporting entity.

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, 2009

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.

Capital Projects Fund – State and Local 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.

Capital Projects Fund – Federal Grants - is the accounting entity in which revenues derived from federal grants 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.

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.

4. Proprietary Fund Types focus on report any activities for which a fee is charged to external users for goods or services. The Municipality reports the following proprietary fund:

Enterprise Fund – 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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.

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

The Municipality has established the following fund categories, fund types, account groups and discreet presentation of enterprise fund:

Governmental Fund Types:

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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

Capital Projects Funds – 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.

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.

Proprietary Fund Types

Enterprise Fund - The enterprise fund statements consist of Statement of Net Assets, Statement of Activities, and Statement of Cash Flows. This fund accounts for exchange like transactions, like private enterprise and its operations are intended to be self supporting through charges to users. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets.

All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the full accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred.

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 ("USGAAP") 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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

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

Property taxes, other 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.

Property taxes, other 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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

E. Assets, liabilities and net assets

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

Cash with fiscal agent in the debt service 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. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

Municipality for reimbursement of expenditures incurred pursuant to federally funded programs or state funded programs.

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

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

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

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

- 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 when the liability is incurred.

- 8. Reservations 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. Accounting for Pension Costs-** For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

10. 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.

11. 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, 2009 amounted to \$348,389. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$481,126 for workers compensation insurance covering all municipal employees.

12. 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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

		<u>Total Net Assets - Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$106,250,487	
Deduct:		
Bonds Payable related to Capital Assets	(35,062,000)	
Notes Payables related to Capital Assets	(9,286,000)	
Lease Obligation - IBM	<u>(4,518)</u>	\$61,897,969
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		24,214,417
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	4,800,675	
Deduct:		
Interest Payable	<u>(817,234)</u>	3,983,441
<u>Net assets restricted for other purposes</u>		
Other governmental funds- fund balance restricted for other purposes		513,240
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	\$2,609,746	
Add:		
Accrual basis accounts receivable	158,500	
Deduct:		
Fund balance reserved for other purposes	(100,857)	
Accrual basis accounts payable	(7,496,370)	
Bonds Payable related to Operational Debts	(580,000)	
Compensated absences debt	(2,878,601)	
Landfill Obligation	(1,583,517)	
LIMS repayment plan	(229,300)	
Department of Labor repayment plan	(195,958)	
Claims and Judgments	(75,000)	
Property tax debt - CRIM Law 42	(242,337)	
Property tax debt - CRIM	<u>(468,784)</u>	<u>(11,082,478)</u>
Total net assets - governmental activities		<u>\$79,526,589</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk – In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

Under Commonwealth of 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 \$6,230,761, \$3,482,100, and \$4,559,460 in the general fund, capital projects fund – local and state grants, and capital projects fund – federal grants, respectively, were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of \$1,534,078 that were fully collateralized.

The deposits at GDB of \$16,706,354 that is restricted principally for capital projects in the capital project fund – local and state grant, \$26,148 restricted for operational expenditures in the general fund and the \$4,297,155 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, 2009

3. RECEIVABLES

A. *Municipal sales and use tax*- On July 29, 2007, an amended to Act No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and use tax of 1.5% at the Municipal Level. The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides an optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature.

The Treasury Department is responsible to create the Municipal Development Fund (.2%), the Municipal Redemption Fund (.2%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%.

Municipal sales and use tax receivable of \$ 123,392 in general fund represents filed municipal sales and use tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectible accounts.

B. *Intergovernmental Receivables* - Intergovernmental receivable in debt service fund represents property tax receivable at June 30, 2009. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$503,520
Total	<u>\$503,520</u>

C. *Federal grants receivables*- Federal Grant receivable in other governmental funds represents 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>
Hazard Mitigation Program	\$ 28,000
Child Care Food Program	37,080
Nutrition Program for the Elderly (U.S.D.A.)	19,033
Community Development Block Grants/ State's Program	192,362
Emergency Management Performance Grant-Homeland Security	24,233
Others	<u>4,244</u>
Total	<u>\$304,952</u>

D. *Other Receivable*- Other receivable of \$116,647 in the general fund represents accounts receivables at June 30, 2009, related to construction excise tax \$94,150, fines \$16,256 and rent of \$6,241.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2009, and interfund transfers during the fiscal year ended at June 30, 2009, 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	Other Governmental Funds- Federal Programs	Payroll and related accruals paid and not reimbursed	\$ 760,216
General Fund	Capital Projects Fund-State & Local Funds	Reimbursable expenditures	147,653
Other Governmental Funds	General Fund	Matching Contribution	<u>2,000</u>
Total			<u>\$ 909,869</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Fund	Matching Contribution	\$ 137,834
General Fund	Other Governmental Fund	Matching Contribution	398,425
General Fund	Other Governmental Fund	Matching Contribution	18,180
General Fund	Other Governmental Fund	Matching Contribution	166,284
General Fund	Debt Service Fund	Debt retirement	122,414
General Fund	Capital Projects Fund- Federal Grants	Transfer of funds for special purpose	1,514
General Fund	Capital Projects Fund - State and Local Grants	Transfer of funds for special purpose	166,687
General Fund	Other Governmental Fund	Transfer of funds for special purpose	39,446
Other Governmental Funds	General Fund	Expenditure reclassification to the correct fund	113,900
Other Governmental Funds	Other Governmental Funds	Expenditure reclassification to the correct fund	3,156
Capital Projects Fund- State and Local Grants	General Fund	Transfer of funds for special purpose	157,143
Capital Projects Fund- Federal Grants	General Fund	Transfer of funds for special purpose	80,215
Other Governmental Funds	Debt Service	Transfer of funds for special purpose	<u>161,227</u>
Total			<u>\$ 1,566,425</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS

Capital assets; those with an estimated useful live 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 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>
Capital asset, not being depreciated:				
Land	\$ 63,144,534	\$ 2,581,096	\$ -	\$ 65,725,630
Construction in progress	<u>12,403,416</u>	<u>6,572,584</u>	<u>(6,116,244)</u>	<u>12,859,756</u>
Total capital assets not being depreciated	<u>75,547,950</u>	<u>9,153,680</u>	<u>(6,116,244)</u>	<u>78,585,386</u>
Capital assets, being depreciated:				
Buildings	13,041,406	552,000		13,593,406
Buildings improvements	4,172,692	5,347,676		9,520,368
Infrastructure	7,757,279	1,823,828		9,581,107
Infrastructure improvements	2,640,043	298,282		2,938,325
Equipment	3,038,910	524,914	(5,639)	3,558,185
Furnishing	363,297	60,326	(2,870)	420,753
Work of Arts	96,003	15,922		111,925
Computers	409,941	64,339	(14,399)	459,881
Vehicles	<u>6,849,409</u>	<u>212,208</u>	<u>(295,612)</u>	<u>6,766,005</u>
Total capital assets being depreciated	<u>38,368,980</u>	<u>8,899,495</u>	<u>(318,520)</u>	<u>46,949,955</u>
Less accumulated depreciation for:				
Buildings	(5,421,936)	(333,900)		(5,755,836)
Buildings improvements	(380,320)	(229,581)		(609,901)
Infrastructure	(2,832,230)	(203,853)		(3,036,083)
Infrastructure improvements	(356,754)	(192,300)		(549,054)
Equipment	(2,376,518)	(282,429)	5,489	(2,653,458)
Furnishing	(292,674)	(30,972)	2,817	(320,829)
Computers	(321,116)	(56,407)	13,786	(363,737)
Work of Arts	(28,397)	(9,652)		(38,049)
Vehicles	<u>(5,840,841)</u>	<u>(412,678)</u>	<u>295,612</u>	<u>(5,957,907)</u>
Total accumulated depreciation	<u>(17,850,786)</u>	<u>(1,751,772)</u>	<u>317,704</u>	<u>(19,284,854)</u>
Total capital assets being depreciated, net	<u>20,518,194</u>	<u>7,147,723</u>	<u>(816)</u>	<u>27,665,101</u>
Governmental activities capital assets, net	<u>\$ 96,066,144</u>	<u>\$ 16,301,403</u>	<u>\$ (6,117,060)</u>	<u>\$ 106,250,487</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 615,123
Public safety	39,637
Public works	624,183
Health and welfare	5,349
Education	3,086
Culture and recreation	196,478
Community development	<u>267,916</u>

Total depreciation expense-governmental activities \$ 1,751,772

<u>Business - type activities</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</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>(1,057,273)</u>	<u>(89,571)</u>	<u>-</u>	<u>(1,146,844)</u>
Total accumulated depreciation	<u>(1,057,273)</u>	<u>(89,571)</u>	<u>-</u>	<u>(1,146,844)</u>
Total capital assets being depreciated, net	<u>2,525,585</u>	<u>(89,571)</u>	<u>-</u>	<u>2,436,014</u>
Business - type Activities capital assets, net	<u>\$ 2,914,375</u>	<u>\$ (89,571)</u>	<u>\$ -</u>	<u>\$ 2,824,804</u>

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

Business - type Activities

General government \$ 89,571

Total depreciation expense-governmental activities \$ 89,571

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Capital Projects Fund – State & Local Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 332,358	\$ 385,844	\$ -	\$ 292,182	\$ 1,010,384
Accrued liabilities	<u>211,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211,228</u>
Total	<u>\$ 543,586</u>	<u>\$ 385,844</u>	<u>\$ -</u>	<u>\$ 292,182</u>	<u>\$ 1,221,612</u>

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>
Puerto Rico Aqueduct and Sewer Authority	\$ 57,351
Retirement System Administration	84,294
General Services Administration	550
Department of Labor and Human Resources	<u>79</u>
Total	<u>\$ 142,274</u>

8. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$4,136,746 in the general fund relates to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

B. Federal Government- 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>
Head Start Program	\$ 40,652
Community Development Block Grant-State's Program	166,710
Repayment Section 108 Loan	14,732
Emergency Management Performance Grant	30,453
Title III	95,993
Other Programs	<u>27,709</u>
Total	<u>\$ 376,249</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

9. 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 the advances exceeded collections by \$468,784.

On January 26, 2000, Public Law No. 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 No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 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, 2009

9. PROPERTY TAXES (CONTINUED)

Also, on October 11, 2002, Public Law No. 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 No. 42 enacted on January 26, 2000.

On June 26, 1997, Public Law No. 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 No. 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 \$242,337 related to Law No. 42. The debt corresponding to Law No. 146 was liquidated during the fiscal year 2008-2009.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

10. MUNICIPAL LICENSE TAX:

The Municipality imposes 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 15 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, 2009, 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 taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

Description	Beginning Balance	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$33,093,000	\$4,325,000	\$(1,776,000)	\$35,642,000	\$2,057,000
Notes Payable	8,605,000	1,266,000	(585,000)	9,286,000	590,000
Lease Obligation-IBM	4,518			4,518	4,518
Property Tax Debt-Law 146	285,207	(285,207)			
Property Tax Debt - Law 42	246,832		(4,495)	242,337	4,777
Property Tax - Department of Treasury		468,784		468,784	
LIMS Repayment Plan	312,015		(82,715)	229,300	87,709
Compensated Absences	2,559,387	646,392	(327,178)	2,878,601	220,000
Claims and Judgments	50,000	45,265	(20,265)	75,000	75,000
Department of Labor Repayment Plan	195,958			195,958	
Landfill obligation	1,762,695	(65,748)	(113,430)	1,583,517	
Total	\$47,114,612	\$6,400,486	\$ (2,909,083)	\$50,606,015	\$3,039,004

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

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

2. **Bonds Payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2009 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, 2009</u>
1995-Series	7-1-2015	2,750,000	6.12% to 6.58%	1,380,000
1997-Series	7-1-2010	2,650,000	5.69% to 5.78%	310,000
1997-Series	7-1-2016	290,000	2.43% to 7.00%	145,000
1997-Series	7-1-2016	110,000	2.43% to 7.00%	45,000
1998-Series	7-1-2013	1,065,000	5.78% to 6.04%	410,000
1999-Series	7-1-2014	3,675,000	5.78% to 6.11%	1,685,000
2000-Series	7-1-2014	65,000	4.10% to 4.61%	25,000
2000-Series	7-1-2021	1,500,000	4.10% to 5.29%	1,150,000
2001-Series	7-1-2026	310,000	4.10% to 5.60%	270,000
2002-Series	7-1-2027	2,850,000	4.10% to 5.60%	2,505,000
2004-Series	7-1-2029	550,000	2.43% to 7.00%	500,000
2004-Series	7-1-2024	3,150,000	4.38% to 5.25%	2,635,000
2004-Series	7-1-2024	115,000	4.38% to 5.25%	90,000
2004-Series	7-1-2024	1,860,000	4.38% to 5.25%	1,550,000
2004-Series	7-1-2010	285,000	7.00%	50,000
2005 Series	7-1-2015	50,000	2.43% to 7.00%	30,000
2005 Series	7-1-2020	945,000	4.38% to 4.73%	760,000
2005 Series	7-1-2020	5,825,000	4.38% to 4.73%	4,665,000
2006 Series	7-1-2030	532,000	2.43% to 7.00%	492,000
2007 Series	7-1-2022	1,645,000	2.43% to 7.50%	1,515,000
2008-Series	7-1-2033	3,650,000	2.43% to 7.50%	3,600,000
2008-Series	7-1-2018	220,000	2.43% to 6.25%	205,000
2008-Series	7-1-2033	370,000	2.43% to 7.50%	365,000
2008-Series	7-1-2033	3,265,000	2.43% to 7.50%	3,215,000
2008-Series	7-1-2033	3,720,000	2.43% to 7.50%	3,720,000
2009-Series	7-1-2029	3,395,000	4.75% to 7.50%	3,395,000
2009-Series	7-1-2029	930,000	2.43% to 7.50%	930,000
Total general obligation bonds				\$ 35,642,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. 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 2006 Series bonds amounting to \$532,000 are payable from the special 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>
2010	\$ 2,057,000	\$ 1,717,107
2011	1,817,000	2,072,975
2012	1,943,000	1,966,978
2013	2,059,000	1,848,603
2014	2,090,000	1,727,839
2015-2019	8,805,000	7,084,153
2020-2024	7,669,000	4,528,318
2025-2029	5,830,000	2,331,945
2030-2034	3,372,000	524,033
Total Bonds Payable	<u>\$35,642,000</u>	<u>\$23,801,951</u>

- 3. Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. During the current year the municipal legislature authorized notes issuances for \$1,266,000 and the Municipality was granted a Section 108 Loan for \$5,500,000 for a hotel development. 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, 2009</u>
2004-Series	7-1-2011	370,000	4.38% to 4.50%	125,000
2005 Series	7-1-2010	45,000	4.38%	10,000
2005 Series	7-1-2012	1,190,000	4.38% to 4.62%	560,000
2005 Series	7-1-2013	345,000	4.38% to 4.73%	215,000
2007 Series	7-1-2014	480,000	2.42% to 7.50%	375,000
2008 Series	7-1-2015	230,000	2.43% to 7.50%	210,000
2008 Series	7-1-2013	245,000	2.43% to 7.50%	205,000
Section 108- Series 2008-A	7-1-2028	5,500,000	5.11%	5,500,000
2008 Series	7-1-2015	925,000	2.43% to 7.50%	820,000
2009 Series	7-1-2014	125,000	2.43% to 7.50%	125,000
2009 Series	7-1-2034	1,141,000	2.43% to 7.50%	1,141,000
Total notes payable				<u>\$ 9,286,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. 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>
2010	\$ 590,000	\$ 413,427
2011	921,000	451,975
2012	891,000	405,054
2013	726,000	360,689
2014	631,000	321,618
2015-2019	1,875,000	1,256,587
2020-2024	1,730,000	823,038
2025-2029	1,501,000	343,261
2030-2034	421,000	85,088
Total	<u>\$ 9,286,000</u>	<u>\$4,460,737</u>

- 4. Lease Obligations-** 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 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, 2009 amounts to \$4,518. The debt service requirements to maturity including \$28 of interest are as follows:

<u>Year ending June 30,</u>	<u>Governmental Activities</u>
2010	<u>\$ 4,546</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

5. **Property Tax Debt-** These amounts represent the balance owed to the Municipal Revenue Collection Center (CRIM) at June 30, 2009, as described in Note 9.
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, 2009, the outstanding debt balance is \$229,300. This amount is presented in the government-wide financial statements.
7. **Compensated absences-** The government-wide statement of net assets includes \$1,624,417 of accrued sick leave benefits, and approximately \$1,254,184 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
8. **Claims and Judgments -** This amount represents the balance related to legal claims at June 30, 2009, as described in Note 14.
9. **Department of Labor 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. As of June 30, 2009 the debt balance amounted to \$195,958.
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 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 2005-2006 a total of \$374,319 were paid to the contractor for closing costs, and in 2006-2007 the amount of \$202,516 were paid. During 2007-2008 a total of \$65,748 were paid to the contractor for closing costs. In 2008-2009 a total of \$113,430 were paid to the contractor and others suppliers related to closing cost. Based on this, the Municipality has recognized \$33,517 as the Municipality's estimated current cost for landfill closure as of June 30, 2009. The preliminary annual estimate of post closure costs has been adjusted to approximately \$1,550,000 for a period of approximately 25 years. Actual costs may be

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2009, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$33,517 and \$1,550,000, respectively, are reported in the government-wide statement of net assets.

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, 2009:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2010	\$ 69,600
Total minimum payments required	\$ 69,600

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 \$112,269. The outstanding debt balance as of June 30, 2009 amounts to \$961,903. The debt service requirements to maturity including \$51,567 of interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 961,903	\$ 51,567
Total	\$ 961,903	\$ 51,567

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. 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 Municipality contributions to the above-mentioned plans during the year ended June 30, 2009 recorded as pension expenditures were approximately \$626,410. This amount represents 100% of the required contribution.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. PENSION PLAN (CONTINUED)

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

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940-2003.

13. RISK MANAGEMENT

The Property Division is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Treasury Department of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

14. 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 \$75,000 for awarded or anticipated unfavorable judgments in the Government-Wide Financial Statements. 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.

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.

15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2009:

- a. GASB Statement No.51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- b. GASB Statement No.53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods beginning after June 15, 2010.
- d. GASB Concepts Statement No. 5, *Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2*. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2.

The impact of these statements on the Municipality's basic financial statements has not yet been determined.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

16. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Fund	Total
Fund balance, beginning	\$2,540,113	\$ 17,263,145	\$ 4,582,572	\$ 5,376,203	\$ 834,758	\$30,596,791
To correct prior year accounts payable	-	-	-	-	(7,604)	(7,604)
Fund balance, beginning as restated	<u>\$2,540,113</u>	<u>\$ 17,263,145</u>	<u>\$ 4,582,572</u>	<u>\$ 5,376,203</u>	<u>\$ 827,154</u>	<u>\$30,589,187</u>

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

Description	Governmental Activities	Business-type Activities	Total
Net assets, beginning	\$ 78,083,017	\$ 2,314,656	\$ 80,397,673
To correct prior year accounts payables	(7,604)	-	(7,604)
Net assets, beginning as restated	<u>\$ 78,075,413</u>	<u>\$ 2,314,656</u>	<u>\$ 80,390,069</u>

17. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 million in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Dorado** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objectives of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

**BUDGETARY COMPARISON-GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 9,940,664	\$ 9,940,664	\$ 9,940,664	\$ -
Municipal license tax	4,125,250	3,906,284	3,939,039	32,755
Municipal sales and use tax	1,305,000	1,152,997	1,368,293	215,296
Licenses, permits and other local taxes	1,420,000	3,246,744	3,243,344	(3,400)
Intergovernmental	2,160,299	2,143,854	2,143,854	-
Rent of property	119,179	180,931	182,188	1,257
Fines and forfeitures	10,100	23,541	23,541	-
Interest	515,000	784,167	792,583	8,416
Miscellaneous	<u>1,086,000</u>	<u>394,148</u>	<u>1,337,987</u>	<u>943,839</u>
Total revenues before carryover	<u>20,681,492</u>	<u>21,773,330</u>	<u>22,971,493</u>	<u>1,198,163</u>
Budgeted carryover (1)	<u>-</u>	<u>2,540,113</u>	<u>2,540,113</u>	<u>-</u>
Total revenues and budget carryover	<u>20,681,492</u>	<u>24,313,443</u>	<u>25,511,606</u>	<u>1,198,163</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	11,304,411	13,729,411	13,066,584	662,827
Public safety	2,088,615	1,992,276	1,848,732	143,544
Public works	6,507,870	7,770,783	7,262,339	508,444
Culture and recreation	608,036	709,431	647,546	61,885
Operating transfer to other fund	<u>172,560</u>	<u>111,542</u>	<u>649,237</u>	<u>(537,695)</u>
Total expenditures, encumbrances and other financing uses	<u>20,681,492</u>	<u>24,313,443</u>	<u>23,474,438</u>	<u>839,005</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,037,168</u>	<u>\$ 2,037,168</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$25,511,606
Differences-budget to USGAAP:				
Budget carryover				(2,540,113)
USGAAP adjustment to revenues				<u>758,553</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 23,730,046</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 23,474,438
Differences-budget to USGAAP:				
Nonbudgeted transfer out				401,547
Prior year encumbrances recorded as current year expenditures for USGAAP basis				914,992
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(1,130,564)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 23,660,413</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, 2009

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 USGAAP, 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 USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2009 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

<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:			
Direct Program:			
Rural Housing Preservation Grant	10.433	Not Available	3,250
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$206,472
Total U.S. Department of Agriculture			<u>209,722</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		1,807,188
Community Development Block Grant - Section 108 Loan Guarantees	14.248	Not Available	82,057
Public and Indian Housing	14.850	Not Available	7,232
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	1,513,998
Total U.S. Department of Housing and Urban Development			<u>3,410,475</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico – Justice Department:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		50,000
Total U.S. Department of Justice			50,000
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the PR Highway Administration:			
Federal Transit Administration- Capital Investment Grants	20.500		1,761
			1,761
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	4,841
Special Programs for Aging – Title III, Part C - Nutrition Services	93.045	Not Available	306,034
Nutrition Services Incentives Program	93.053	Not Available	63,482
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Community Service Block Grant	93.569	Not Available	74,866
Head Start Program	93.600	02-CH-0483-39	2,342,749
Total U.S. Department of Health and Human Services			2,791,972

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S.DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Hazard Mitigation Grant	97.039		4,696
Homeland Security Grant Program	97.067		<u>4,960</u>
Total U.S. Department of Homeland Security			<u>9,656</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 6,473,586</u></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, 2009

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 Capital Project Fund-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	Capital Projects Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 82,057	\$ 6,391,529	\$ 6,473,586
Non - federal programs Expenditures	(39,774)	954,600	914,826
Total expenditures in the fund financial statements	<u>\$ 42,283</u>	<u>\$ 7,346,129</u>	<u>\$ 7,388,412</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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, 2009, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 18, 2009, 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 as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Dorado's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Dorado's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency, or a combination of control deficiencies, that adversely affects the **Municipality of Dorado's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Municipality of Dorado's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Dorado's** internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item **09-01**.

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)

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **Municipality of Dorado's** internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

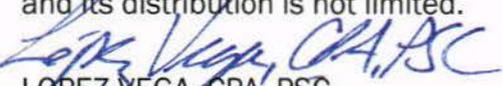
Compliance and Other Matters

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 December 18, 2009.

The **Municipality of Dorado's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the **Municipality of Dorado's** response and, accordingly, we express no opinion on it.

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
December 18, 2009

Stamp No. 2407027 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

**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, 2009. 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, 2009. 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, **09-02** through **09-04**.

**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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Dorado's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **09-02** through **09-04** to be significant deficiencies.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of noncompliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The **Municipality of Dorado's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Dorado's** response and, accordingly, we express no opinion on it.



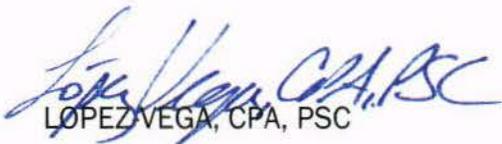
López-Vega, CPA, PSC

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)**

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 25, 2010.

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


LOPEZVEGA, CPA, PSC

San Juan, Puerto Rico
March 25, 2010

Stamp No. 2407067 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, 2009

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
Significant deficiencies 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	No X
Significant deficiencies 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>
14.871	Section 8 Housing Choice Voucher Program
93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services
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, 2009

Section II – Financial Statements Findings

Finding Reference	09-01
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	<p>The Municipality’s Management concurs with the finding. The Municipality awaits a decision by the Commissioner of Municipal Affairs (“OCAM”) to improve the accounting system, including acquisition of a new accounting software. Once the situation is solved the Municipality expects to fully comply with the auditors recommendation.</p> <p>Implementation date: Expecting decision by OCAM.</p> <p>Responsible Person: Mr. Luis R. Sierra Salgado- Director of Finance</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	09-02
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Cash Management
Statement of Condition	During our Cash Management Test, we found the following exceptions: a. We noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. b. During five (5) months the bank reconciliations reflected an overdraft.
Criteria	OMB Common Rule, Subpart C, Section 92.20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursements made by the grantee.
Cause of Condition	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.
Effect of Condition	The Municipality is not in compliance with OMB Common Rule, Subpart C, Section 92.20 (b) (7).
Recommendation	We recommend management to follow cash management system procedures developed by it in order to assure that funds requested are disbursed as required by the regulation.
Questioned Costs	None
Management Response And corrective Action	In April 2009, The Governmental Board of the Municipality of Dorados' Head Start Program approved a procedures manual to minimize the time between receipt of funds and the effective use of those funds. In May 2009, the Normative Policy Committee ratified the procedures' manual. Implementation Date: June 2009 Responsible Person: Mrs. Ana Benítez – Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-03
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	Procurement and Suspension and Debarment
Statement of Condition	During our contract provision test, we noted the following exceptions: a. During the fiscal year 2008-2009, four (4) center construction improvements were performed by a total amount of \$15,565. The program did not formalize contracts for those services.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.36 (a), (b) (1) (2), States. Requires that all purchase orders and contracts include any clauses required by Federal Statutes, executive orders and implementing regulations. <i>Procurement Standards</i> . (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. (2) Grantees and ubgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.
Cause of Condition	The Program did not maintain appropriate monitoring procedures to detect the formalization of certain contracts. The Program internal control failed to assure an adequate procurement process for procurement transactions as described above.
Effect of Condition	The Program is not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.36 (a), (b) (1) (2).
Recommendation	We recommend management to formalization a contract model according with the federal requirements by any services. Also, include those contract provisions, which are required by federal regulations, before each contract execution.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09- 03 (Continued)**

**Management Response
And Corrective Action**

The Municipality's Management concurs with the finding. The Program will monitor each necessity and proceed to formalize a contract agreement for all services that exceeds \$2,000, during fiscal year 2009-2010.

Implementation date: July 2009.

Responsible Person: Mrs. Ana Benítez – Program Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-04
Program	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Reporting
Statement of Condition	<p>In our Reporting Test, we observed the following exceptions:</p> <ul style="list-style-type: none">a) The Monthly Financial Report of February 2009 was submitted to the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN) after the due date.b) We found differences between the amounts reported as federal expenditures in the monthly financial reports (January and February 2009) and in the Closing Report for the Fiscal Year 2009 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 on 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 document the adjustments posted to the general ledger accounts.
Criteria	<p>The grant agreement between the Administration for Children and Families states that final year reports should be submitted within the first twenty days after the ending of the program year. In addition, OMB Common Rules, Subpart C, Section 92.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.</p>
Cause of Condition	<p>No adequate internal controls exist to assure the timely submission of closing reports to agencies as required by grant agreements. Also, the Municipality has not established adequate internal control procedures to assure the correctness of the reports.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 09- 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 Management concurs with the finding. 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.

The Program Director states that because of cash management issues the program requests the budgeted cash balance at closing date resulting in estimated expenditures in the monthly reports. With the implementation of a cash management procedures manual, the Program expects to clear this finding in the near future.

Implementation date: March 2010

Responsible Person: Mrs. Ana Benitez, 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, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
08-02	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 09-02.</p>
08-03	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, the Municipality should 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 updated 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. 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 09-04.</p>
07-02	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 09-02.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
07-03	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, the Municipality should 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 updated 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. 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 09-04.</p>
06-03	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>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>
06-04	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, the Municipality should 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</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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 updated 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. 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>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>