

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

**MUNICIPIO DE DORADO
AUDITORÍA 2010-2011
30 DE JUNIO DE 2011**

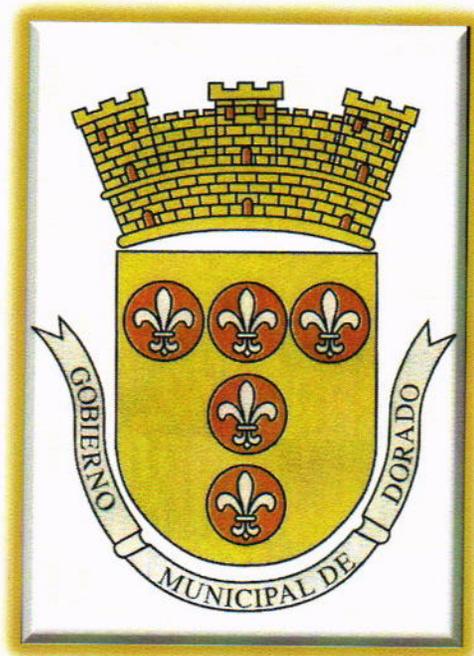
COMMONWEALTH OF PUERTO RICO

AUTONOMOUS

MUNICIPALITY OF DORADO

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

Year Ended June 30, 2011



Municipality of Dorado, P.O. Box 588, Dorado, Puerto Rico 00646
Hon. Carlos A. López Rivera

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

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

YEAR ENDED JUNE 30, 2011

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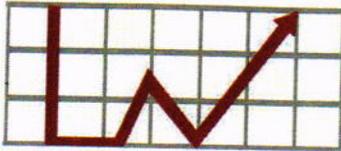
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AUTONOMOUS MUNICIPALITY OF DORADO

BASIC FINANCIAL STATEMENTS
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YEAR ENDED JUNE 30, 2011

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Autonomous 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 **Autonomous Municipality of Dorado, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2011, 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 **Autonomous Municipality of Dorado, Puerto Rico**, as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, on our consideration of the **Autonomous Municipality of Dorado'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 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

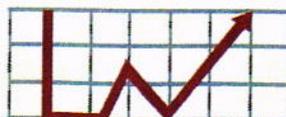
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Dorado's** basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and is derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

San Juan, Puerto Rico
December 23, 2011

Stamp No. 2575542 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

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, 2011. 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 decreased by \$5,151,558.
- In the fund financial statements, the governmental activities revenues decreased \$1,783,670 (or 5%) and governmental activities expenditures increased \$291,416 (or 1%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$6,069,628.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$5,659,593.
- The Municipality issued bonds and notes amounting to \$6,764,000 and \$480,000, respectively, to finance the acquisition of properties and construction and improvement of municipal facilities and roads.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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
AUTONOMOUS MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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
AUTONOMOUS MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

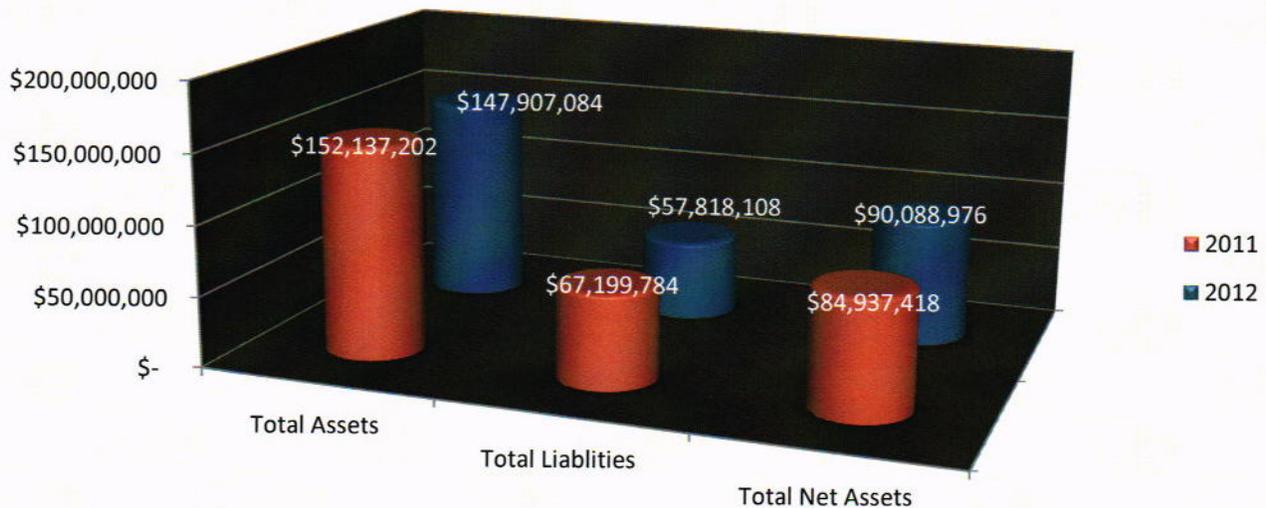
YEAR ENDED JUNE 30, 2011

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 \$84,937,418 at the end of 2011, as compared with \$90,088,976, as restated, which reflect a decrease of \$5,151,558 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 \$5,151,558 decrease se reflected in the Net Assets figure.

Condensed Statement of Net Assets	2011	2010	Change	%
Current and other assets	\$ 30,551,627	\$ 31,489,779	\$ (938,152)	(3)%
Capital Assets	121,585,575	116,417,305	5,168,270	4%
Total Assets	152,137,202	147,907,084	4,230,118	3%
Current and other liabilities	10,700,562	5,569,231	(5,131,331)	(92)%
Long-term liabilities	56,499,222	52,248,877	(4,250,345)	(8)%
Total Liabilities	67,199,784	57,818,108	(9,381,676)	(16)%
Invested in capital assets, net of related debt	74,092,576	70,167,091	3,925,485	6%
Restricted	27,323,086	25,554,824	1,768,262	7%
Unrestricted deficit	(16,478,244)	(5,632,939)	(10,845,305)	(193)%
Total net assets	\$ 84,937,418	\$ 90,088,976	\$(5,151,558)	(6)%



**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Municipality's net assets decrease by \$5,151,558. Approximately fifty seven percent (57%) of the Municipality's total revenue came from taxes, while thirty seven percent (37%) 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 one percent (1%) 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.

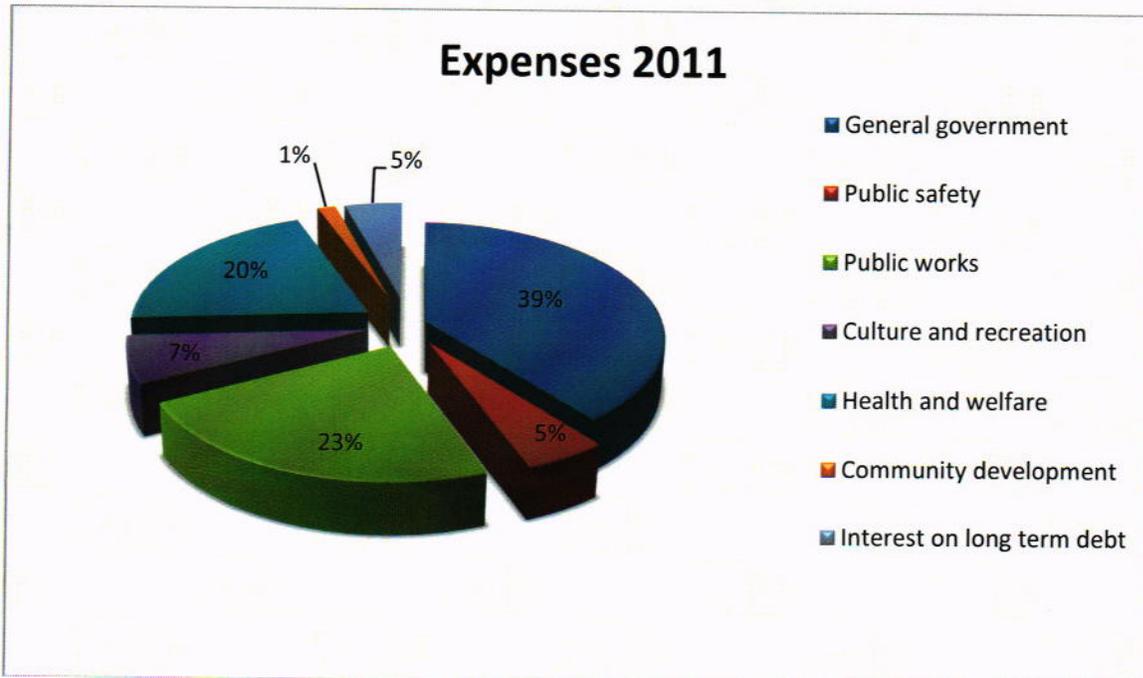
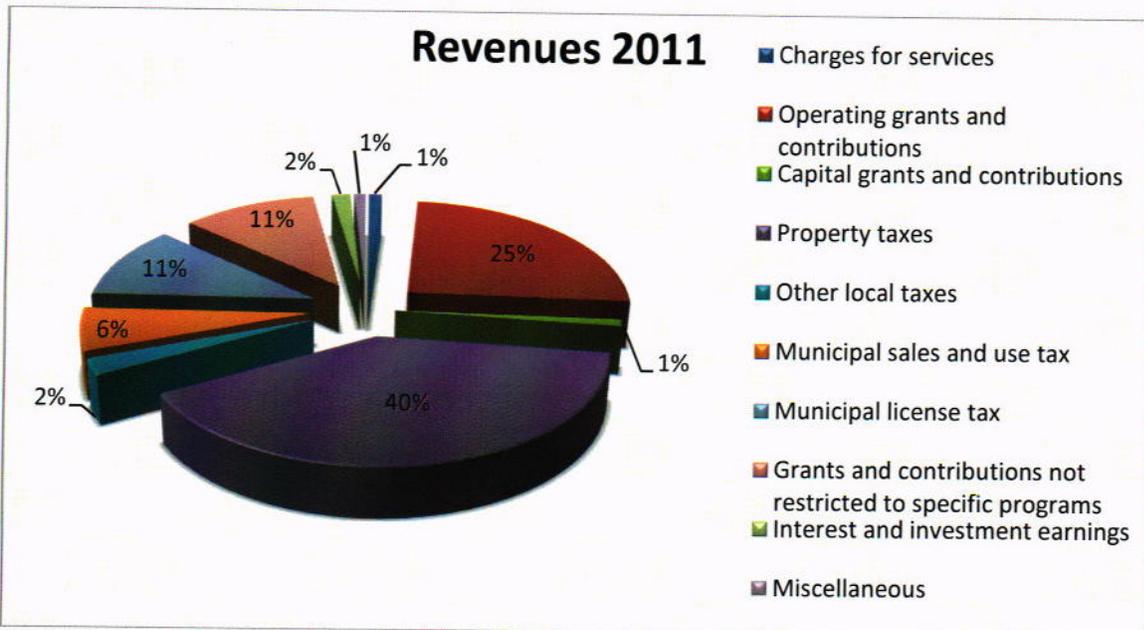
Condensed Statement of Activities	2011	2010	Change	%
Program revenues:				
Charges for services	\$ 353,755	\$ 442,742	\$ (88,987)	(20%)
Operating grants and contributions	8,236,852	7,448,457	788,395	11%
Capital grants and contributions	324,834	1,811,584	(1,486,750)	(82%)
General revenues:				
Property taxes	13,171,993	12,275,067	896,926	7%
Municipal license tax	3,623,153	5,198,256	(1,575,103)	(30%)
Municipal sales and use tax	2,081,687	1,944,150	137,537	7%
Grants and contributions not restricted to specific programs	3,668,817	3,072,446	596,371	19%
Other local taxes	789,399	1,651,704	(862,305)	(52%)
Interest and investment earnings	508,849	532,331	(23,482)	(4%)
Miscellaneous	312,627	477,395	(164,768)	(35%)
Total revenues	33,071,966	34,854,132	(1,782,166)	(5%)
Expenses:				
General government	14,904,724	13,570,476	(1,334,248)	10%
Public safety	1,905,435	1,893,369	(12,066)	1%
Public works	8,841,142	1,060,638	(7,780,504)	734%
Health and welfare	7,711,310	5,549,667	(2,161,643)	39%
Culture and recreation	2,534,118	2,094,833	(439,285)	21%
Economic development	87,399	127,987	40,588	(32%)
Community development	533,158	431,467	(101,691)	24%
Urban development	2,620	4,258	1,638	(38%)
Education	3,980	1,219	(2,761)	226%
Interest on long-term debt	1,699,638	1,543,996	(155,642)	10%
Total expenses	38,223,524	26,277,910	(11,945,614)	45%
Change in net assets	(5,151,558)	8,576,222	(13,727,780)	(160)%
Net assets, beginning as restated	90,088,976	81,512,754	8,576,222	11%
Net assets, end of year	\$ 84,937,418	\$ 90,088,976	\$ (5,151,558)	(6%)

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 \$23,007,978, a decrease of \$4,246,133 in comparison with the prior year. There are restricted fund balances amounting to \$28,306,873. This is the fund balance that it is not available for new spending because it has already been committed 1) to pay debt service \$6,120,921, 2) to pay for capital projects \$21,654,083 and 3) for other purposes \$531,869.

As of June 30, 2011 the General Fund, which is the main operating fund of the Municipality, and the Other Governmental Funds, reflected an unassigned fund deficit of (\$5,091,316), and (\$207,579), respectively.

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
AUTONOMOUS MUNICIPALITY OF DORADO**

MANAGEMENT'S AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2011 amounts to \$141,857,689 with an accumulated depreciation of \$22,917,775, leaving a net book value of \$118,939,914. For Business - Type Activities investments in capital assets as of June 30, 2011 amounts to \$3,971,648, with an accumulated depreciation of \$1,325,987, leaving a net book value of \$2,645,661. 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 4% in terms of net book value. Depreciation charges for the year totaled \$1,945,915.

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, 2011, the Municipality has \$15,956,805 of unexpended proceeds from bond issuances that are committed to future construction activities in Governmental Activities and \$157,702 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
AUTONOMOUS MUNICIPALITY OF DORADO**

MANAGEMENT'S AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 2011-2012.

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
Autonomous Municipality of Dorado
Statement of Net Assets
June 30, 2011**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 7,700,768	\$ 241,204	\$ 7,941,972
Cash with fiscal agent	22,038,353	157,702	22,196,055
Accounts receivable:			
Municipal License tax	51,791		51,791
Intergovernmental	65,521		65,521
Interest	41,841		41,841
Federal grants	173,473		173,473
Others	80,974		80,974
Capital assets			
Land, improvements, and construction in progress	86,059,549	388,790	86,448,339
Other capital assets, net of depreciation	32,880,365	2,256,871	35,137,236
Total capital assets	<u>118,939,914</u>	<u>2,645,661</u>	<u>121,585,575</u>
Total assets	<u>149,092,635</u>	<u>3,044,567</u>	<u>152,137,202</u>
Liabilities			
Accounts payable and accrued liabilities	3,920,455		3,920,455
Bank overdraft	3,016,193		3,016,193
Due to other governmental entities	127,317		127,317
Deferred revenues:			
Municipal license tax	2,441,728		2,441,728
Federal grant revenues	444,622		444,622
Interest payable	750,247		750,247
Noncurrent liabilities:			
Due within one year	3,987,341	130,000	4,117,341
Due in more than one year	51,757,881	624,000	52,381,881
Total liabilities	<u>66,445,784</u>	<u>754,000</u>	<u>67,199,784</u>
Net Assets			
Invested in capital assets, net of related debt	72,200,915	1,891,661	74,092,576
Restricted for:			
Capital projects	21,654,083		21,654,083
Debt service	5,370,674		5,370,674
Other purposes	298,329		298,329
Unrestricted (deficit)	<u>(16,877,150)</u>	<u>398,906</u>	<u>(16,478,244)</u>
Total net assets	<u>\$ 82,646,851</u>	<u>\$ 2,290,567</u>	<u>\$ 84,937,418</u>

**Commonwealth of Puerto Rico
Autonomous Municipality of Dorado
Statement of Activities
For the Year Ended June 30, 2011**

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	\$ 14,789,798	\$ 136,229	\$ 255,293	\$ -	\$ (14,398,276)	\$ -	\$ (14,398,276)
Public safety	1,905,435	22,213	79,267	-	(1,803,955)	-	(1,803,955)
Public works	8,841,142	-	38,340	321,906	(8,480,896)	-	(8,480,896)
Health and welfare	7,711,310	-	6,766,645	-	(944,665)	-	(944,665)
Culture and recreation	2,534,118	-	26,500	2,928	(2,504,690)	-	(2,504,690)
Economic development	87,399	-	79,625	-	(7,774)	-	(7,774)
Community development	533,158	-	988,562	-	455,404	-	455,404
Urban development	2,620	-	2,620	-	-	-	-
Education	3,980	-	-	-	(3,980)	-	(3,980)
Interest on long-term debt	1,699,638	-	-	-	(1,699,638)	-	(1,699,638)
Total governmental activities	\$ 38,108,598	\$ 158,442	\$ 8,236,852	\$ 324,834	(29,388,470)	-	(29,388,470)
Business type activities:							
General government	114,926	195,313	-	-	-	80,387	80,387
Total business type activities	114,926	195,313	-	-	-	80,387	80,387
Total primary government	\$ 38,223,524	353,755	8,236,852	324,834	(29,388,470)	80,387	(29,308,083)
General revenues:							
Property taxes					13,171,993		13,171,993
Municipal license tax					3,623,153		3,623,153
Municipal sales and use tax					2,081,687		2,081,687
Other local taxes					789,399		789,399
Grants and contributions not restricted to specific programs					3,668,817		3,668,817
Interest and investment earnings					508,849		508,849
Miscellaneous					312,627		312,627
Total general revenues and transfers					24,156,525		24,156,525
Change in net assets					(5,231,945)	80,387	(5,151,558)
Net assets - beginning, as restated					87,878,796	2,210,180	90,088,976
Net assets - ending					\$ 82,646,851	\$ 2,290,567	\$ 84,937,418

Commonwealth of Puerto Rico
Autonomous Municipality of Dorado
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Special Revenue Fund Head Start	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	\$ -	\$ 229,508	\$ 1,500,142	\$ 4,562,877	\$ -	\$ 1,408,241	\$ 7,700,768
Cash with fiscal agent	26,148		15,956,805		6,055,400		22,038,353
Accounts receivable:							
Municipal licenses taxes	51,791						51,791
Intergovernmental					65,521		65,521
Interest	41,841						41,841
Federal grants		43,217				130,256	173,473
Others	30,974						30,974
Due from other funds	1,160,192					2,000	1,162,192
Total assets	<u>\$ 1,310,946</u>	<u>\$ 272,725</u>	<u>\$ 17,456,947</u>	<u>\$ 4,562,877</u>	<u>\$ 6,120,921</u>	<u>\$ 1,540,497</u>	<u>\$ 31,264,913</u>
Liabilities and Fund Balances							
Liabilities :							
Accounts payable and accrued liabilities	762,915	48,225	179,913			73,830	1,064,883
Bank overdraft	3,016,193						3,016,193
Due to other governmental entities	127,317						127,317
Due to other funds	2,000	161,000	150,321	35,507		813,364	1,162,192
Deferred revenues:							
Municipal license tax	2,441,728						2,441,728
Federal grant revenues		63,500				381,122	444,622
Total liabilities	<u>6,350,153</u>	<u>272,725</u>	<u>330,234</u>	<u>35,507</u>	<u>-</u>	<u>1,268,316</u>	<u>8,256,935</u>
Fund balances:							
Restricted	52,109		17,126,713	4,527,370	6,120,921	479,760	28,306,873
Unassigned	(5,091,316)					(207,579)	(5,298,895)
Total fund balances	<u>(5,039,207)</u>	<u>-</u>	<u>17,126,713</u>	<u>4,527,370</u>	<u>6,120,921</u>	<u>272,181</u>	<u>23,007,978</u>
Total liabilities and fund balances	<u>\$ 1,310,946</u>	<u>\$ 272,725</u>	<u>\$ 17,456,947</u>	<u>\$ 4,562,877</u>	<u>\$ 6,120,921</u>	<u>\$ 1,540,497</u>	<u>\$ 31,264,913</u>

Commonwealth of Puerto Rico
Autonomous Municipality of Dorado
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Property taxes	\$ 8,527,686	\$ -	\$ -	\$ -	\$ 4,644,307	\$ -	\$ 13,171,993
Municipal license taxes	3,623,153						3,623,153
Municipal sales and use tax	1,544,684				537,003		2,081,687
Licenses, permits and other local taxes	789,399						789,399
Charges for services						21,044	21,044
Intergovernmental	3,924,210		375,435			227,816	4,527,461
Fines and forfeitures	22,213						22,213
Rent of property	115,184						115,184
Interest	422,385						422,385
Federal grants		4,139,397				3,487,382	7,626,779
Miscellaneous	203,080			86,464		181,010	470,554
Total revenues	19,171,994	4,139,397	375,435	86,464	5,181,310	3,917,252	32,871,852
Expenditures							
Current:							
General government	13,644,837		130,320			68,043	13,843,200
Public safety	1,956,731					62,089	2,018,820
Public works	8,185,192		4,834,604			126,665	13,146,461
Health and welfare		4,509,685	163,105			3,025,705	7,698,495
Culture and recreation	654,173		1,240,878			44,144	1,939,195
Economic development						69,758	69,758
Community development					1,216	562,900	564,116
Urban development						2,620	2,620
Debt service:							
Principal					2,723,000		2,723,000
Interest					1,602,320		1,602,320
Total expenditures	24,440,933	4,509,685	6,368,907	1,216	4,325,320	3,961,924	43,607,985
Excess (deficiency) of revenues over (under) expenditures	(5,268,939)	(370,288)	(5,993,472)	85,248	855,990	(44,672)	(10,736,133)
Other financing sources (uses)							
Transfers in	7,944	378,232	13,616	457,771	618,336	373,515	1,849,414
Transfers out	(808,633)	(7,944)		(559,109)		(473,728)	(1,849,414)
Long-term debt issued			6,490,000				6,490,000
Total other financing sources (uses)	(800,689)	370,288	6,503,616	(101,338)	618,336	(100,213)	6,490,000
Net change in fund balances	(6,069,628)	-	510,144	(16,090)	1,474,326	(144,885)	(4,246,133)
Fund balance, beginning as restated	1,030,421	-	16,616,569	4,543,460	4,646,595	417,066	27,254,111
Fund balance, ending	<u>\$ (5,039,207)</u>	<u>\$ -</u>	<u>\$ 17,126,713</u>	<u>\$ 4,527,370</u>	<u>\$ 6,120,921</u>	<u>\$ 272,181</u>	<u>\$ 23,007,978</u>

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**Commonwealth of Puerto Rico
Autonomous Municipality of Dorado
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
For the Year Ended June 30, 2011**

Total Fund Balances - Governmental Funds \$ 23,007,978

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

Non depreciable capital assets	\$ 86,059,549	
Depreciable capital assets	55,798,140	
Accumulated depreciation	<u>(22,917,775)</u>	
Total capital assets		118,939,914

Some of the Municipality's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds:

Construction Excise Tax	50,000
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Accounts payable accumulated according to the accrual basis of accounting. In the current period those accounts payable amount to:	(2,855,572)
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Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General bonds and notes payable	49,780,000	
LIMS repayment plan	48,588	
Property taxes debt - Law 146	249,556	
Property taxes debt - Law 42	232,482	
Compensated absences	3,046,741	
Claims and judgments	435,000	
Repayment plan	82,472	
Landfill obligation	<u>1,870,383</u>	
Total long-term liabilities		(55,745,222)

Accrued interest payable are not due and payable in the current period and therefore, are not reported in the funds. Those interest payable amount to:	<u>(750,247)</u>
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Total Net Assets of Governmental Activities	\$ <u><u>82,646,851</u></u>
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**Commonwealth of Puerto Rico
Autonomous 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, 2011**

Net Change in Fund Balances - Total Governmental Funds	\$ (4,246,133)
Amounts reported for governmental activities in the Statement of Activities are different because:	
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.	7,200,246
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,	4,801
Governmental Funds report capital assets sold as revenues. However, in the Government-Wide Statement of Activities and Changes in Net Assets, Disposal of capital assets require removal of cost of the capital assets from the capital assets account on the Government-Wide Statement of Net Assets.	(1,290)
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.	(1,945,915)
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.	(97,317)
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.	(1,954,345)
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.	(1,077,947)
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.	652,955
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	(3,767,000)
Change in Net Assets of Governmental Activities	\$ (5,231,945)

Commonwealth of Puerto Rico
Autonomous Municipality of Dorado
Statement of Net Assets
Proprietary Fund-Business Type Activity-Enterprise Fund
Year Ended June 30, 2011

	<u>Business Type Activity Enterprise</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 241,204
Cash with fiscal agent	<u>157,702</u>
Total current assets	<u>398,906</u>
Noncurrent Assets:	
Capital Assets:	
Property, and equipment:	
Land	388,790
Building	3,582,858
Accumulated depreciation	<u>(1,325,987)</u>
Total non-current assets	<u>2,645,661</u>
Total assets	<u>3,044,567</u>
Liabilities:	
Non-current liabilities:	
Due within one year	130,000
Due in more than one year	<u>624,000</u>
Total current liabilities	<u>754,000</u>
Total liabilities	<u>754,000</u>
Net Assets	
Invested in Capital Assets, net of related debt	1,891,661
Unrestricted	<u>398,906</u>
Total Net Assets	<u><u>\$ 2,290,567</u></u>

Commonwealth of Puerto Rico
Autonomous Municipality of Dorado
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund-Business Type Activity-Enterprise Fund
Year Ended June 30, 2011

	Business - Type Activities Enterprise
Operating revenues:	
Charges for services	<u>\$ 195,313</u>
Total operating revenues	<u>195,313</u>
 Operating expenses:	
Operations and maintenance	25,354
Depreciation and amortization	<u>89,572</u>
Total operating expenditures	<u>114,926</u>
Operating income (Loss)	80,387
 Change in Net Assets	
Total net assets-beginning	<u>2,210,180</u>
Total net assets-ending	<u><u>\$ 2,290,567</u></u>

Commonwealth of Puerto Rico
Autonomous Municipality of Dorado
Statement of Cash Flows
Proprietary Fund-Business Type Activity-Enterprise Fund
Year Ended June 30, 2011

Cash Flows from Operating Activities:

Receipts from Customers	\$ 195,313
Payment to Suppliers	(25,354)
	169,959
Net Cash Provided (Used) by Operating Activities	169,959

Cash Flows from Capital and Related Financing Activities:

Issuance of Revenue Bond	754,000
Repayment of Revenue Bond	(727,286)
	26,714
Net Cash Provided (Used) in Capital and Related Financing Activities	26,714
Net Decrease in Cash and Cash with Fiscal Agent, Restricted	196,673
Cash and Cash with Fiscal Agent at Beginning of Period, Restricted	202,233
Cash and Cash with Fiscal Agent at End of Period, Restricted	\$ 398,906

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

Operating Income (Loss)	\$ 80,387
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	89,572
	89,572
Total Adjustments	89,572
Net Cash Provided (Used) by Operating Activities	\$ 169,959
Noncash investing, capital and financing activities:	none

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous 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.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

The following is a summary of the significant accounting policies of the Municipality:

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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

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.

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. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying GFFS:

General Fund - is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Special Revenue Fund-Head Start – is a major governmental fund used to account for and report the proceeds of revenues from Head Start, Early Head Start and Child and Adult Care Food Program grants. The uses and limitations of this special revenue fund are specified by federal and local statutes. The objective of the Head Start program is to promote the school readiness of low-income pre-school children (ages 3 to 5).

Capital Projects Funds-State and local grants – is a major governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

Capital Projects Funds-Federal grant – is a major governmental fund used to account for and report financial resources that are restricted to expenditure for capital outlays, including the acquisition or construction of major capital facilities. The use of the capital projects funds has been limited to major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities.

Debt Service Fund – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

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:

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

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.

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 if which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

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

Governmental Fund Types:

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

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

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 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.

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

Capital Projects Funds - State and Local 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.

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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

D. Measurement focus, basis of accounting and financial presentation

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements, that are imposed by the provider, have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Government Fund Financial Statements – The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2011. At June 30, 2011, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

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 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

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. Deferred revenues- In the GFFS, deferred revenues arises when one of the following situations occur:

- a. Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2011 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

6. 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
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

- 7. 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.

- 8. 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.

- 9. Fund Balances-** In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. *Restricted* – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- b. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2011.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

10. Net Assets - Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

In the government-wide statements, net assets are segregated into three categories:

- a. *Invested in capital assets, net of related debt*: Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. *Restricted net assets*: Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. *Unrestricted net assets*: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

11. Accounting for Pension Costs- On July 1, 2007, the Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, the state Government of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing define benefit pension plan and a hybrid defined contribution plan, respectively, in 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 Government of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government of Puerto Rico.

12. Interfund and intra-entity transactions- The Municipality has the following types of transactions among funds:

- a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

13. 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, 2011 amounted to \$345,384. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the automobile accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2011 amounted to \$450,464.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

14. Use of Estimates- The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual amounts could differ from those estimates.

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, 2011.

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, 2011, (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, 2011, 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, 2011, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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 \$250,000 per depositor.

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, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 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, 2011.

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).

Deposits – The Municipality's bank balances in commercial banks of \$229,508, \$1,500,142, and \$4,562,877, in the head start, capital projects fund – local and state grants, and capital projects fund – federal grants, respectively, were fully collateralized at June 30, 2011. In the other governmental funds there were deposits with commercial banks of \$1,408,241 that were fully collateralized.

The deposits at GDB of \$15,956,805 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 \$6,055,400 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. RECEIVABLES

A. *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 24 of each year.

Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2011, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable of \$51,791 represents filed municipal license tax returns that were uncollected as of June 30, 2011, net of allowance for uncollectible accounts.

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

B. *Intergovernmental Receivables* - Intergovernmental receivable in debt service fund represents property tax receivable at June 30, 2011. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	<u>\$65,521</u>
Total	<u>\$65,521</u>

C. *Federal grants receivables*- Federal Grant receivable in Head Start fund 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>
Early Head Start Program	<u>\$ 43,217</u>
Total	<u>\$ 43,217</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. RECEIVABLES (CONTINUED)

D. 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
Community Services Block Grant	31,644
Community Development Block Grants/ State's Program	23,168
Emergency Management Performance Grant-Homeland Security	36,375
Others	<u>11,069</u>
Total	<u>\$130,256</u>

E. Other Receivable- Other receivable of \$30,974 in the general fund represents accounts receivable at June 30, 2011, related to construction excise tax \$12,784, fines \$2,705 and rent of \$15,485.

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2011, and interfund transfers during the fiscal year ended at June 30, 2011, 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	\$ 813,364
General Fund	Head Start Program Fund	Reimbursable expenditures	161,000
General Fund	Capital Projects Fund-State & Local Funds	Reimbursable expenditures	150,321
General Fund	Capital Projects Fund- Federal Grants	Reimbursable expenditures	35,507
Other Governmental Funds	General Fund	Matching Contribution	<u>2,000</u>
Total			<u>\$ 1,162,192</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

4. INTERFUND TRANSACTIONS (CONTINUED)

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Head Start Program Fund	Matching Contribution	\$ 378,000
General Fund	Other Governmental Fund	Matching Contribution	366,996
General Fund	Debt Service Fund	Debt retirement	63,637
Others Governmental Funds	Others Governmental Funds	Transfer of funds for special purpose	2,109
Capital Projects Fund- Federal Grants	Others Governmental Funds	Transfer of funds for special purpose	4,410
Head Start Program Fund	General Fund	Expenditure reclassification to the correct fund	7,944
Other Governmental Funds	Capital Projects Fund - State and Local Grants	Transfer of funds for special purpose	13,616
Other Governmental Funds	Head Start Program Fund	Expenditure reclassification to the correct fund	232
Other Governmental Funds	Capital Projects Fund- Federal Grants	Transfer of funds for special purpose	457,771
Capital Projects Fund- Federal Grants	Debt Service	Debt Retirement	<u>554,699</u>
Total			<u>\$ 1,849,414</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 2011, 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 June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
Capital asset, not being depreciated:				
Land	\$ 65,725,630	\$ 139,100	\$ -	\$ 65,864,730
Construction in progress	<u>16,654,385</u>	<u>5,701,031</u>	<u>(2,160,597)</u>	<u>20,194,819</u>
Total capital assets not being depreciated	<u>82,380,015</u>	<u>5,840,131</u>	<u>(2,160,597)</u>	<u>86,059,549</u>
Capital assets, being depreciated:				
Buildings	13,673,764	20,850	-	13,694,614
Buildings improvements	11,571,001	1,541,906	-	13,112,907
Infrastructure	10,644,176	1,007,313	-	11,651,489
Infrastructure improvements	4,725,763	492,887	-	5,218,650
Equipment	3,715,014	69,115	(15,682)	3,768,447
Furnishing	468,838	9,682	(2,034)	476,486
Work of Arts	302,125	4,800	-	306,925
Computers	506,719	26,352	(14,898)	518,173
Vehicles	<u>7,000,802</u>	<u>352,608</u>	<u>(302,961)</u>	<u>7,050,449</u>
Total capital assets being depreciated	<u>52,608,202</u>	<u>3,525,513</u>	<u>(335,575)</u>	<u>55,798,140</u>
Less accumulated depreciation for:				
Buildings	(6,097,680)	(342,105)	-	(6,439,785)
Buildings improvements	(889,987)	(326,555)	-	(1,216,542)
Infrastructure	(3,288,965)	(208,378)	-	(3,497,343)
Infrastructure improvements	(826,467)	(344,005)	-	(1,170,472)
Equipment	(2,959,894)	(277,322)	14,875	(3,222,341)
Furnishing	(363,361)	(40,250)	1,832	(401,779)
Computers	(425,534)	(52,916)	14,857	(463,593)
Work of Arts	(59,566)	(29,492)	-	(89,058)
Vehicles	<u>(6,394,691)</u>	<u>(324,892)</u>	<u>302,721</u>	<u>(6,416,862)</u>
Total accumulated depreciation	<u>(21,306,145)</u>	<u>(1,945,915)</u>	<u>334,285</u>	<u>(22,917,775)</u>
Total capital assets being depreciated, net	<u>31,302,057</u>	<u>1,579,598</u>	<u>(1,290)</u>	<u>32,880,365</u>
Governmental activities capital assets, net	<u>\$ 113,682,072</u>	<u>\$ 7,419,729</u>	<u>\$ (2,161,887)</u>	<u>\$ 118,939,914</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 557,543
Public safety	118,447
Public works	660,775
Health and welfare	14,505
Education	3,980
Economic development	91,145
Culture and recreation	269,735
Community development	<u>229,785</u>
Total depreciation expense-governmental activities	<u>\$ 1,945,915</u>

<u>Business – type activities</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</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>(1,236,415)</u>	<u>(89,572)</u>	<u>-</u>	<u>(1,325,987)</u>
Total accumulated depreciation	<u>(1,236,415)</u>	<u>(89,572)</u>	<u>-</u>	<u>(1,325,987)</u>
Total capital assets being depreciated, net	<u>2,346,443</u>	<u>(89,572)</u>	<u>-</u>	<u>2,256,871</u>
Business - type Activities capital assets, net	<u>\$ 2,735,233</u>	<u>\$ (89,572)</u>	<u>\$ -</u>	<u>\$ 2,645,661</u>

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

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable, bank overdraft, and accrued liabilities at June 30, 2011 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Head Start Fund</u>	<u>Capital Projects Fund – State & Local Grants</u>	<u>Capital Projects Fund – Federal Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 572,293	\$ 48,225	\$ 179,913	\$ -	\$ -	\$ 73,830	\$ 874,261
Bank overdraft	3,016,193						3,016,193
Accrued liabilities	<u>190,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,622</u>
Total	<u>\$ 3,779,108</u>	<u>\$ 48,225</u>	<u>\$ 179,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,830</u>	<u>\$ 4,081,076</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	\$ 125,667
General Services Administration	<u>1,650</u>
Total	<u>\$ 127,317</u>

8. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$2,441,728 in the general fund relates to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.

B. Federal Government- The deferred revenues presented in Head Start Program Fund 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 ARRA	\$ 10
Head Start Program	50,854
Child and Adult Care Food Program	<u>12,636</u>
Total	<u>\$ 63,500</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. DEFERRED REVENUES (CONTINUED)

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

<u>Program Description</u>	<u>Amount</u>
Housing Opportunities for Persons with AIDS	\$ 12,001
Repayment Section 108 Loan	45,997
Emergency Management Performance Grant	42,064
Special Program for Aging Title III	55,608
Homelessness Prevention and Rapid Re-Housing-ARRA	23,642
Emergency Shelter Grant	20,000
Department Energy Germantown ASAP	141,676
Other Programs	<u>40,134</u>
Total	<u>\$ 381,122</u>

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, as modified by the quarterly revisions of estimates required law. The CRIM is required by law to prepare a liquidation 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 preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. 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. At the date of this report, the Final Liquidation has not been issued by the CRIM.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

9. PROPERTY TAXES (CONTINUED)

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.

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 \$232,482 and \$249,556 related to Law No. 42 and Law 146 respectively.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

9. PROPERTY TAXES (CONTINUED)

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.

10. MUNICIPAL SALES AND USE TAX

On July 29, 2007, an amendment 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 for an optional surtax on the unprocessed food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create, the Municipal Development Fund (.02%), the Municipal Redemption Fund (.02%), and the Municipal Improvement Fund (.01%) with the remaining 0.05%. The Municipality collected \$1,544,684 during the year ended June 30, 2011. Also, \$537,003 from the Municipal Redemption Fund are included in the Debt Service Fund.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions and Adjustment</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$36,927,000	\$6,764,000	\$(1,777,000)	\$41,914,000	\$2,278,000
Notes Payable	9,086,000	480,000	(946,000)	8,620,000	996,000
Property Tax Debt-Law 146	261,440		(11,884)	249,556	11,884
Property Tax Debt - Law 42	237,560		(5,078)	232,482	5,397
LIMS Repayment Plan	141,591		(93,003)	48,588	48,588
Compensated Absences	2,974,919	492,947	(421,125)	3,046,741	295,000
Claims and Judgments	150,000	285,000		435,000	400,000
Department of Labor Repayment Plan	195,958		(113,486)	82,472	82,472
Landfill obligation	1,578,762	300,000	(8,379)	1,870,383	
Total	<u>\$51,553,230</u>	<u>\$8,321,947</u>	<u>\$(3,375,955)</u>	<u>\$56,499,222</u>	<u>\$4,117,341</u>

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, 2011 are as follows:

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. LONG-TERM LIABILITIES (CONTINUED)

<u>Description</u>	<u>Balance at June 30, 2011</u>
1995-Public improvement bond for infrastructure improvements with an original amount of \$2,750,000 due in installments of \$220,000 to \$280,000 through July 1, 2015	\$ 995,000
1997 Special obligation bond for infrastructure improvements with an original amount of \$290,000 due in installments of \$20,000 to \$25,000 through July 1, 2016	110,000
1997 Special obligation bond for infrastructure improvements with an original amount of \$110,000 due in installments of \$5,000 to \$10,000 through July 1, 2016	35,000
1998 General obligation bond for capital asset improvements with an original amount of \$1,065,000 due in installments of \$105,000 to \$115,000 through July 1, 2013	220,000
1999 General obligation bond for infrastructure improvements with an original amount of \$3,675,000 due in installments of \$335,000 to \$390,000 through July 1, 2014	1,085,000
2000 General obligation bond for infrastructure improvements with an original amount of \$65,000 due in installments of \$5,000 through July 1, 2014	15,000
2000 General obligation bond for infrastructure improvements with an original amount of \$1,500,000 due in installments of \$70,000 to 145,000 through July 1, 2021	1,025,000
2001 General obligation bond for infrastructure improvements with an original amount of \$310,000 due in installments of \$10,000 to \$30,000 through July 1, 2026	250,000
2002 General obligation bond for infrastructure improvements with an original amount of \$2,850,000 due in installments of \$80,000 to \$250,000 through July 1, 2027	2,370,000
2004 General obligation bond for operational expenses with an original amount of \$550,000 due in installments of \$15,000 to \$40,000 through July 1, 2029	470,000
2004 General obligation bond for infrastructure improvements with an original amount of \$3,150,000 due in installments of \$135,000 to \$240,000 through July 1, 2024	2,385,000
2004 General obligation bond for infrastructure improvements with an original amount of \$115,000 due in installments of \$5,000 to \$10,000 through July 1, 2024	80,000

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. LONG-TERM LIABILITIES (CONTINUED)

<u>Description</u>	<u>Balance at June 30, 2011</u>
2004 General obligation bond for infrastructure improvements with an original amount of \$1,860,000 due in installments of \$80,000 to \$145,000 through July 1, 2024	1,405,000
2005 General obligation bond for operational expenses-housing rehabilitation with an original amount of \$50,000 due in installments of \$5,000 through July 1, 2015	20,000
2005 General obligation bond for infrastructure improvements with an original amount of \$945,000 due in installments of \$60,000 to \$85,000 through July 1, 2020	650,000
2005 General obligation bond for infrastructure improvements with an original amount of \$5,825,000 due in installments of \$360,000 to \$535,000 through July 1, 2020	3,990,000
2006 Special obligation bond for property acquisition with an original amount of \$532,000 due in installments of \$13,000 to \$42,000 through July 1, 2030	468,000
2007 Special obligation bond for Infrastructure improvement with an original amount of \$1,645,000 due in installments of \$85,000 to \$175,000 through July 1, 2022	1,360,000
2008 General obligation bond for infrastructure improvements with an original amount of \$3,650,000 due in installments of \$65,000 to \$305,000 through July 1, 2033	3,480,000
2008 General obligation bond for infrastructure improvements with an original amount of \$220,000 due in installments of \$20,000 to \$30,000 through July 1, 2018	170,000
2008 General obligation bond for infrastructure improvements with an original amount of \$370,000 due in installments of \$5,000 to \$35,000 through July 1, 2033	355,000
2008 General obligation bond for infrastructure improvements with an original amount of \$3,265,000 due in installments of \$60,000 to \$270,000 through July 1, 2033	3,110,000
2008 Special obligation bond for infrastructure improvements with an original amount of \$3,720,000 due in installments of \$75,000 to \$310,000 through July 1, 2032	3,595,000
2009 General obligation bond for infrastructure improvements with an original amount of \$3,395,000 due in installments of \$90,000 to \$310,000 through July 1, 2029	3,230,000
2009 Special obligation bond for infrastructure improvements with an original amount of \$930,000 due in installments of \$25,000 to \$85,000 through July 1, 2028	895,000
2010 General obligation bond for infrastructure improvements with an original amount of \$1,820,000 due in installments of \$40,000 to \$155,000 through July 1, 2032	1,790,000

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. LONG-TERM LIABILITIES (CONTINUED)

<u>Description</u>	<u>Balance at June 30, 2011</u>
2010 General obligation bond for infrastructure improvements with an original amount of \$1,095,000 due in installments of \$20,000 to \$90,000 through July 1, 2035	1,080,000
2010 Special obligation bond for infrastructure improvements with an original amount of \$537,000 due in installments of \$30,000 to \$62,000 through July 1, 2022	512,000
2011 General obligation bond for infrastructure improvements with an original amount of \$1,900,000 due in installments of \$30,000 to \$160,000 through July 1, 2036	1,900,000
2011 General obligation bond for infrastructure improvements with an original amount of \$3,305,000 due in installments of \$60,000 to \$290,000 through July 1, 2033	3,305,000
2011 Special obligation bond for infrastructure improvements with an original amount of \$754,000 due in installments of \$130,000 to \$174,000 through July 1, 2016	754,000
2011 General obligation bond for infrastructure improvements with an original amount of \$805,000 due in installments of \$30,000 to \$85,000 through July 1, 2025	<u>805,000</u>
Total general obligation bonds	<u>\$ 41,914,000</u>

These bonds, except the 1997 Series bonds for \$110,000 and \$290,000, 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. The 2011 Series bonds amounting to \$754,000 is payable by the self-generated revenues from the "Pabellón Rafael Hernández" charges for services. The 2008 Series bond amounting to \$3,720,000, the 2009 bond for \$930,000, the 2010 Series bond for \$537,000, and the 2011 Series bond amounting \$805,000 are payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 2,278,000	\$ 1,656,916
2013	2,424,000	2,379,205
2014	2,480,000	2,246,589
2015	2,251,000	2,127,440
2016	2,061,000	2,019,957
2017-2021	10,567,000	8,261,372
2022-2026	8,748,000	5,237,523
2027-2031	7,605,000	2,465,672
2032-2036	3,500,000	348,700
Total Bonds Payable	<u>\$ 41,914,000</u>	<u>\$ 26,743,374</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. LONG-TERM LIABILITIES (CONTINUED)

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 \$480,000. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2011</u>
2005 Series	7-1-2012	1,190,000	4.62%	\$ 195,000
2005 Series	7-1-2013	345,000	6% to 7%	115,000
2007 Series	7-1-2014	480,000	1.551% to 6%	240,000
2008 Series	7-1-2015	230,000	1.551% to 6%	150,000
2008 Series	7-1-2013	245,000	1.551% to 6%	110,000
Section 108 Series 2008 A	7-1-2028	5,500,000	5.11%	5,194,000
2008 Series	7-1-2015	925,000	1.551% to 6%	585,000
2009 Series	7-1-2014	125,000	1.551% to 5%	80,000
2009 Series	7-1-2033	1,141,000	5% to 6.50%	1,106,000
2010 Series	7-1-2017	345,000	4.62% to 4.73%	305,000
2010 Series	7-1-2017	65,000	5% to 7%	60,000
2011 Series	7-1-2018	480,000	6% to 7.50%	480,000
Total notes payable				\$ 8,620,000

This notes, except the 2009 and 2011 Series 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. The Series 2009, amounting 1,141,000, and the 2011 Series amounting to \$480,000 are payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 996,000	\$ 331,095
2013	836,000	386,552
2014	756,000	346,983
2015	666,000	308,654
2016	471,000	278,107
2017-2021	1,925,000	1,055,712
2022-2026	1,765,000	597,837
2027-2031	929,000	177,981
2032-2036	276,000	28,275
Total	\$ 8,620,000	\$ 3,511,196

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. LONG-TERM LIABILITIES (CONTINUED)

- 4. 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 \$746,093 is to be retained in a ten years period at an interest rate of 5.95%, until November 28, 2011. At June 30, 2011, the outstanding debt balance is \$48,588. This amount is presented in the government-wide financial statements.
- 5. Compensated absences-** The government-wide statement of net assets includes \$1,897,003 of accrued sick leave benefits, and approximately \$1,149,738 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- 6. Claims and Judgments –** This amount represents the balance related to legal claims at June 30, 2011, as described in Note 15.
- 7. Department of Labor Repayment Plan-** This amount relates to an unemployment insurance debt. The Municipality agrees to repay the total of \$435,310 including interests, by an agreement signed in December, 2005. In this agreement, the Municipality accepted the debt for the total of \$212,857 and requests a payment plan to liquidate the debt in 210 monthly payments. As of June 30, 2011, the debt balance amounted to \$82,472.
- 8. 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. Amounts paid to contractors, related to closing costs prior to the current fiscal year totaled \$957,886. During 2010-2011 a total of \$8,379 were paid to others suppliers related to closing cost. Based on this, the Municipality has recognized \$20,383 as the Municipality's estimated current cost for landfill closure as of June 30, 2011. The preliminary annual estimate of post closure costs has been adjusted to approximately \$1,850,000 for a period of approximately 25 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2011, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$20,383 and \$1,850,000, respectively, are reported in the government-wide statement of net assets.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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.

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

12. PENSION PLAN (CONTINUED)

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

If at the time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state and municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600 8.275% of gross salary over \$6,600
Hired on or before April 1, 1990	8.275% of gross salary

Annual Contribution

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

12. PENSION PLAN (CONTINUED)

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
2011	\$ 369,640	\$ 267,730
2010	\$ 376,666	\$ 257,349
2009	\$ 390,603	\$ 235,807

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940-2003.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

13. FUND BALANCE (DEFICIT)

As of June 30 2011, fund balance (deficit) is comprised of the following:

Fund Balance (Deficit)	General Fund	Special Revenue Fund-Head Start	Capital Projects State & Local Grants	Capital Projects Fund-Federal Grants	Debt Service Fund	Other Governmental Funds	Total
Restricted for:							
General Government	\$ 26,148	\$ -	\$ 125,538	\$ -	\$ -	\$ -	\$ 151,686
Culture and Recreation			4,585				4,585
Health and Welfare			77,559			479,760	557,319
Public Safety	25,961						25,961
Capital Projects			16,919,031				16,919,031
Debt Service					6,120,921		6,120,921
Urban Development				4,527,370			4,527,370
Unassigned	<u>(5,091,316)</u>					<u>(207,579)</u>	<u>(5,298,895)</u>
Total Fund Balance (Deficit)	<u>\$ (5,039,207)</u>	<u>\$ -</u>	<u>\$ 17,126,713</u>	<u>\$ 4,527,370</u>	<u>\$ 6,120,921</u>	<u>\$ 272,181</u>	<u>\$ 23,007,978</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

14. 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.

15. COMMITMENTS AND CONTINGENCIES

a. Claims and lawsuits:

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 \$435,000 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.

b. Federal Grants:

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.

c. Other Commitments:

At June 30, 2011 the general fund had commitments of approximately \$742,000 for executory purchase orders or contracts that will be honored during the subsequent year.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2011:

- a. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this statement are effective for the fiscal year commencing on July 1, 2011.
- b. GASB Statement No. 61, *The Financial Reporting Entity* (GASB 61). The requirements of this statement are effective for the fiscal year commencing after June 15, 2012.
- c. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements* (GASB 62). The requirements of this statement are effective for the fiscal year commencing on July 1, 2012.
- d. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- e. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision (amendment to GASB Statement No. 53)*. The requirements of this statement are effective for the fiscal year commencing on June 15, 2011.

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

17. 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	Special Revenue Fund – State & Local Grants	Capital Projects Fund – State & Local Grants	Capital Projects Fund – Federal Grants	Debt Service Fund	Other Governmental Fund	Total
Fund balance, beginning	\$1,030,421	(\$ 202,095)	\$ 16,616,569	\$ 4,543,460	\$ 4,646,595	\$ 603,224	\$27,238,174
To correct prior year deferred revenue HUD Program	-	15,937	-	-	-	-	15,937
Fund balance, beginning as restated	<u>\$1,030,421</u>	<u>(\$ 186,158)</u>	<u>\$ 16,616,569</u>	<u>\$ 4,543,460</u>	<u>\$ 4,646,595</u>	<u>\$ 603,224</u>	<u>\$27,254,111</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

17. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

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:

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net assets, beginning	\$ 87,862,859	\$ 2,190,252	\$ 90,053,111
To correct balance of interest payable due after Cancellation of commercial loan		19,928	19,928
To correct prior year deferred revenue HUD Program	<u>15,937</u>	<u>-</u>	<u>15,937</u>
Net assets, beginning as restated	<u>\$ 87,878,796</u>	<u>\$ 2,210,180</u>	<u>\$ 90,088,976</u>

18. SUBSEQUENT EVENTS

Act No. 94 issued on June 16, 2011 by the Legislature established an incentive plan for the payment of real and personal property tax dues, beginning on July 14, 2011. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interests of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit is for exactly ninety (90) days beginning on July 14 through October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal year 2009-2010 and earlier (for real property taxes) and for 2008 and earlier for personal property tax.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

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

YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis) (See Note 1)	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 9,024,340	\$ 9,024,340	\$ 8,849,339	\$ (175,001)
Municipal license tax	4,125,250	4,125,250	3,572,553	(552,697)
Municipal sales and use tax	1,204,000	1,204,000	1,357,860	153,860
Licenses, permits and other local taxes	1,420,000	1,420,000	821,493	(598,507)
Intergovernmental	3,216,267	3,947,163	3,726,544	(220,619)
Rent of property	125,000	125,000	114,694	(10,306)
Fines and forfeitures	30,000	30,000	40,817	10,817
Interest	535,000	535,000	414,510	(120,490)
Miscellaneous	<u>1,310,000</u>	<u>1,310,000</u>	<u>203,080</u>	<u>(1,106,920)</u>
Total revenues	<u>20,989,857</u>	<u>21,720,753</u>	<u>19,100,890</u>	<u>(2,619,863)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	11,769,504	10,103,308	13,649,527	(3,546,219)
Public safety	2,185,520	1,977,160	1,731,255	245,905
Public works	6,363,565	8,139,059	7,927,605	211,454
Culture and recreation	671,268	692,593	643,463	49,130
Operating transfer to other fund	<u>-</u>	<u>808,633</u>	<u>808,633</u>	<u>-</u>
Total expenditures, encumbrances and other financing uses	<u>20,989,857</u>	<u>21,720,753</u>	<u>24,760,483</u>	<u>(3,039,730)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,659,593)</u>	<u>\$ (5,659,593)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$19,100,890
Differences-budget to USGAAP:				
Non-budgeted transfer in				7,944
USGAAP adjustment to revenues				<u>71,104</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 19,179,938</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 24,760,483
Differences-budget to USGAAP:				
Nonbudgeted expenditures				197,667
Prior year encumbrances recorded as current year expenditures for USGAAP basis				778,271
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(486,855)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 25,249,566</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

YEAR ENDED JUNE 30, 2011

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, 2011 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2011.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 181,736
Total U.S. Department of Agriculture			181,736
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Community Development Block Grant - Section 108 Loan Guarantees	14.248	Not Available	53,760
Section 8 Housing Choice Voucher Program	14.871		1,875,796
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	01-FD-22 02-FC-22 02-AB-22 03-AB22 03-FC-22 04-AB-002 04-FC-002 04-FC-004	506,772
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	21,796
Pass-through the Commonwealth of Puerto Rico Family Department:			
Homelessness Prevention and Rapid Re- Housing Program (Recovery Act funded)	14.257	Not Available	317,236

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2011

<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>
Total U.S. Department of Housing and Urban Development			<u>2,775,360</u>
U.S DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Prevention Grant	16.548	Not Available	<u>18,411</u>
Total U.S. Department of Justice			<u>18,411</u>
U.S DEPARTMENT OF TRANSPORTATION:			
Pass-through the PR Highway Administration:			
Federal Transit Administration- Capital Investment Grants	20.500		<u>2,619</u>
Total U.S. Department of Transportation			<u>2,619</u>
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Governor's Office (OGAVE) (Cluster of Programs)			
Special Programs for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	115,957
Nutrition Services Incentives Program	93.053	Not Available	59,745

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2011

<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 HEALTH AND HUMAN SERVICES: (CONTINUED)			
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Community Service Block Grant	93.569	Not Available	31,814
ARRA-Child Care and Development Block Grant	93.575	Not Available	3,584
<i>Head Start Cluster:</i>			
Direct Program:			
ARRA-Early Head Start	93.709	Not Available	1,248,709
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Head Start Program	93.600	02-CH-0483-39	2,542,443
ARRA-Head Start	93.708	Not Available	<u>158,797</u>
Total U.S. Department of Health and Human Services			<u>4,161,049</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Hazard Mitigation Grant	97.039		37,577
Homeland Security Grant Program	97.067		<u>19,928</u>
Total U.S. Department of Homeland Security			<u>57,505</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,196,680</u>

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

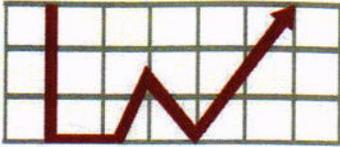
a. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Autonomous 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	Special Revenue Fund Head Start	Capital Projects Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 4,131,685	\$ 1,216	\$ 3,063,779	\$ 7,196,680
Non - federal programs Expenditures	378,000	-	898,145	1,276,145
Total expenditures in the basic financial statements	<u>\$ 4,509,685</u>	<u>\$ 1,216</u>	<u>\$ 3,961,924</u>	<u>\$ 8,472,825</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
Autonomous Municipality of Dorado
Dorado, Puerto Rico**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Dorado, Puerto Rico**, as of and for the year ended June 30, 2011, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 23, 2011. 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 **Autonomous Municipality of Dorado's** internal control over financial reporting as a basis for designing our 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 **Autonomous Municipality of Dorado's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Dorado's** internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item **11-01**. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Autonomous 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 **Autonomous Municipality of Dorado** in a separate letter dated December 23, 2011.

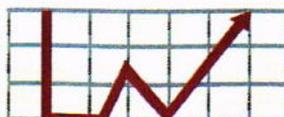
The **Autonomous Municipality of Dorado's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Autonomous Municipality of Dorado's** response and, accordingly, we express no opinion on it.

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
LOPEZ-VEGA, CPA, PSC

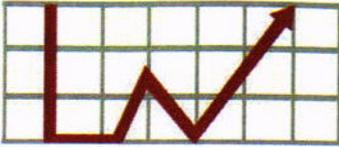
San Juan, Puerto Rico
December 23, 2011

Stamp No. 2575543 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



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- American Institute of Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the **Autonomous Municipality of Dorado's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Autonomous Municipality of Dorado's** major federal programs for the year ended June 30, 2011. The **Autonomous 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 **Autonomous Municipality of Dorado's** management. Our responsibility is to express an opinion on the **Autonomous 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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 **Autonomous 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 of the **Autonomous Municipality of Dorado's** compliance with those requirements.

As described in items **11-08** through **11-10** in the accompanying schedule of findings and questions costs, the **Autonomous Municipality of Dorado** did not comply with requirements regarding **Matching, Level of Effort, Earmarking** and **Reporting** that are applicable to its **Head Start Program Cluster (Head Start CFDA 93.600, ARRA-Head Start CFDA-93.708 & ARRA-Early Head Start)**. Compliance with such requirements is necessary, in our opinion, for the **Autonomous Municipality of Dorado** to comply with the requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

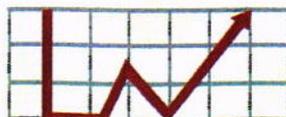
In our opinion, except for the noncompliance described in the preceding paragraph, the **Autonomous Municipality of Dorado** complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other 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 **11-02** through **11-07**.

Internal Control Over Compliance

Management of the **Autonomous Municipality of Dorado** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Autonomous Municipality of Dorado's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 **Autonomous 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **11-08** through **11-10** to be material weaknesses.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **11-02** through **11-07** to be significant deficiencies.

The **Autonomous 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 **Autonomous Municipality of Dorado's** responses and, accordingly, we express no opinion on the responses.

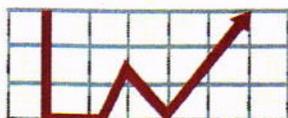
We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Autonomous Municipality of Dorado** in a separate letter dated March 16, 2012.

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
March 16, 2012

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**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2011

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 X	No
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, except for Qualified for Head Start Cluster (Head Start Program CFDA 93.600, ARRA-Head Start CFDA 93.708 & ARRA-Early Head Start CFDA 93.709)
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant - State Program
14.257	Homelessness Prevention and Rapid Re-Housing Program-ARRA
14.871	Section 8 Housing Choice Voucher Program
	Head Start Cluster:
93.600	Head Start Program
93.708	ARRA-Head Start
93.709	ARRA-Early Head Start

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section II – Financial Statements Findings

Finding Reference **11-01**

Requirement **Financial Reporting – Accounting Records**

Statement of Condition During our examination of the Municipality’s accounting system, we noted that the Municipality’s accounting records for its Local, State and Federal Funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce government-wide financial statements. The computerized system authorized by the Office of the Commissioner of Municipal Affairs (OCAM) and manual systems maintained by the finance department personnel, do not provide adequate and effective financial information to generate the basic financial statements since the account balances were affected by accounting errors in the first years of the system operations.

Therefore, the Municipality hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and State Act 81.

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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section II - Financial Statements Findings

Finding Reference **11-01 (Continued)**

Questioned Costs None

**Management Response
And Corrective Action**

The Commissioner of Municipal Affairs ("OCAM"), amended the Law so that the Municipality, could select the accounting system, according to the Generally Accepted Accounting Principles. The Municipality prepared the Accounting System Requirements for the requests of proposal for the implementation of the new accounting software. Once the situation is solved the Municipality expects to fully comply with the auditor's recommendation.

Implementation date: January, 2014

Responsible Person: Mr. Luis R. Sierra Salgado- Director of Finance

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Mayor Federal Program Award Findings and Questioned Costs

Finding Reference	11-02
Program	Section 8 Housing Choice Vouchers (CFDA. No. 14.871); U.S. Department of Housing and Urban Development
Requirement	Special Test-Depository Agreements
Statement of Condition	We noted that the Section 8 Housing Choice Voucher Program did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999)
Criteria	24 CFR Subpart D, Section 982.156 states. (c) The PHA must enter into an agreement with the depository in the form required by HUD. (d) If required under a written freeze notice from HUD to the depository: (i) The depository may not permit any withdrawal by the PHA of funds held under the depository unless expressly authorized by written notice from HUD to the depository; and (ii) The depository must permit withdrawals of such funds by HUD. (2) HUD must send the PHA a copy of the freeze notice from HUD to the depository.
Cause of Condition	The Program is not performing an effective review of compliance requirement that are required by HUD.
Effect of Condition	The PHA is not in compliance with laws and established regulation as prescribed by HUD.
Recommendation	Procedures should be implemented to ascertain that the PHA complies with the established Federal Regulation, as prescribed by HUD.
Questioned Costs	None
Management Response	The Program will take procedures to comply with the preparation of Form HUD-51999, Depository Agreement. The Municipality will submit a corrective action plan outlining this finding to be corrected in a detail manner no later than March, 2012.

Implementation Date: March, 2012

Responsible Person: María I. Molina
Federal Program Department Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	11-03
Program	Homelessness Prevention and Rapid Re-housing Program – Recovery Act Funded (CFDA. No. 14.257); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Department of the Family
Requirement	Activities Allowed or Unallowed Test
Statement of Condition	<p>During our examination of five (5) participant's files, we found the following exceptions:</p> <ul style="list-style-type: none">a. Two (2) participant files did not include the certification of income tax for the last five years.b. Three (3) participant files did not include the Debt Certification of the Department of Treasury.c. In four (4) cases, the Form HPRP-22 "Formulario de Determinación de Elegibilidad y Otorgación de Ayuda" was made later than fourteen days (14) after signing of the application form.d. In four (4) cases, the Voucher (HPRP-23) was delivered before determining the eligibility.e. In three (3) cases, the Form HPRP-24 "Solicitud para Aprobación de la Unidad" was made before the Form HPRP-22 "Formulario de Determinación de Elegibilidad y Otorgación de Ayuda".f. In three (3) cases, the Form HPRP-25 "Inspeccion de la Vivienda" was made before the Form HPRP-22 "Formulario de Determinación de Elegibilidad y Otorgacion de Ayuda".g. In two (2) cases, the inspection was not made during the five (5) days after the request for approval of the housing unit.h. In two (2) cases, the Form HPRP-3 "Hoja de Seguimiento de Ayuda y Apoyo" was not available for our examination.i. In two (2) cases, the Form HPRP-4 "Autorización para examinar documentos" was not signed by participants of eighteen (18) years or older.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference

11-03 (Continued)

- j. In four (4) cases, the Voucher HPRP-23 and the Form HPRP-22 "Formulario de determinación de elegibilidad y otorgación de ayuda" was signed by the same person.
- k. In three (3) cases, the Form HPRP-13 "Certificación de Ingresos por Activos" was not available for our examination.
- l. In one (1) case, the Certification of the Municipal Revenue Collection Center was not available for our examination.
- m. In one (1) case, the Form HPRP-17 "Hoja de Calculos de Ingresos" did not include the annual income nor the date of the issuance.
- n. In two (2) cases, the Form HPRP-15 "Formulario de Información del Participante para HMIS" for the re-evaluation was not available for our examination.
- o. In one (1) case, the file did not include copy of the social security card of two members of the family.
- p. In one (1) case, the file did not include photo of one member of the family.
- q. In one (1) case, the Form HPRP-10 "Certificación de Ingresos" was not available for our examination.
- r. In three (3) cases, the Form HPRP-26 "Formulario de Certificación de Razonabilidad en la Renta" was made after the Form HPRP-24 "Solicitud para Aprobación de la Unidad".
- s. In two (2) cases, the file did not include the Certification of the Nutrition Assistance Program.
- t. In one (1) case, the Form HPRP-21 "Formulario de Evaluación de Alternativas de Vivienda y Recursos Financieros y de Apoyo" was not available for our examination.
- u. In one (1) case, the HPRP-24 "Solicitud para Aprobación de la Unidad" is a copy not an original form.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference

11-03 (Continued)

- v. In one (1) case, the HPRP-24 "Solicitud para Aprobacion de la Unidad" was not signed by the participant.
- w. In one (1) case, the Form HPRP-19 "Certificación de Ingresos por Empleo" was not signed by the head interviewer.
- x. In one (1) case, the Form HPRP-19 "Certificación de Ingresos por Empleo" did not include the date of the issuance.
- y. In one (1) case, the Form HPRP-29 "Hoja de Seguimiento" did not describe the actions taken by the program functionary.

In our Waiting List Test for Homelessness Prevention and Rapid Re-housing Program we identified the following:

- a. In thirty two (32) cases, the Waiting List did not include the time of application.
- b. In twelve (12) cases, the Waiting List did not include the family unit size.
- c. In two (2) cases, the Waiting List did not include the date of application.

Criteria

Notice Section IV, (D) (1) indicated that grantees are responsible for verifying and documenting the individuals' risk of homelessness that qualifies them for receiving rental assistance. HUD requires grantees and/or sub grantees to evaluate and certify the eligibility of program participants. Notice Section IV, (E) (1) required submission documents. Also, the Municipality has a Housing Prevention and Rapid Rehousing Program Operational Manual.

Cause of Condition

The Municipality's controls and procedures failed to assure that the participants files include all the required documents to comply with the program requirements. Also, the Municipality did not maintain an adequate waiting list as required by Federal Regulation.

Effect of Condition

The Program is not in compliance with Notice Section IV, (D, E) (1) and with the procedures manual issued by the Family Department.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-03 (Continued)**

Recommendation We recommend management to follow the procedures established in the Housing Prevention and Rapid Rehousing Program Operational Manual, including the use of the forms included on it. Also, to establish control procedures to maintain a waiting list with all information required by the Federal Regulation. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality is in the process of preparing a checklist to establish monitoring procedures and assure that the files of the participants include all documents required by the Housing Prevention and Rapid Rehousing Program Operational Manual of Family Department.

Implementation date: April, 2012

Responsible Person: Mrs. María I. Molina, Housing Director
and Caroline Pagán, HPRP Technician.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	11-04
Program	Homelessness Prevention and Rapid Re-housing Program – Recovery Act Funded (CFDA. No. 14.257); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office Department of the Family
Requirement	Cash Management
Statement of Condition	<p>We performed a Cash Management Test and after our procedures, we found that during the current fiscal year, the Program maintained a monthly average cash balance in books of approximately \$27,956. Also, at June 30, 2011, the cash balance in books was \$40,240.</p> <p>In addition, during four (4) months the bank reconciliations reflected an overdraft.</p> <p>Also, in our Cash Management- Advance Test, we found that in seven (7) cases the cash requisition was not signed by a responsible official.</p>
Criteria	Code of Federal Regulations 24, Subpart C, Sec. 85.20 (b) (7) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Program disbursements procedures failed to assure that the funds requested and received from the Pass-through Grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Program is not in compliance with Code of Federal Regulations 24, Subpart C, Sec. 85.20 (b) (7).
Recommendation	We recommend management to strengthen it's disbursement procedures to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and the disbursements made by the Program.
Questioned Costs	None
Management Response and Corrective Action	Instructions were given to the program accountant to establish the adequate control procedures to assure that the transfers between accounts are identified correctly. Also, we review and compare the reconciliations prepared by the program accountant with the reconciliations prepared by the Municipality to avoid differences.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-04 (Continued)**

**Management Response
and Corrective Action**

Implementation date: April, 2012

Responsible Person: Mrs. María I. Molina, Federal Program Department
Director and Mr. Luis Sierra, Finance Director,

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-05**

Program **Homelessness Prevention and Rapid Re-housing Program – Recovery Act Funded (CFDA. No. 14.257); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office Department of the Family**

Requirement **Reporting Test**

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

- a. We found footing error in the Monthly Expenditure Report (Form HPRP 428). (December 2010)
- b. In eight (8) cases, the Monthly Expenditure Report (Form HPRP 428) available was not signed by the fiscal agent and the program director.
- c. In three (3) cases, the Monthly Expenditure Report (Form HPRP 428) available was not signed by the program director.
- d. We found differences between the amounts reported as federal expenditures in the Monthly Expenditure Report (August, November, December 2010 and February, March 2011) and the amounts detailed in the general ledger.
- e. In seven (7) cases, the Monthly Performance Report (Form HPRP-33) was not available for our examination. (October 2010, January, February, March, April, May and June 2011)
- f. In three (3) cases, the Monthly Performance Report (Form HPRP-33) was submitted to the Family Department after the due date. (July, August and November 2010)
- g. We found differences between the amounts reported as federal expenditures in the Monthly Performance Report (Form HPRP-33) (November to December 2010) and the amounts detailed in the general ledger. This report was made detailing the amounts of two (2) months.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-05 (Continued)**

Criteria Code of Federal Regulations 24, Subpart C, Sec.85.20 (b) (2) requires that the grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Cause of Condition The Program failed to maintain effective control and accountability for all subgrant cash.

Effect of Condition The Program is not in compliance with Code of Federal Regulations 24, Subpart C, Sec.85.20 (b) (2).

Recommendation We recommend management that the required reports are prepared including all the required information and establish monitoring procedures to assure the correctness of the reports.

Questioned Costs None

Management Response and Corrective Action The reports are prepared including all the required information . Also, we establish monitoring procedures to assure the correctness of the reports.

Implementation date: April, 2012

Responsible Person: Mrs. María I. Molina, Federal Program Department Director and Mr. Adier Concepción, Program Accountant

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	11-06
Program	Head Start Cluster; 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. ARRA Head Start (CFDA. No. 93.708); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families. ARRA Early Head Start (CFDA. No. 93.709); U.S. Department of Health and Human Services.
Requirement	Cash Management
Statement of Condition	During our Cash Management Test to Head Start Program, we found the following exceptions: a. We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. b. During two (2) months the bank reconciliations reflected an overdraft. In our Cash Management Test of ARRA Early Head Start Program, we found the following: a. We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. b. During nine (9) months the bank reconciliations reflected an overdraft.
Criteria	Code of Federal Regulations 45, 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 Program is not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7).

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **11-06 (Continued)**

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
for Head Start Program**

The program follows “ACUDEN” procedures for the request and disbursement of federal funds. But, also a fiscal agent for “ACUDEN” made the commitment with the program to verify and establish a effective process for the request and disbursement of federal funds and eliminate this finding. In addition, the Municipality established a new bank account to contribute at least 20 percent of the cost of the program, so the program can maintain low bank balances.

Implementation Date: April, 2012

Responsible Person: Tania García – Program Director
Teresa Acevedo – Pogram Accountant

**Management Response
and corrective Action
for ARRA Early Head Start
Program**

The Program Accountant for the period 2010-2011 was lay off from his duties. On October 2011, Mr. Reyes was announcing as the new accountant for the program; and he will be working with the finding.

Implementation Date: April, 2012

Responsible Person: Tania García – Program Director
Daniel Reyes – Program Accountant

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	11-07
Program	Head Start Cluster; 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. ARRA Head Start (CFDA. No. 93.708); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families. ARRA Early Head Start (CFDA. No. 93.709); U.S. Department of Health and Human Services.
Requirement	Equipment and Real Property Management
Statement of Condition	During our equipment test, to ARRA Early Head Start Program, we found the following exceptions: a. The equipment was not marked with property tags. b. In three (3) cases, the equipment was not included in the Property Subsidiary Ledger.
Criteria	Code of Federal Regulations 45, Subpart C Sec.92.32 (d) (1) require that the property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
Cause of Condition	There are no adequate internal controls to assure that the property record are maintained as requested to the federal agency.
Effect of Condition	The Program is not in compliance with Code of Federal Regulations 45, Subpart C, Sec.92.32 (d) (1).
Recommendation	We recommend management to follow the procedures for managing equipment whether it is acquired or until disposition takes according to regulation requirements.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **11-07 (Continued)**

Management Response

And corrective Action A special team will be put together to mark the equipment with the property tags. In addition, an inventory will be completed to ensure that the equipment is accountable and included in the subsidiary ledger.

Implementation Date: April, 2012

Responsible Person: Tania García – Program Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **11-08**

Program **Head Start Cluster; 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.
ARRA Head Start (CFDA. No. 93.708); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
ARRA Early Head Start (CFDA. No. 93.709); U.S. Department of Health and Human Services.**

Requirement **Matching, Level of Effort, Earmarking Test**

Statement of Condition **During our Matching Test to ARRA Early Head Start Program, we found differences between the amounts reported as cash or in-kind contributions and federal expenditures detailed in the Federal Financial Report (Form 425) and the amounts detailed in the general ledger. We can't verify if the grantee contributed at least 20 percent of the costs of the program. Also, we noted differences between Federal Financial Report (Form 425) and supporting documents.**

Our Matching Requirements test for Head Start Program revealed the following:

- a) The cash and In-kind contributions recorded in the accounting record "Libro de Caja" (a manual cash ledger) which belong to September 2010, did not agree with the amounts recorded in the general ledger. A difference of \$9,924 was identified.
- b) The cash and In-kind contributions recorded in the accounting record "Libro de Caja" (a manual cash ledger) which belong to January 2011, did not agree with the amounts recorded in the general ledger. A difference of \$1,050 was identified.
- c) The cash and In-kind contributions recorded in the accounting record "Libro de Caja" (a manual cash ledger) which belong March 2010 to February 2011, did not agree with the amounts recorded in the general ledger. A difference of \$10,976 was identified.

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

YEAR ENDED JUNE 30, 2011

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **11-08 (Continued)**

Criteria Code of Federal Regulations 45, Subpart C Section 1301.20 (a) (c) require that the Federal financial assistance granted under the act for a Head Start program shall not exceed 80 percent of the total costs of the program. Federal financial assistance awarded to Head Start grantees for training and technical assistance activities shall be included in the Federal share in determining the total approved costs of the program. Such financial assistance is, therefore, subject to the 20 percent non-Federal matching requirement of this subpart.

Cause of Condition Adequate internal controls do not exist to assure the correctness of closing reports submitted to the federal agencies. The grantee did not contribute at least 20% of the cost of the program through cash or in-kind contributions.

Effect of Condition The program is not in compliance with the Code of Federal Regulations 45, Subpart C, Section 1301.20 (a) (c).

Recommendation We recommend grantees must be contribute at least 20 percent of the cost of the program and document their compliance with this requirement.

Questioned Costs None

**Management Response
And corrective Action**

Head Start Program Instructions were given to the program accountant to reconcile any difference in the closing reports.

Implementation Date: April, 2012

Responsible Person: Tania García – Program Director
Teresa Acevedo – Program Accountant

**Management Response
And corrective Action**

ARRA-Early Head Start The Program Accountant for the period 2010-2011 was lay off from his duties. In October 2011, Mr. Reyes was announced as the new accountant for the program. Additionally, two accountants will be allocated to re-do the program's ledgers.

Implementation Date: April, 2012

Responsible Person: Tania García – Program Director
Daniel Reyes – Program Accountant

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **11-09**

Program **Head Start Cluster: 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.
ARRA Head Start (CFDA. No. 93.708); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
ARRA Early Head Start (CFDA. No. 93.709); U.S. Department of Health and Human Services.**

Requirement **Matching, Level of Effort, Earmarking Test**

Statement of Condition The accounting system maintained by ARRA Early Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs.

Also, our Earmarking test (15% Administrative Cost Limits) for Head Start Program revealed the following:

- a) The percentage detailed in the Others Categories (Cash and In-kind), included in the Table to Compute 15% Administrative Cost was incorrectly calculated
- b) The percentage detailed in the Total PA 22 Federal and non-Federal, included in the Table to Compute 15% Administrative Cost was incorrectly calculated.
- c) The amounts detailed for Administrative and Programmatic Costs, for the Equipment Account, did not agree with the amounts included in the General Ledger. A difference of \$81.00 was identified.

Criteria Code of Federal Regulations 45, Subpart C, Section 92.20 (a) (2) states that the grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.

Cause of Condition The ARRA-Early Head Start Program accounting records did not provide a chart of accounts to individually account, programmatic and administrative expenditures. For the Head Start Program the accounting records do not agree with final reports.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **11-09 (Continued)**

Effect of Condition The program is not in-compliance with 45 CFR, Subpart C, Section 92.20 (a) (2).

Recommendation We recommend management to modify the accounting system chart of accounts to create a separate account for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.

Questioned Costs None

**Management Response
And corrective Action
Head Start Program**

Instructions were given to the program accountant to reconcile any difference in the closing reports.

Implementation Date: April, 2012

Responsible Person: Tania García – Program Director
Teresa Acevedo – Program Accountant

**Management Response
And corrective Action
ARRA-Early Head Start**

The Program Accountant for the period 2010-2011 was lay off from his duties. On October 2011, Mr. Reyes was announced as the new accountant for the program. Additional, two accountants will be allocated to re-do the program's ledgers.

Implementation Date: April, 2012

Responsible Person: Tania García – Program Director
Daniel Reyes – Program Accountant

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-10**

Program **Head Start Cluster: 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.
ARRA Head Start (CFDA. No. 93.708); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
ARRA Early Head Start (CFDA. No. 93.709); U.S. Department of Health and Human Services.**

Requirement **Reporting Test**

Statement of Condition In our Reporting Test, to Head Start Program, we observed the following exceptions:

- a. The Monthly Financial Report and the Table to Compute 15% Administrative Cost for the program year ended February 28, 2011 were submitted to the Commonwealth of Puerto Rico Administration for Children and Families after the due date.
- b. We found differences between the amounts reported as federal expenditures in the monthly financial reports (January and February 2011) and in the Closing Report for the Fiscal Year 2011 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.

In our Reporting Test of ARRA Early Head Start Program:

- a. We found differences between the amounts reported as federal expenditures in the Federal Financial Report (September 2011) and the amounts detailed in the cash register and the general ledger.
- b. We identified differences between the amounts reported in the Trial Balance and the amounts detailed in the General Ledger.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-10 (Continued)**

Criteria Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.

Cause of Condition Adequate internal controls do not exist to assure the correctness of closing reports submitted to the federal agencies.

Effect of Condition The program is not in compliance with the Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (1).

Recommendation We recommend the Program to establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. The program fiscal area must establish adequate communication channels with the Finance Department in order to obtain documental evidence related to obligations issued, cash receipt and disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program. The Program fiscal area must assure that accounting records are updated at the end of each month in order to prepare accurate reports to the federal agency. In addition the accountant must assure that the cash register and the general ledger are duly reconciled and journal entries posted in the general ledger and 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 the large volume of transactions manual books are considered inefficient.

Questioned Costs None

**Management Response
And Corrective Action
for Head Start
Program**

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. Also, more effective controls will be established so that reports are delivered within the dates set.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11- 10 (Continued)**

Management Response
And Corrective Action
for Head Start

Implementation Date: April, 2012

Responsible Person: Tania García – Program Director
Teresa Acevedo – Program Accountant

Management Response
and corrective Action
for ARRA Early Head Start
Program

The Program Accountant for the period 2010-2011 was lay off from his duties. On October 2011, Mr. Reyes was announced as the new accountant for the program. Additional, two accountants will be allocated to re-do the program's ledgers.

Implementation Date: April, 2012

Responsible Person: Tania García – Program Director
Daniel Reyes – Program Accountant

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
10-02	14.228	<p><u>Management should strengthen it's disbursement procedures to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and the disbursements made by the Program.</u></p> <p>Corrective action was taken.</p>
10-03	14.871	<p><u>The Section 8 Housing Choice Voucher Program did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999)</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-02.</p>
10-04	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 11-06.</p>
10-05	93.600	<p><u>The required reports should be prepared including all the required information and submitted in a timely manner. If the deadline is not achievable, a request for an extension should be obtained from the federal agency. Also, we recommend that the Municipality establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. The program accountant must establish adequate communication channels with the Finance Department in order to obtain documental evidence related to cash receipt and disbursements in a daily manner, in order to be posted in the cash register maintained by the program 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 reconciled and journal entries posted in the general ledger are duly documented and explained. We consider that the program Director must evaluate the implementation of a computer accounting software to maintain the program books due to a volume of transactions manual books are considered inefficient.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-10.</p>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-02	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 11-06.</p>
09-04	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, 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-10.</p>
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>Audit finding is no longer valid since has pass more than two years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow up to the finding and has not issued a final decision respect to the finding.</p>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
08-03	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>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>