

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

**MUNICIPIO DE DORADO  
AUDITORÍA 2011-2012  
30 DE JUNIO DE 2012**

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**COMMONWEALTH OF PUERTO RICO**

**AUTONOMOUS**

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**MUNICIPALITY OF DORADO**

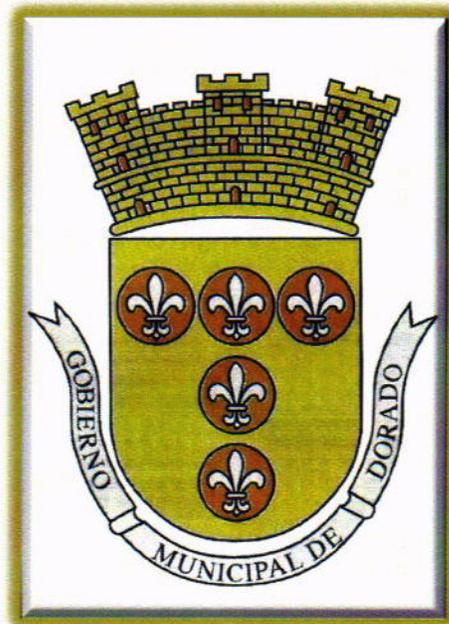
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**BASIC FINANCIAL STATEMENTS  
WITH ADDITIONAL REPORTS AND  
INFORMATION REQUIRED BY THE  
SINGLE AUDIT ACT**

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**Year Ended June 30, 2012**

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Unidad de Gestión Municipal  
de Recursos Municipales

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, 2012

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COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF DORADO

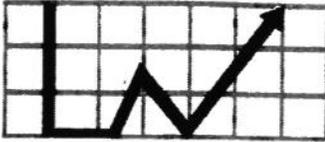
BASIC FINANCIAL STATEMENTS  
WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2012

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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, 2012, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in financial position and cash flows, 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 February 12, 2013, 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 63 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** financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 financial statements and certain additional 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 financial statements as a whole.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
February 12, 2013

Stamp No. 2632094 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



Certified Public Accountants / Management Advisors

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2012**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the **Autonomous 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, 2012. 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 increased by \$2,151,351.
- In the fund financial statements, the governmental activities revenues increased \$3,428,297 (or 10%) and governmental activities expenditures increased \$469,329 (or 1%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increment of \$7,844,870.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$855,072.
- The Municipality issued bonds amounting to \$12,555,000, to finance operations, 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, 2012**

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**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, 2012**

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**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)**

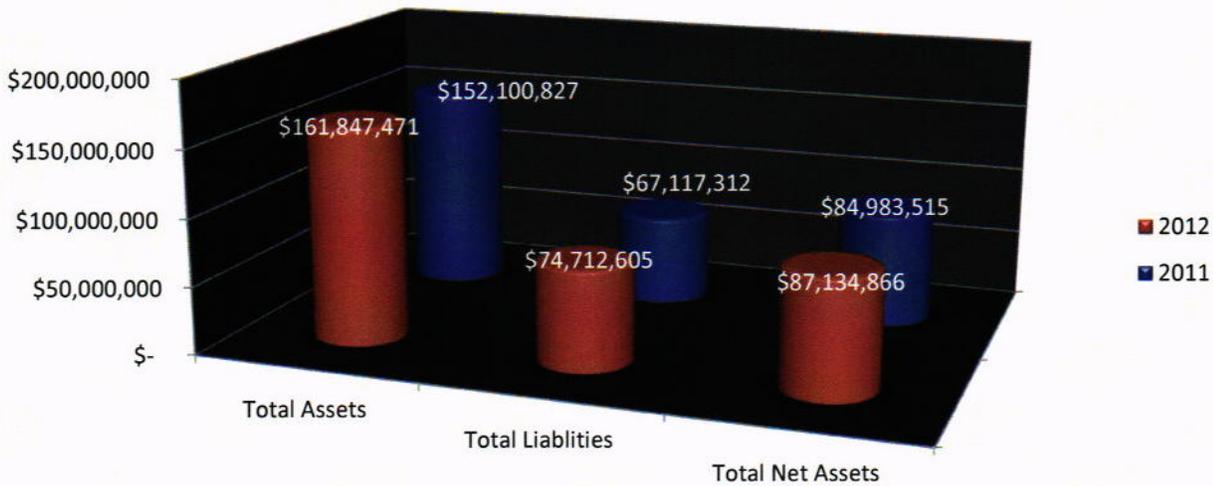
**YEAR ENDED JUNE 30, 2012**

**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 **Autonomous Municipality of Dorado**, primary government assets exceeded total liabilities by \$87,134,866 at the end of 2012, as compared with \$84,983,515, as restated, which reflect an increase of \$2,151,351, 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 \$2,151,351 increase reflected in the Net Assets figure.

<b>Condensed Statement of Net Assets</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>%</b>
Current and other assets	\$ 33,086,971	\$ 30,515,252	\$ 2,571,719	8%
Capital Assets	128,760,500	121,585,575	7,174,925	6%
<b>Total Assets</b>	<b>161,847,471</b>	<b>152,100,827</b>	<b>9,746,644</b>	<b>6%</b>
Current and other liabilities	9,468,069	10,700,562	(1,232,493)	(12%)
Long-term liabilities	65,244,536	56,416,750	8,827,786	16%
<b>Total Liabilities</b>	<b>74,712,605</b>	<b>67,117,312</b>	<b>7,595,293</b>	<b>11%</b>
Invested in capital assets, net of related debt	83,039,500	74,175,048	8,864,452	12%
Restricted	24,397,323	27,323,086	(2,925,763)	(11%)
Unrestricted deficit	(20,301,957)	(16,514,619)	(3,787,338)	23%
<b>Total net assets</b>	<b>\$ 87,134,866</b>	<b>\$ 84,983,515</b>	<b>\$2,151,351</b>	<b>3%</b>



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Municipality's net assets increase by \$2,151,351. Approximately sixty three percent (63%) of the Municipality's total revenue came from taxes, while thirty three percent (33%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%) of the total revenues. Interest earnings one percent (1%) and miscellaneous provided two percent (2%) 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.

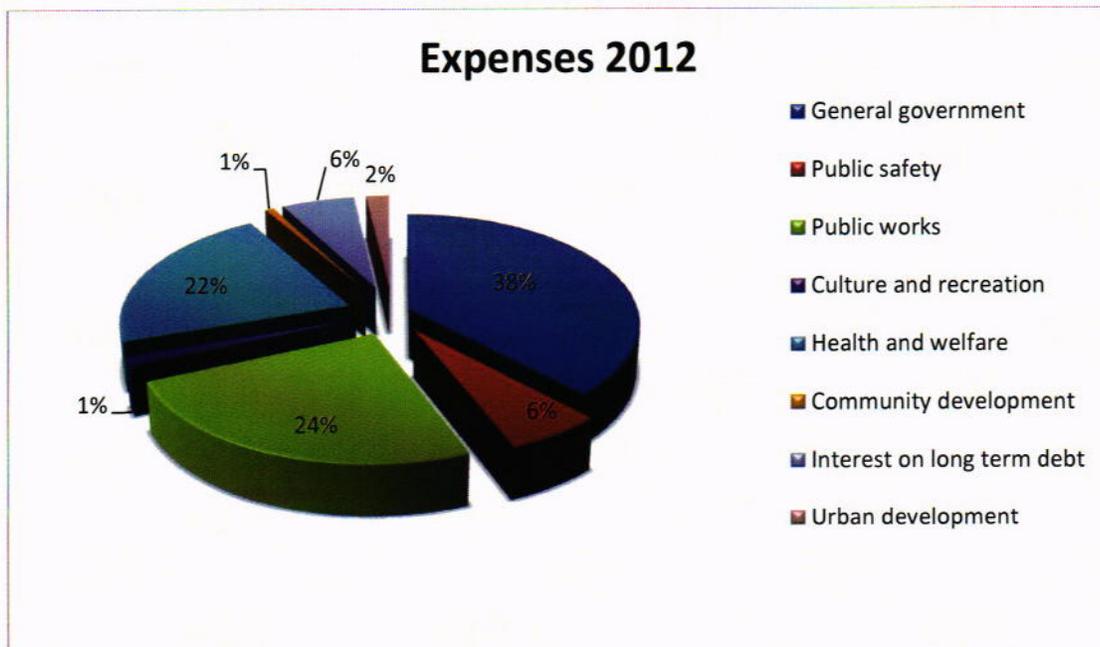
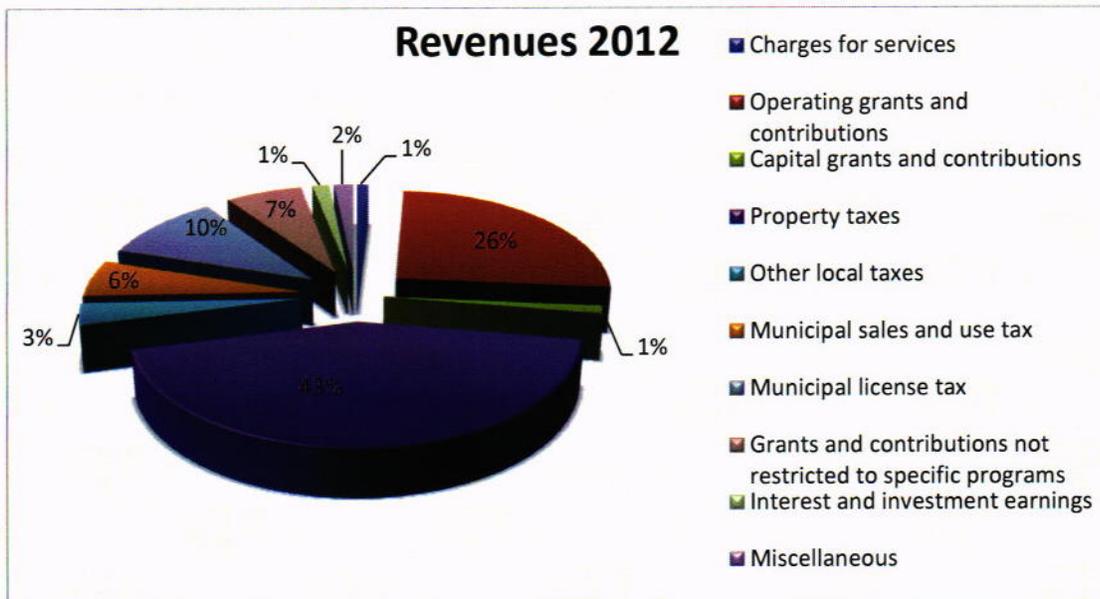
Condensed Statement of Activities	2012	2011	Change	%
<b>Program revenues:</b>				
Charges for services	\$ 357,919	\$ 353,755	\$ 4,164	1%
Operating grants and contributions	9,286,384	8,236,852	1,049,532	13%
Capital grants and contributions	455,455	324,834	130,621	40%
<b>General revenues:</b>				
Property taxes	15,850,427	13,171,993	2,678,434	20%
Municipal license tax	3,766,237	3,623,153	143,084	4%
Municipal sales and use tax	2,056,125	2,081,687	(25,561)	(1%)
Grants and contributions not restricted to specific programs	2,368,548	3,668,817	(1,300,269)	(35%)
Other local taxes	1,219,782	789,399	430,383	55%
Interest and investment earnings	526,599	508,849	17,750	3%
Miscellaneous	593,590	312,627	280,962	90%
<b>Total revenues</b>	<b>36,481,066</b>	<b>33,071,966</b>	<b>3,409,100</b>	<b>10%</b>
<b>Expenses:</b>				
General government	12,969,298	14,858,627	(1,889,329)	(13%)
Public safety	2,082,919	1,905,435	177,484	9%
Public works	8,402,187	8,841,142	(438,955)	(5%)
Health and welfare	7,453,160	7,711,310	(258,150)	(3%)
Culture and recreation	425,791	2,534,118	(2,108,327)	(83%)
Economic development	120,563	87,399	33,164	38%
Community development	220,305	533,158	(312,853)	(59%)
Urban development	634,980	2,620	632,360	241%
Education	4,102	3,980	122	3%
Interest on long-term debt	2,016,410	1,699,638	316,772	19%
<b>Total expenses</b>	<b>34,329,715</b>	<b>38,177,427</b>	<b>(3,847,712)</b>	<b>(10%)</b>
Change in net assets	2,151,351	(5,105,461)	7,256,812	142%
Net assets, beginning as restated	84,983,515	90,088,976	(5,105,461)	(6%)
<b>Net assets, end of year</b>	<b>\$ 87,134,866</b>	<b>\$ 84,983,515</b>	<b>\$ 2,151,351</b>	<b>3%</b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**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, 2012**

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**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 \$27,749,438, an increase of \$4,777,835 in comparison with the prior year, as restated. There are reservations of fund balance amounting to \$25,801,851. The combined fund balances include restricted fund balance amounting to \$25,287,727. This is the fund balance that it is not available for new spending because it has already been committed 1) to pay debt service \$8,418,681, 2) to pay for capital projects \$16,292,783 and 3) for other purposes \$576,263. There are nonspendable fund balance amounting to \$511,374, and assigned fund balance of \$2,750, that represent resources for specific purposes but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor) to pay for capital projects.

As of June 30, 2012, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund balance of \$1,947,587.

**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, 2012**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2012 amounts to \$151,134,208 with an accumulated depreciation of \$24,929,798, leaving a net book value of \$126,204,410. For Business - Type Activities investments in capital assets as of June 30, 2012 amounts to \$3,971,648, with an accumulated depreciation of \$1,415,558, leaving a net book value of \$2,556,090. 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 6% in terms of net book value. Depreciation charges for the year totaled \$2,051,904.

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, 2012, the Municipality has \$11,216,402 of unexpended proceeds from bond issuances that are committed to future construction activities in Governmental Activities and \$156,402 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, 2012**

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**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 2012-2013.

**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, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 12,801,665	\$ -	\$ 12,801,665
Cash with fiscal agent	19,570,015	156,402	19,726,417
Accounts receivable:			
Intergovernmental	331,898		331,898
Interest	47,822		47,822
Federal grants	114,950		114,950
Others	64,219		64,219
Capital assets			
Land, improvements, and construction in progress	89,197,224	388,790	89,586,014
Other capital assets, net of depreciation	37,007,186	2,167,300	39,174,486
Total capital assets	<u>126,204,410</u>	<u>2,556,090</u>	<u>128,760,500</u>
<b>Total assets</b>	<u>159,134,979</u>	<u>2,712,492</u>	<u>161,847,471</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	5,029,527		5,029,527
Bank overdraft		17,592	17,592
Due to other governmental entities	143,721		143,721
Deferred revenues:			
Municipal license tax	2,992,289		2,992,289
Federal grant revenues	376,810		376,810
Interest payable	908,130		908,130
Noncurrent liabilities:			
Due within one year	3,991,594	150,000	4,141,594
Due in more than one year	60,768,942	334,000	61,102,942
<b>Total liabilities</b>	<u>74,211,013</u>	<u>501,592</u>	<u>74,712,605</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	80,967,410	2,072,090	83,039,500
Restricted for:			
Capital projects	16,292,783		16,292,783
Debt service	7,510,551		7,510,551
Other purposes	593,989		593,989
Unrestricted (deficit)	<u>(20,440,767)</u>	<u>138,810</u>	<u>(20,301,957)</u>
<b>Total net assets</b>	<u>\$ 84,923,966</u>	<u>\$ 2,210,900</u>	<u>\$ 87,134,866</u>

Commonwealth of Puerto Rico  
Autonomous Municipality of Dorado  
Statement of Activities  
For the Year Ended June 30, 2012

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	\$ 12,761,649	\$ 135,218	\$ 253,359	\$ -	\$ (12,373,072)	\$ -	\$ (12,373,072)
Public safety	2,082,919	41,788	187,450	-	(1,853,681)	-	(1,853,681)
Public works	8,402,187	-	14,928	440,382	(7,946,877)	-	(7,946,877)
Health and welfare	7,453,160	-	6,816,087	-	(637,073)	-	(637,073)
Culture and recreation	425,791	-	156,825	15,073	(253,893)	-	(253,893)
Economic development	120,563	-	23,367	-	(97,196)	-	(97,196)
Community development	220,305	-	1,199,388	-	979,083	-	979,083
Urban development	634,980	-	634,980	-	-	-	-
Education	4,102	-	-	-	(4,102)	-	(4,102)
Interest on long-term debt	1,963,479	-	-	-	(1,963,479)	-	(1,963,479)
<b>Total governmental activities</b>	<b>\$ 34,069,135</b>	<b>\$ 177,006</b>	<b>\$ 9,286,384</b>	<b>\$ 455,455</b>	<b>(24,150,290)</b>	<b>-</b>	<b>(24,150,290)</b>
<b>Business type activities:</b>							
General government	207,649	180,913	-	-	-	(26,736)	(26,736)
Interest on long term debt	52,931	-	-	-	-	(52,931)	(52,931)
<b>Total business type activities</b>	<b>260,580</b>	<b>180,913</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(79,667)</b>	<b>(79,667)</b>
<b>Total primary government</b>	<b>\$ 34,329,715</b>	<b>357,919</b>	<b>9,286,384</b>	<b>455,455</b>	<b>(24,150,290)</b>	<b>(79,667)</b>	<b>(24,229,957)</b>
<b>General revenues:</b>							
Property taxes					15,850,427		15,850,427
Municipal license tax					3,766,237		3,766,237
Municipal sales and use tax					2,056,125		2,056,125
Other local taxes					1,219,782		1,219,782
Grants and contributions not restricted to specific programs					2,368,548		2,368,548
Interest and investment earnings					526,599		526,599
Miscellaneous					593,590		593,590
<b>Total general revenues and transfers</b>					<b>26,381,308</b>	<b>-</b>	<b>26,381,308</b>
Change in net assets					2,231,018	(79,667)	2,151,351
Net assets - beginning, as restated					82,692,948	2,290,567	84,983,515
Net assets - ending					<b>\$ 84,923,966</b>	<b>\$ 2,210,900</b>	<b>\$ 87,134,866</b>

**Commonwealth of Puerto Rico**  
**Autonomous Municipality of Dorado**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2012**

	General Fund	Special Revenue Fund - State & Local Grants	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
<b>Assets</b>								
Cash and cash equivalents	\$ 4,625,770	\$ 586,556	\$ 245,121	\$ 2,397,631	\$ 4,241,495	\$ -	\$ 705,092	\$ 12,801,665
Cash with fiscal agent	26,148			11,216,402		8,327,465		19,570,015
Accounts receivable:								
Intergovernmental		240,682				91,216		331,898
Interest	47,822							47,822
Federal grants			6,014				108,936	114,950
Others	14,219							14,219
Due from other funds	1,380,646						22,000	1,402,646
Advances to other funds	511,374							511,374
<b>Total assets</b>	<b>\$ 6,605,979</b>	<b>\$ 827,238</b>	<b>\$ 251,135</b>	<b>\$ 13,614,033</b>	<b>\$ 4,241,495</b>	<b>\$ 8,418,681</b>	<b>\$ 836,028</b>	<b>\$ 34,794,589</b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities :</b>								
Accounts payable and accrued liabilities	\$ 827,354	\$ 5,069	\$ 39,512	\$ 663,519	\$ -	\$ -	\$ 82,857	1,618,311
Due to other governmental entities	143,721							143,721
Due to other funds	22,000	303,420	150,000	745,084	154,142		28,000	1,402,646
Advances from other funds		461,138					50,236	511,374
Deferred revenues:								
Municipal license tax	2,992,289		61,623				315,187	2,992,289
Federal grant revenues								376,810
<b>Total liabilities</b>	<b>3,985,364</b>	<b>769,627</b>	<b>251,135</b>	<b>1,408,603</b>	<b>154,142</b>	<b>-</b>	<b>476,280</b>	<b>7,045,151</b>
<b>Fund balances:</b>								
Nonspendable	511,374							511,374
Restricted	158,904	57,611		12,205,430	4,087,353	8,418,681	359,748	25,287,727
Assigned	2,750							2,750
Unassigned	1,947,587							1,947,587
<b>Total fund balances</b>	<b>2,620,615</b>	<b>57,611</b>	<b>-</b>	<b>12,205,430</b>	<b>4,087,353</b>	<b>8,418,681</b>	<b>359,748</b>	<b>27,749,438</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,605,979</b>	<b>\$ 827,238</b>	<b>\$ 251,135</b>	<b>\$ 13,614,033</b>	<b>\$ 4,241,495</b>	<b>\$ 8,418,681</b>	<b>\$ 836,028</b>	<b>\$ 34,794,589</b>

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

**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, 2012**

	General Fund	Special Revenue Fund - State & Local Grants		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
		Local Grants	State & Local Grants		Local Grants	State & Local Grants				
<b>Revenues</b>										
Property taxes	\$ 9,864,166	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,986,261	\$ -	\$ 15,850,427
Municipal license taxes	3,766,237									3,766,237
Municipal sales and use tax	1,403,512						652,613			2,056,125
Licenses, permits and other local taxes	1,222,132									1,222,132
Charges for services		450								450
Intergovernmental	2,621,907	375,628	199,204							3,196,739
Fines and forfeitures	41,788									41,788
Rent of property	134,768									134,768
Interest	526,599			4,472,001	103,877			4,129,480		8,601,481
Federal grants		188,369						70,692		903,403
Miscellaneous	540,465									540,465
Total revenues	20,121,574	564,447	303,081	4,472,001	303,081		6,638,874	4,200,172		36,300,149
<b>Expenditures</b>										
Current:										
General government	12,460,118	25,528	637,856					6,942		13,123,502
Public safety	1,861,668	173,592								2,042,202
Public works	7,280,850	61,113	3,475,891							10,817,854
Health and welfare		16,177	133,420	4,692,001				2,425,680		7,267,278
Culture and recreation	630,455	33,683	3,385,906							4,050,044
Economic development								94,328		94,328
Community development						245,339		853,192		1,098,531
Urban development								634,980		634,980
Debt service:										
Principal							3,143,000			3,143,000
Interest							1,805,595			1,805,595
Total expenditures	22,233,091	310,093	7,633,073	4,692,001	7,633,073	245,339	4,948,595	4,015,122		44,077,314

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

**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, 2012 (Continued)**

	General Fund	Special Revenue Fund - State & Local Grants		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
		Local Grants	State & Local Grants		State & Local Grants	Federal Grants				
Excess (deficiency) of revenues over (under) expenditures	\$ (2,111,517)	\$ 254,354	\$ (220,000)	\$ (7,329,992)	\$ (245,339)	\$ 1,690,279	\$ 185,050	\$ (7,777,165)		
<b>Other financing sources (uses)</b>										
Transfers in	59,450	10,315	220,000		350,000	607,481	50,260	1,297,506		
Transfers out	(343,063)			(54,444)	(544,678)		(355,321)	(1,297,506)		
Long-term debt issued	10,240,000			2,315,000				12,555,000		
Total other financing sources (uses)	9,956,387	10,315	220,000	2,260,556	(194,678)	607,481	(305,061)	12,555,000		
Net change in fund balances	7,844,870	264,669	-	(5,069,436)	(440,017)	2,297,760	(120,011)	4,777,835		
Fund balances (deficit), beginning as restated	(5,224,255)	(207,058)	-	17,274,866	4,527,370	6,120,921	479,759	22,971,603		
Fund balances (deficit), ending	\$ 2,620,615	\$ 57,611	\$ -	\$ 12,205,430	\$ 4,087,353	\$ 8,418,681	\$ 359,748	\$ 27,749,438		

*Handwritten signature and date: 02/26/2012*

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

**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, 2012**

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**Total Fund Balances - Governmental Funds** \$ 27,749,438

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	\$ 89,197,224	
Depreciable capital assets	61,936,984	
Accumulated depreciation	<u>(24,929,798)</u>	
Total capital assets		126,204,410

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:

(3,411,216)

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	59,192,000	
Property taxes debt - Law 146	249,556	
Property taxes debt - Law 42	227,085	
Compensated absences	2,778,537	
Claims and judgments	342,975	
Landfill obligation	<u>1,970,383</u>	
Total long-term liabilities		(64,760,536)

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:

(908,130)

**Total Net Assets of Governmental Activities**

**\$ 84,923,966**

**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, 2012**

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>4,777,835</b>
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.		9,316,811
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.		(411)
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.		(2,051,904)
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.		(157,883)
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.		(555,644)
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.		(197,475)
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.		511,689
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 proceeds exceed the debt service principal payments.		(9,412,000)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>2,231,018</b>

Commonwealth of Puerto Rico  
Autonomous Municipality of Dorado  
Statement of Net Assets  
Proprietary Fund-Business Type Activity-Enterprise Fund  
Year Ended June 30, 2012

	Business Type Activity Enterprise
<b>Assets</b>	
<b>Current Assets:</b>	
Cash and cash equivalents	\$ -
Cash with fiscal agent	156,402
Total current assets	156,402
<b>Noncurrent Assets:</b>	
Capital Assets:	
Property, and equipment:	
Land	388,790
Building	3,582,858
Accumulated depreciation	(1,415,558)
Total non-current assets	2,556,090
Total assets	2,712,492
<b>Liabilities</b>	
<b>Current Liabilities:</b>	
Bank overdraft	17,592
Total current liabilities	17,592
<b>Non-current liabilities:</b>	
Due within one year	150,000
Due in more than one year	334,000
Total non-current liabilities	484,000
Total liabilities	501,592
<b>Net Assets</b>	
Invested in Capital Assets, net of related debt	2,072,090
Unrestricted	138,810
<b>Total Net Assets</b>	\$ 2,210,900

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

**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, 2012**

	<u>Business - Type Activities Enterprise</u>
<b>Operating revenues:</b>	
Charges for services	\$ <u>180,913</u>
Total operating revenues	<u>180,913</u>
<b>Operating expenses:</b>	
Operations and maintenance	118,078
Depreciation and amortization	<u>89,571</u>
Total operating expenditures	<u>207,649</u>
Operating income (Loss)	(26,736)
<b>Non-operating revenues (expenses):</b>	
Interest expense	<u>(52,931)</u>
Total non-operating revenues (expenses)	(52,931)
Change in Net Assets	(79,667)
Total net assets-beginning	2,290,567
Total net assets-ending	<u><u>\$ 2,210,900</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, 2012

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**Cash Flows from Operating Activities:**

Receipts from Customers	\$ 180,913
Interest paid	(52,931)
Payment to Suppliers	<u>(118,078)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>9,904</u>

**Cash Flows from Capital and Related Financing Activities:**

Repayment of Bond	<u>(270,000)</u>
<b>Net Cash Provided (Used) in Capital and Related Financing Activities</b>	<u>(270,000)</u>
<b>Net Decrease in Cash and Cash with Fiscal Agent, Restricted</b>	(260,096)
<b>Cash and Cash with Fiscal Agent at Beginning of Period, Restricted</b>	<u>398,906</u>
<b>Cash and Cash with Fiscal Agent at End of Period, Restricted</b>	<u><u>\$ 138,810</u></u>

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

Operating Income (Loss)	<u>\$ (26,736)</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Interest paid	(52,931)
Depreciation	<u>89,571</u>
<b>Total Adjustments</b>	<u>36,640</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 9,904</u></u>
<b>Noncash investing, capital and financing activities:</b>	<b>none</b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2012**

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**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, 2012**

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**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 fiscal year 2011, 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, 2012

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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, 2012

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

**Special Revenue Fund - State and Local Grants** - is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects.

**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.

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

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

**Enterprise Fund** – The Enterprise Fund, which was established in June 1996, is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs ( expenses, including depreciation) of providing goods and services to the general public on a continuing basis, are financed or recovered primary through uses, charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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, 2012

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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 Projects 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, 2012**

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**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, 2012**

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**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, 2012. 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, 2012. At June 30, 2012, 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  
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NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

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**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, 2012.

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, 2012**

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**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, 2012**

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**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, 2012 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, 2012**

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**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 fiscal year 2011, 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 constrains that control how specific amounts can be spent, as described as follows:

- a. *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- b. *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.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

- c. *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- d. *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.

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, 2012.

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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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

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.

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, 2012**

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**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  
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**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**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, 2012 amounted to \$637,102. 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 (AACCA), 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 AACCA.

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, 2012 amounted to \$435,921.

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, 2012

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**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, 2012.

**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, 2012, (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, 2012, 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, 2012, 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, 2012**

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**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, 2012. Therefore, the Municipality's management has concluded that at June 30, 2012 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, 2012.

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 \$4,625,770, 586,556, \$245,121, 2,397,631, and \$4,241,495, in the general fund, special revenue fund-state and local grants, head start, capital projects fund - local and state grants, and capital projects fund - federal grants, respectively, were fully collateralized at June 30, 2012. In the other governmental funds there were deposits with commercial banks of \$705,092 that were fully collateralized.

The deposits at GDB of \$11,216,402 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 \$8,327,465 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, 2012**

**3. RECEIVABLES**

**A. Intergovernmental Receivables** – Intergovernmental receivable in the special revenue fund-state and local grants represents governmental contributions receivable at June 30, 2012. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Solid Waste Authority	\$ 152,375
Office of the Commissioner of Municipal Affairs (OCMA)	<u>88,307</u>
<b>Total</b>	<b><u>\$ 240,682</u></b>

Intergovernmental receivable in debt service fund represents property tax receivable at June 30, 2012. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	<u>\$ 91,216</u>
<b>Total</b>	<b><u>\$ 91,216</u></b>

**B. 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>\$ 6,014</u>
<b>Total</b>	<b><u>\$ 6,014</u></b>

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	45,327
Community Development Block Grants/ State's Program	34,067
Others	<u>1,542</u>
<b>Total</b>	<b><u>\$108,936</u></b>

**C. Other Receivable-** Other receivable of \$14,219 in the general fund represents accounts receivable at June 30, 2012, related to municipal gym memberships \$4,842, fines \$8,196 and rent of \$1,181.

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2012, and interfund transfers during the fiscal year ended at June 30, 2012, are summarized as follows:

**a. Due from/to other fund:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund-state and local grants	Payroll and related accruals paid and not reimbursed	\$ 764,558
General Fund	Head Start Program Fund	Reimbursable expenditures	150,000
General Fund	Capital Projects Fund-State & Local Funds	Reimbursable expenditures	745,084
General Fund	Other Governmental Funds-Federal Programs	Reimbursable expenditures	78,236
General Fund	Capital Projects Fund-Federal Grants	Reimbursable expenditures	154,142
Other Governmental Funds	General Fund	Matching Contribution	<u>22,000</u>
<b>Total</b>			<b><u>\$ 1,914,020</u></b>

**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	\$ 220,000
General Fund	Other Governmental Fund	Matching Contribution	50,260
General Fund	Debt Service Fund	Debt retirement	62,803
General Fund	Special Revenue Fund-state and local grant	Transfer of funds for special purpose	10,000
Capital Projects Fund-state and local grants	Special Revenue Fund-state and local grant	Transfer of funds for special purpose	315
Capital Projects Fund-state and local grants	General Fund	Transfer of funds for special purpose	54,129
Other Governmental Funds	General Fund	Transfer of funds for special purpose	5,321
Other Governmental Funds	Capital Projects Fund-Federal Grants	Transfer of funds for special purpose	350,000
Capital Projects Fund-Federal Grants	Debt Service	Debt Retirement	<u>544,678</u>
<b>Total</b>			<b><u>\$ 1,297,506</u></b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**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 2012, 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, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 65,864,730	\$ -	\$ -	\$ 65,864,730
Construction in progress	<u>20,194,819</u>	<u>6,924,772</u>	<u>(3,787,097)</u>	<u>23,332,494</u>
<b>Total capital assets not being depreciated</b>	<u>86,059,549</u>	<u>6,924,772</u>	<u>(3,787,097)</u>	<u>89,197,224</u>
<b>Capital assets, being depreciated:</b>				
Buildings	13,694,614	608,459	-	14,303,073
Buildings improvements	13,112,907	2,526,361	-	15,639,268
Infrastructure	11,651,489	1,271,762	-	12,923,251
Infrastructure improvements	5,218,650	296,955	-	5,515,605
Equipment	3,768,447	698,688	(20,028)	4,447,107
Furnishing	476,486	5,332	(2,366)	479,452
Work of Arts	306,925	-	-	306,925
Computers	518,173	18,426	(17,898)	518,701
Vehicles	<u>7,050,449</u>	<u>753,153</u>	<u>-</u>	<u>7,803,602</u>
<b>Total capital assets being depreciated</b>	<u>55,798,140</u>	<u>6,179,136</u>	<u>(40,292)</u>	<u>61,936,984</u>
<b>Less accumulated depreciation for:</b>				
Buildings	(6,439,785)	(356,581)	-	(6,796,366)
Buildings improvements	(1,216,542)	(389,905)	-	(1,606,447)
Infrastructure	(3,497,343)	(235,294)	-	(3,732,637)
Infrastructure improvements	(1,170,472)	(353,210)	-	(1,523,682)
Equipment	(3,222,341)	(306,202)	19,903	(3,508,640)
Furnishing	(401,779)	(28,852)	2,080	(428,551)
Computers	(463,593)	(39,913)	17,898	(485,608)
Work of Arts	(89,058)	(29,892)	-	(118,950)
Vehicles	<u>(6,416,862)</u>	<u>(312,055)</u>	<u>-</u>	<u>(6,728,917)</u>
<b>Total accumulated depreciation</b>	<u>(22,917,775)</u>	<u>(2,051,904)</u>	<u>39,881</u>	<u>(24,929,798)</u>
<b>Total capital assets being depreciated, net</b>	<u>32,880,365</u>	<u>4,127,232</u>	<u>(411)</u>	<u>37,007,186</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 118,939,914</u>	<u>\$ 11,052,004</u>	<u>\$ (3,787,508)</u>	<u>\$ 126,204,410</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**5. CAPITAL ASSETS (CONTINUED)**

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

**Governmental activities:**

General government	\$ 532,007
Public safety	142,676
Public works	682,610
Health and welfare	14,790
Education	4,069
Economic development	96,613
Culture and recreation	360,070
Community development	<u>219,069</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 2,051,904</u></b>

<u>Business - type activities</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
<b>Capital asset, not being depreciated:</b>				
Land and construction in progress	\$ 388,790	\$ -	\$ -	\$ 388,790
<b>Total capital assets not being depreciated</b>	<u>388,790</u>	<u>-</u>	<u>-</u>	<u>388,790</u>
<b>Capital assets, being depreciated:</b>				
Building	3,537,458			3,537,458
Building improvements	<u>45,400</u>	<u>-</u>	<u>-</u>	<u>45,400</u>
<b>Total capital assets being depreciated</b>	<u>3,582,858</u>	<u>-</u>	<u>-</u>	<u>3,582,858</u>
<b>Less accumulated depreciation for:</b>				
Building	<u>( 1,325,987)</u>	<u>(89,571)</u>	<u>-</u>	<u>( 1,415,558)</u>
<b>Total accumulated depreciation</b>	<u>(1,325,987)</u>	<u>(89,571)</u>	<u>-</u>	<u>(1,415,558)</u>
<b>Total capital assets being depreciated, net</b>	<u>2,256,871</u>	<u>(89,571)</u>	<u>-</u>	<u>2,167,300</u>
<b>Business - type Activities capital assets, net</b>	<b><u>\$ 2,645,661</u></b>	<b><u>\$ (89,571)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,556,090</u></b>

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

**Business -type Activities**

General government	<u>\$ 89,571</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 89,571</u></b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable, and accrued liabilities at June 30, 2012 are summarized as follows:

Description	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start Fund	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Fund	Total
Accounts payable	\$ 637,803	\$ 5,069	\$ 39,512	\$ 663,519	\$ -	\$ -	\$ 82,857	\$ 1,428,760
Accrued liabilities	<u>189,551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,551</u>
<b>Total</b>	<u>\$ 827,354</u>	<u>\$ 5,069</u>	<u>\$ 39,512</u>	<u>\$ 663,519</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,857</u>	<u>\$ 1,618,311</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	\$ 142,021
General Services Administration	<u>1,700</u>
<b>Total</b>	<u>\$ 143,721</u>

**8. DEFERRED REVENUES**

**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, 2012, the tax rates were as follows:

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

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15.

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

The deferred revenues of \$2,992,289 in the general fund relates to municipal license tax collected in fiscal year 2011-12 that will be earned in fiscal year 2012-13.

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**8. DEFERRED REVENUES (CONTINUED)**

**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	\$ 305
Head Start Program	52,605
Child and Adult Care Food Program	<u>8,713</u>
<b>Total</b>	<b><u>\$ 61,623</u></b>

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	\$ 5,687
Repayment Section 108 Loan	49,324
Emergency Management Performance Grant	57,712
Special Program for Aging Title III	114,691
Emergency Shelter Grant	20,000
Department Energy Germantown ASAP	47,348
Other Programs	<u>20,425</u>
<b>Total</b>	<b><u>\$ 315,187</u></b>

**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

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**9. PROPERTY TAXES (CONTINUED)**

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.

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 \$227,085 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, 2012**

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**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 9.83% for real property and 8.53% 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 4.0%, 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) 3.0% and 3.50%, respectively, 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 \$1,403,512 during the year ended June 30, 2012. Also, \$652,613 from the Municipal Redemption Fund is included in the Debt Service Fund.

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AUTONOMOUS MUNICIPALITY OF DORADO**

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**11. LONG-TERM LIABILITIES**

Long-term liability activity-governmental funds, for the year ended June 30, 2012, was as follows:

Description	Beginning Balance	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$41,160,000	\$12,555,000	\$(2,147,000)	\$51,568,000	\$2,490,000
Notes Payable	8,620,000		(996,000)	7,624,000	836,000
Property Tax Debt-Law 146	249,556			249,556	11,883
Property Tax Debt - Law 42	232,482		(5,397)	227,085	5,736
LIMS Repayment Plan	48,588		(48,588)	-	
Compensated Absences	3,046,741		(268,204)	2,778,537	305,000
Claims and Judgments Department of Labor	435,000	97,475	(189,500)	342,975	342,975
Repayment Plan	82,472		(82,472)	-	
Landfill obligation	1,870,383	100,000		1,970,383	
<b>Total</b>	<b>\$55,745,222</b>	<b>\$12,752,475</b>	<b>\$(3,737,161)</b>	<b>\$64,760,536</b>	<b>\$3,991,594</b>

Long term liability activity-business type activity, for the year ended June 30,2012, was as follows:

Description	Beginning Balance	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 754,000	\$ -	\$ (270,000)	\$ 484,000	\$ 150,000
<b>Total</b>	<b>\$ 754,000</b>	<b>\$ -</b>	<b>\$(270,000)</b>	<b>\$ 484,000</b>	<b>\$ 150,000</b>

- 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, 2012 are as follows:

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

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**11. LONG-TERM LIABILITIES (CONTINUED)**

<u>Description</u>	<u>Balance at June 30, 2012</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	\$ 775,000
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	90,000
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	30,000
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	115,000
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	750,000
2000 General obligation bond for infrastructure improvements with an original amount of \$65,000 due in installments of \$5,000 through July 1, 2014	10,000
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	955,000
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	240,000
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	2,290,000
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	455,000
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	2,250,000
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	75,000

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

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**11. LONG-TERM LIABILITIES (CONTINUED)**

<u>Description</u>	<u>Balance at June 30, 2012</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	1,325,000
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	15,000
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	590,000
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	3,630,000
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	456,000
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	1,275,000
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	3,415,000
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	150,000
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	350,000
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	3,050,000
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	3,525,000
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	3,140,000
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	870,000
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	1,750,000

**COMMONWEALTH OF PUERTO RICO  
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**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**11. LONG-TERM LIABILITIES (CONTINUED)**

<u>Description</u>	<u>Balance at June 30, 2012</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	1,060,000
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	482,000
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	1,870,000
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	3,245,000
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	484,000
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	780,000
2012 General obligation bond for infrastructure improvements with an original amount of \$2,315,000 due in installments of \$55,000 to \$215,000 through July 1, 2031	2,315,000
2012 General obligation bond for operational expenditures with an original amount of \$10,240,000 due in installments of \$150,000 to \$855,000 through July 1, 2036	<u>10,240,000</u>
<b>Total general obligation bonds</b>	<b><u>\$ 52,052,000</u></b>

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 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.

The 2011 Series bonds amounting to \$754,000 is payable by the self-generated revenues from the "Pabellón Rafael Hernández" charges for services and is accounted for in the business type activity.

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**11. LONG-TERM LIABILITIES (CONTINUED)**

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,640,000	\$ 2,114,092
2014	2,705,000	2,809,155
2015	2,500,000	2,910,410
2016	2,137,000	2,798,132
2017	2,253,000	2,715,678
2018-2022	12,134,000	11,600,361
2023-2027	11,032,000	7,866,268
2028-2032	10,906,000	4,042,410
2033-2037	5,745,000	894,425
<b>Total Bonds Payable</b>	<u>\$ 52,052,000</u>	<u>\$ 37,750,931</u>

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

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2012</u>
2005 Series	7-1-2013	345,000	6% to 7%	\$ 60,000
2007 Series	7-1-2014	480,000	1.718% to 5%	165,000
2008 Series	7-1-2015	230,000	1.718% to 6%	115,000
2008 Series	7-1-2013	245,000	1.72%	60,000
Section 108 Series 2008 A	7-1-2028	5,500,000	5.11%	4,888,000
2008 Series	7-1-2015	925,000	1.718% to 6%	455,000
2009 Series	7-1-2014	125,000	1.718% to 5%	55,000
2009 Series	7-1-2033	1,141,000	1.718% to 6.50%	1,086,000
2010 Series	7-1-2017	345,000	4.73%	260,000
2010 Series	7-1-2017	65,000	5% to 7%	50,000
2011 Series	7-1-2018	480,000	6% to 7.50%	430,000
<b>Total notes payable</b>				<u>\$ 7,624,000</u>

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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**11. LONG-TERM LIABILITIES (CONTINUED)**

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 836,000	\$ 313,264
2014	756,000	332,301
2015	666,000	308,654
2016	471,000	278,107
2017	486,000	252,303
2018-2022	1,785,000	960,411
2023-2027	1,780,000	502,315
2028-2032	648,000	131,841
2033-2037	196,000	12,935
<b>Total</b>	<u>\$ 7,624,000</u>	<u>\$ 3,092,131</u>

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, 2012, the amount has been paid in full.
5. **Compensated absences-** The government-wide statement of net assets includes \$1,511,307 of accrued sick leave benefits, and approximately \$1,267,230 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, 2012, as described in Note 15.
7. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal regulations. 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 2011-2012 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, 2012. The preliminary annual estimate of post closure costs has been adjusted to approximately \$1,950,000 for a period of approximately 25 years. Actual costs may be different due to

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**11. LONG-TERM LIABILITIES (CONTINUED)**

inflation, changes in technology, or changes in laws and regulations. As of June 30, 2012, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$20,383 and \$1,950,000, respectively, are reported in the government-wide statement of net assets.

**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

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**12. PENSION PLAN (CONTINUED)**

the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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

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:

<b>Municipality</b>	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, 2012

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**12. PENSION PLAN (CONTINUED)**

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
2012	\$ 344,089	\$ 267,049
2011	\$ 369,640	\$ 267,730
2010	\$ 376,666	\$ 257,349

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, 2012, 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, 2012**

**13. FUND BALANCE (DEFICIT)**

As of June 30 2012, fund balance (deficit) is comprised of the following:

Fund Balance (Deficit)	General Fund	Special Revenue Fund-State and Local Grants	Special Revenue Fund-Head Start	Capital Projects Fund-State & Local Grants	Capital Projects Fund-Federal Grants	Debt Service Fund	Other Governmental Funds	Total
<b>Nonspendable:</b>								
Interfunds loans receivable	\$ 511,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 511,374
<b>Restricted for:</b>								
General Government		13,469		125,598				125,598
Culture and Recreation		9,000		5,487				18,956
Health and Welfare		26,751		21,853			359,748	390,601
Education								26,751
Public Safety	25,261							25,261
Public Works	133,643							142,034
Urban Development					4,087,353			4,087,353
Capital Projects								12,052,492
Debt Service						8,418,681		8,418,681
<b>Assigned</b>								
Culture and Recreation	2,750							2,750
<b>Unassigned</b>	1,947,587							1,947,587
<b>Total Fund Balance (Deficit)</b>	<b>\$ 2,620,615</b>	<b>\$ 57,611</b>	<b>\$ -</b>	<b>\$ 12,205,430</b>	<b>\$ 4,087,353</b>	<b>\$ 8,418,681</b>	<b>\$ 359,748</b>	<b>\$ 27,749,438</b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**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 \$342,975 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, 2012, the general fund had commitments of approximately \$184,000 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, 2012**

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**16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements that have effective dates after June 30, 2012:

- a. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement is effective for periods beginning after December 15, 2011.
- b. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34* (GASB No. 61). The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, were amended to better meet user need and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement is Effective for periods beginning 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*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements; 1) Financial Accounting Standard Board (FASB) Statements and interpretations, 2) Accounting Principles Boards Opinions, 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants'(AICPA) Committee on Accounting Procedures. This Statement is effective for periods beginning after December 15, 2011.
- d. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

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

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

- e. GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determinations of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.
  
- f. GASB Statement No. 66, Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

**Post fiscal year 2012-2013**

- a. *GASB-67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25 is effective for periods beginning after June 15, 2013.*
  
- b. *GASB-68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 is effective for periods beginning after June 15, 2014.*

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

**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	Special Revenue Fund – Head Start Program	Capital Projects Fund – State & Local Grants	Capital Projects Fund – Federal Grants	Debt Service Fund	Other Governmental Fund	Total
Fund balances (deficit), beginning	\$ (5,039,207)	\$ (207,578)	\$ -	\$ 17,126,713	\$ 4,527,370	\$ 6,120,921	\$ 479,759	\$23,007,978
To adjust uncollectible loans to other funds	<u>(185,048)</u>	<u>520</u>	<u>-</u>	<u>148,153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,375)</u>
Fund balances (deficit), beginning as restated	<u>\$ (5,224,255)</u>	<u>\$ (207,058)</u>	<u>\$ -</u>	<u>\$ 17,274,866</u>	<u>\$ 4,527,370</u>	<u>\$ 6,120,921</u>	<u>\$ 479,759</u>	<u>\$22,971,603</u>

**B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS**

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

Description	Governmental Activities	Business-type Activities	Total
Net assets, beginning	\$ 82,646,851	\$ 2,290,567	\$ 84,937,418
To correct balance of Department of Labor payment plan	82,472		82,472
To adjust uncollectible loans to other funds	<u>(36,375)</u>	<u>-</u>	<u>(36,375)</u>
Net assets, beginning as restated	<u>\$ 82,692,948</u>	<u>\$ 2,290,567</u>	<u>\$ 84,983,515</u>

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF DORADO

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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**18. SUBSEQUENT EVENTS**

On November, 28, 2012, the Municipal Legislature approved the issuance of a general obligation bond for the amount of \$1,145,000, for the improvement and reconstruction of several facilities. Repayment of the bond is scheduled from July 2013 through July, 2027.

On December 11, 2012, the Municipal Legislature approved an increase in tax rates for real and personal property. The Additional Special Contribution tax rate will increase from three percent (3.00%) to three point seventy five percent (3.75%) for real property, and for personal property the tax increase goes from three point five percent (3.50%) to four percent (4.00%). The new tax rates will apply on January 1, 2013, and on July 1, 2013 the CRIM will begin its billing and collection.

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

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

**YEAR ENDED JUNE 30, 2012**

	<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>		
<b>REVENUES:</b>				
Property taxes	\$ 9,509,255	\$ 10,513,891	\$ 9,864,166	\$ (649,725)
Municipal license tax	4,118,750	4,118,750	3,678,620	(440,130)
Municipal sales and use tax	1,204,000	1,204,000	1,262,857	58,857
Licenses, permits and other local taxes	1,025,000	1,025,000	1,222,132	197,132
Intergovernmental	2,727,665	2,727,665	2,110,692	(616,973)
Rent of property	116,300	116,300	144,229	27,929
Fines and forfeitures	45,100	45,100	33,592	(11,508)
Interest	305,000	305,000	478,416	173,416
Miscellaneous	<u>219,500</u>	<u>219,500</u>	<u>538,209</u>	<u>318,709</u>
<b>Total revenues</b>	<u>19,270,570</u>	<u>20,275,206</u>	<u>19,332,913</u>	<u>(942,293)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	10,165,143	10,891,408	12,038,177	(1,146,769)
Public safety	2,151,558	2,151,558	1,846,524	305,034
Public works	6,215,970	6,494,341	5,593,088	901,253
Culture and recreation	656,989	656,989	629,286	27,703
Operating transfer to other fund	<u>80,910</u>	<u>80,910</u>	<u>80,910</u>	<u>-</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>19,270,570</u>	<u>20,275,206</u>	<u>20,187,985</u>	<u>87,221</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (855,072)</u>	<u>\$ (855,072)</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$19,322,913
Differences-budget to USGAAP:				
Bond issuance for operational expenditures				10,240,000
Non-budgeted transfer in				59,450
USGAAP adjustment to revenues				<u>788,661</u>
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 30,421,024</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 20,187,985
Differences-budget to USGAAP:				
Nonbudgeted transfer out				262,153
USGAAP adjustments to expenditures				1,648,038
Prior year encumbrances recorded as current year expenditures for USGAAP basis				<u>477,978</u>
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 22,576,154</u>

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

**NOTES TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND**

**YEAR ENDED JUNE 30, 2012**

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**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, 2012 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2012.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2012**

<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>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 215,620
<b>Total U.S. Department of Agriculture</b>			<u><b>215,620</b></u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program:			
Community Development Block Grant - Section 108 Loan Guarantees	14.248	Not Available	287,886
Section 8 Housing Choice Voucher Program	14.871		1,831,763
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	Not Available	792,646
Pass-through the Commonwealth of Puerto Rico Family Department:			
Emergency Shelter Grant Program	14.231	Not Available	12,914
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	30,134
Pass-through the Commonwealth of Puerto Rico Family Department:			
Homelessness Prevention and Rapid Re- Housing Program (Recovery Act funded)	14.257	Not Available	62,750
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>3,018,093</b></u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

<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>
<b>U.S DEPARTMENT OF JUSTICE:</b>			
Pass-through the Commonwealth of Puerto Rico Office of Public Security Affairs: Community Prevention Grant	16.548	Not Available	<u>14,927</u>
<b>Total U.S. Department of Justice</b>			<u><b>14,927</b></u>
<b>U.S DEPARTMENT OF TRANSPORTATION:</b>			
Direct Program: Federal Transit- Formula Grants(Recovery Act Funded)	20.507		<u>634,980</u>
<b>Total U.S. Department of Transportation</b>			<u><b>634,980</b></u>
<b>U.S DEPARTMENT OF ENERGY:</b>			
Direct Program: Energy Efficiency and Conservation Block Grant Program (Recovery Act Funded)	81.128		<u>94,328</u>
<b>Total U.S. Department of Energy</b>			<u><b>94,328</b></u>
<b>U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
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	199,263
Nutrition Services Incentives Program	93.053	Not Available	22,713

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

<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>
<b>U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES: (CONTINUED)</b>			
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Community Service Block Grant	93.569	Not Available	13,685
ARRA-Child Care and Development Block Grant	93.575	Not Available	8,956
<i>Head Start Cluster:</i>			
Direct Program:			
ARRA-Early Head Start	93.709	Not Available	1,579,502
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Head Start Program	93.600	Not Available	<u>2,666,477</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>4,490,596</u></b>
<b>U.S.DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Hazard Mitigation Grant	97.039		<u>1,860</u>
<b>Total U.S. Department of Homeland Security</b>			<b><u>1,860</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 8,470,404</u></b>

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, 2012**

**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 Special Revenue Fund-Head Start, 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	\$ 4,461,599	\$ 227,339	\$ 3,781,466	\$ 8,470,404
Non - federal programs Expenditures	230,402	18,000	233,656	482,058
Total expenditures in the basic financial statements	<u>\$ 4,692,001</u>	<u>\$ 245,339</u>	<u>\$ 4,015,122</u>	<u>\$ 8,952,462</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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**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, 2012, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated February 12, 2013. 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**

Management of the **Autonomous Municipality of Dorado** is responsible for establishing and maintaining effective 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 **12-01**.

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

A 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.

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 February 12, 2013.

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

San Juan, Puerto Rico  
February 12, 2013

Stamp No. 2632095 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





*López-Vega, CPA, PSC*

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- Puerto Rico Society of Certified Public Accountants

**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, 2012. 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.

In our opinion, 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **12-02** and **12-03**.

**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)**

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.

*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.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items **12-02** and **12-03**. *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.



**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)**

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 7, 2013.

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 7, 2013

Stamp No. 2632096 of the Puerto Rico  
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**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF DORADO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2012**

**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 <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes <b>X</b>	None reported
Noncompliance material to financial statements noted?	Yes	No <b>X</b>

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes <b>X</b>	None reported

Type of auditor’s report issued on compliance for major programs:	Unqualified	
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <b>X</b>	No
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
14.871	Section 8 Housing Choice Voucher Program
20.507	ARRA-Federal Transit-Formula Grant
	<b>Head Start Cluster:</b>
93.600	Head Start Program
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 <b>X</b>
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**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF DORADO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**Section II – Financial Statements Findings**

**Finding Reference**        **12-01**

**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, 2012

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**Section II - Financial Statements Findings**

**Finding Reference**      **12-01 (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 is in the final stages of selecting the accounting software and expects its implementation in the beginning of the next fiscal year.

Implementation date: July, 2013

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**Section III – Mayor Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>12-02</b>
<b>Program</b>	<b>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 Early Head Start (CFDA. No. 93.709); U.S. Department of Health and Human Services.</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	<p>During our Cash Management Test to Head Start Program, we found the following exceptions:</p> <ul style="list-style-type: none"><li>a. We noted that the Program requested funds that were not disbursed on a reasonable lapse of time.</li><li>b. During two (2) months the bank reconciliations reflected an overdraft.</li></ul> <p>In our Cash Management Test of ARRA Early Head Start Program, we found the following:</p> <ul style="list-style-type: none"><li>a. We noted that the Program requested funds that were not disbursed on a reasonable lapse of time.</li><li>b. During three (3) months the bank reconciliations reflected an overdraft.</li></ul>
<b>Criteria</b>	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.
<b>Cause of Condition</b>	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.
<b>Effect of Condition</b>	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, 2012**

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**Section III – Mayor Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **12-02 (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, 2013

Responsible Person: Sarahí Meléndez – Program Director  
Teresa Acevedo – Program Accountant

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

The Program follows procedures for the request and disbursement of federal funds. On October 2011, the new accountant for the program began to work on this finding, minimizing the time elapsed between the request of funds and the disbursement. The Program expects to clear this finding by next audit period.

Implementation Date: July, 2012

Responsible Person: Sarahí Meléndez – 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, 2012**

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**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>12-03</b>
<b>Program</b>	<b>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.</b>
<b>Requirement</b>	<b>Reporting Test</b>
<b>Statement of Condition</b>	<p>In our Reporting Test, to Head Start Program, we observed the following exceptions:</p> <ul style="list-style-type: none"><li>a. The Monthly Financial Reports for January 2012 and February 2012, and the Funds Liquidation and Trial Balance for the Program Year ended on February 28, 2012, were submitted to the Commonwealth of Puerto Rico Administration for Children and Families after the due date.</li><li>b. We found differences between the amounts reported as federal expenditures in the monthly financial reports (January and February 2012) and in the Closing Report for the Fiscal Year 2012 submitted to the pass-through agency and the amounts detailed in the cash register and the general ledger.</li><li>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. Also, footing errors were identified in the February 2012 Request of Funds and in the Funds Liquidation form.</li></ul>
<b>Criteria</b>	<p>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.</p>

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>12-03 (Continued)</b>
<b>Cause of Condition</b>	Adequate internal controls do not exist to assure the correctness of closing reports submitted to the federal agencies.
<b>Effect of Condition</b>	The program is not in compliance with the Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (1).
<b>Recommendation</b>	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.

**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.

Implementation Date: April, 2013

Responsible Person: Sarahí Meléndez – Program Director  
Teresa Acevedo – Program Accountant

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

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2012**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-02	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>Full corrective action was taken.</p>
11-03	14.257	<p><u>Management should 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.</u></p> <p>Partial corrective action was taken. The Program established a checklist of documents that should be included in the participant's files.</p>
11-04	14.257	<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>Partial corrective action was taken. The Program stated that the high balance on its cash account was an amount due to the Municipality. Once the amount is reimbursed, the Program will be in compliance.</p>
11-05	14.257	<p><u>The required reports should be prepared including all the required information and management should establish monitoring procedures to assure the correctness of the reports.</u></p> <p>Partial corrective action was taken. The Program, as per funding requirements, expected to issue all closing reports before due date.</p>
11-06	93.600, 93.708 & 93.709	<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 12-02.</p>

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

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-07	93.600, 93.708 & 93.709	<p><u>Management should follow the procedures for managing equipment whether it is acquired or until disposition according to regulation requirements.</u></p> <p>Full corrective action was taken.</p>
11-08	93.600, 93.708 & 93.709	<p><u>Grantees must contribute at least 20 percent of the cost of the program and document their compliance with this requirement.</u></p> <p>Full corrective action was taken.</p>
11-09	93.600, 93.708 & 93.709	<p><u>Management should 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.</u></p> <p>Full corrective action was taken.</p>
11-10	93.600, 93.708 & 93.709	<p><u>The Program should 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. 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-03.</p>

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AUTONOMOUS MUNICIPALITY OF DORADO**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
10-03	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>Full corrective action was taken.</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 12-02.</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 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 12-03.</p>

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

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

**YEAR ENDED JUNE 30, 2012**

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>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>
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>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>